

Senior plc
Annual Report 2006



senior

Senior plc Corporate profile

Senior is an international manufacturing group with operations in 11 countries. Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide civil aerospace, defence, diesel engine, exhaust system and energy markets.

Aerospace 51% of Group revenue

Engine structures and mountings, fluid control systems, metallic high-pressure ducting, composite low-pressure ducting.

Flexonics 49% of Group revenue

Flexible exhaust connectors, engine emission pipework, diesel fuel systems, metallic and fabric expansion joints, flexible metallic hoses, ventilation ducting.

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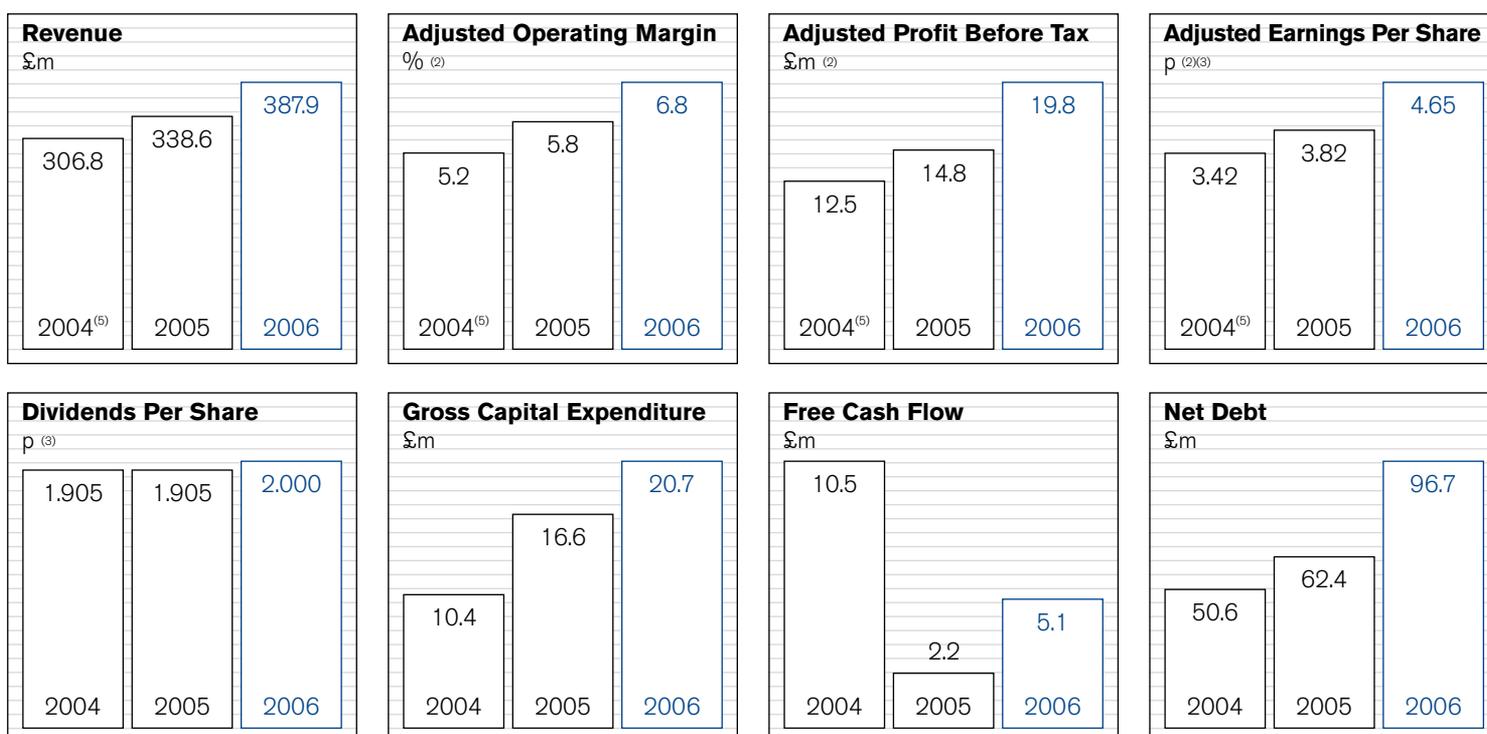
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Financial Highlights

	Year ended 31 December		
	2006	2005 ⁽¹⁾	
Revenue	£387.9m	£338.6m	+14.6%
Operating profit	£24.5m	£19.6m	+25.0%
Profit before tax	£18.1m	£14.6m	+24.0%
Basic earnings per share	4.35p	3.75p ⁽³⁾	+16.0%
Adjusted profit before tax ⁽²⁾	£19.8m	£14.8m	+33.8%
Adjusted earnings per share ⁽²⁾	4.65p	3.82p ⁽³⁾	+21.7%
Total dividends (paid and proposed) per share	2.000p	1.905p ⁽³⁾	+5.0%
Free cash flow ⁽⁴⁾	£5.1m	£2.2m	
Net borrowings	£96.7m	£62.4m	

- Note** (1) The figures for 2005 have been restated to reflect the adoption of the amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" issued in December 2005, which was endorsed by the EU in May 2006. See Note 2 to the Financial Statements for details.
- (2) Adjusted profit before tax and adjusted earnings per share arise before a £0.4m loss on sale of fixed assets (2005 – £0.2m) and a £1.3m charge for amortisation of intangible assets acquired on acquisition (2005 – £nil).
- (3) 2005 earnings and dividends per share have been adjusted for the bonus element of the 2006 rights issue. Previously reported basic earnings per share was 3.94p, adjusted earnings per share was 4.01p and dividends per share was 2.000p.
- (4) See Note 34(b) to the Financial Statements for derivation of free cash flow.



Chairman's Statement

The Group has delivered an excellent set of results with adjusted profit before tax 33.8% ahead of the prior year. Aerospace Manufacturing Technologies, Inc. ("AMT") and Sterling Machine Co., Inc. ("Sterling Machine"), the two North American aerospace businesses acquired during 2006, both delivered strong performances. Their full year contribution, combined with the continuing growth in build rates of commercial aircraft and the production ramp up of the Group's new heavy duty diesel engine products, mean prospects for the Group are very encouraging. Consequently, the Board is pleased to recommend a 5% increase in the full year dividend, the first increase for seven years.

Financial Results

It is pleasing to be able to report progress on all aspects of financial performance with significant advances being made in top and bottom line growth.

During 2006, Group revenue increased by 14.6% to £387.9m (2005 – £338.6m) and operating profit increased by 25.0% to £24.5m (2005 – £19.6m) largely due to increasing build rates of civil aircraft, strong energy markets and the two acquisitions completed in the year.

Adjusted profit before tax, the measure which the Board believes best reflects the true underlying performance of the business, increased by 33.8% to £19.8m (2005 – £14.8m). Adjusted profit before tax is before the loss on sale of fixed assets of £0.4m (2005 – £0.2m) and a £1.3m (2005 – £nil) charge for amortisation of intangible assets acquired on acquisition.

Adjusted earnings per share increased by 21.7% to 4.65p (2005 – 3.82p restated for the bonus element of the rights issue) despite an increased tax charge of 17.7% (2005 – 16.9%) on adjusted profit before tax.

Year-end net debt increased to £96.7m (2005 – £62.4m) largely as a consequence of the acquisitions, which were funded by debt as well as new equity, and the ongoing investment in the manufacturing capacity and capability of the Senior Group. The majority of the debt is designated in US dollars, with the level of year-end debt benefiting from the weakening of the US dollar against the UK pound during 2006.

Dividend

The Board is recommending an increase in the dividend, the first for seven years. It is proposed that the final dividend to be paid for 2006 is 1.381p per share (2005 – 1.286p restated for the bonus element of the rights issue) an increase of 7.4%. When added to the restated 0.619p interim dividend, this will bring the full year dividend to 2.000p, an increase of 5.0% over the restated 1.905p for 2005. The final dividend, if approved, will be paid on 31 May 2007 to shareholders on the register at close of business on 4 May 2007. With encouraging prospects for the Group, the Board anticipates following a progressive dividend policy going forward.

Acquisitions

During 2006, Senior acquired two businesses to add to its existing aerospace interests. Both were privately owned and located in the USA. These acquisitions met certain key criteria namely: aerospace by preference; good growth prospects in existing markets; profitable and immediately enhancing to Group earnings per share without the need to assume synergistic benefits. Both the acquired businesses have performed in line with expectations during their time within the Group.

Sterling Machine was purchased by Senior at the end of January 2006 for £21.5m. The company is a machine shop working in titanium, nickel and magnesium alloys that manufactures flight critical components primarily for the Sikorsky Aircraft Corporation. It is located in Enfield, Connecticut, USA, and is a well invested business housed in a facility built in 2003. Sikorsky, a builder of mainly military helicopters, is outsourcing more of its component manufacture as it increases its build rate to meet a strong order book. Increasing numbers of helicopters are flying in various operational roles and the result is a growing demand for spares. Sterling Machine continues to be focused on growing its level of business service to Sikorsky and, following its acquisition, new machining centres have been ordered to increase capacity and the factory floor space increased by 50%. We anticipate that Sterling Machine will continue to maintain its growth momentum.

Aerospace Manufacturing Technologies, Inc. ("AMT") was acquired at the end of October 2006 for £60.0m. The business is located in Arlington, Washington State, USA, in the Seattle area. AMT is a machine shop, working almost exclusively in the manufacture of aluminium structural parts for Boeing civil aircraft. It has substantial content on current Boeing production aircraft – the 737, 777 and 747. The company is exceptionally well invested with a substantial number of state-of-the-art four and five-axis computer controlled machining centres. AMT is set to continue to grow as a result of increases in the build rates of Boeing's existing aircraft and also the launch of the new, highly successful, Boeing 787 ("Dreamliner") on which AMT has substantial content. As a result, capacity expansion has been sanctioned with new machining centres being ordered. Additional land, adjacent to the existing facility, has already been purchased and plans for new factory space are currently under consideration.

Trading

Senior's operations are organised into two similar sized operating divisions – Aerospace with 12 operating subsidiaries and Flexonics with 11. Both Divisions are focused on manufacturing components and systems for the original equipment manufacturers. There is little aftermarket content and the Group's operations generally deliver to the required production schedules of their customers. All products are engineered for specific applications, so levels of demand are essentially driven by the success, or otherwise, of customers' individual product lines.

Aerospace

In Aerospace, the civil market, particularly for large commercial aircraft (35% of Divisional sales) and business jets (9%), continued to be very strong. Whilst 2005 had been a memorable year for order intake by the large civil aircraft builders and their engine suppliers, 2006 turned out to be almost as good, with Boeing delivering 398 civil airliners and booking new orders for 1,044, and Airbus delivering 434 and booking 790. The result is that both aircraft manufacturers currently have around six year order books, at 2006 delivery rates.

The Aerospace Division has substantial exposure to the new highly successful Boeing 787, due into service in late 2008, both on the aircraft itself and its engines, but only limited exposure to the large Airbus A380, which has suffered extensive production delays. The defence and military sector (27% of Divisional sales in 2006) was relatively stable throughout the year.

The two acquisitions made in 2006 immediately contributed positively to the fortunes of the Division. In addition to the investment in the newly acquired businesses, capital expenditure is running at a higher rate than in recent years throughout the Aerospace Division, as build rates increase throughout the industry and new aircraft programmes ramp up.

The result of all this activity was an increase in the Aerospace Division's sales of 27.1% to £197.0m (2005 – £155.0m at constant currency i.e. 2005 results translated using 2006 average exchange rates) and an adjusted operating profit increase of 48.8% to £19.2m (2005 – £12.9m at constant currency).

Flexonics

In Flexonics, the automotive markets in which the Group operates showed little change in demand. In North America, 16.0 million light vehicles were produced in 2006 compared to 16.4 million in 2005. In Western Europe, 18.4 million light vehicles were built compared to 18.0 million in 2005. Consequently, the Group's automotive volumes remained at about the same level in 2006 as in 2005, but with the manufacturing base continuing to move away from the US, UK and France, to the Czech Republic, South Africa, Brazil and India.

An important stage in the business development of this Division has been reached. Following nearly four years of product development and two years of production process development and capital investment, sales of the new products for North American built heavy duty diesel engines have commenced. This is incremental business for the Division's North American operation and takes the Division into a new market sector where demand is being driven by the need for lower engine emissions from 2007 onwards. This market sector continues to offer good opportunities for future growth.

Energy markets (power generation, oil and gas and process plant) were rewarding in 2006, driven by the industrialisation of China and India and the high demand for many basic commodities. As 2006 ended, the Group saw continued development of these energy markets, the return of some nuclear market activity, and completion of the site work on the troublesome Wembley Stadium ducting contract.

Overall, Flexonics reported sales growth of 5.1% to £191.5m (2005 – £182.2m at constant currency). Adjusted operating profits increased by 8.3% to £11.8m (2005 – £10.9m at constant currency). The increases were achieved despite the flat automotive markets, as a number of new automotive programmes were won, the new heavy duty diesel products commenced production in the final quarter of the year, energy markets were strong and the site-work on Wembley was completed.

Employees and the Board

I would like to extend a warm welcome to all the new employees joining Senior, as well as thanking the Group's employees for another year of unstinting effort and commitment, a year in which their endeavours have resulted in a significant step forward in the performance and the value of the Senior Group. It is particularly important that the Group has the right people in the right roles, given the geographical diversity of the Group and its lean structure, and I am pleased that the Group has made significant progress in this area over recent years.

Having been on the Board of Senior for 10 years, the past six as Chairman, I am planning to retire sometime during 2007. I am delighted that Martin Clark, a non-executive Director of six years, has agreed to become Chairman when I leave. The recruitment of a new non-executive Director is well advanced with an appointment anticipated prior to my retirement.

I am proud of the advances Senior has made whilst I have been Chairman, but most of all I am proud of the achievements of the Group's employees.

Outlook

The Senior Group enters 2007 with almost universally larger order books across its operations than it had a year ago. Demand from customers continues at an encouraging level.

The aerospace industry continues to thrive, the Group's new heavy duty diesel products are in production and energy markets are strong. The challenges of recruiting the necessary skills to grow our business, the availability and pricing of raw materials and the fluctuations in the major currencies in which Senior trades are all still present. These are not, however, new challenges for Senior or its management.

Trading in the first two months of 2007 has been in line with the Board's expectations and I expect that 2007 will deliver further meaningful growth.

James Kerr-Muir

Chairman

Board of Directors

James Kerr-Muir Non-Executive Chairman, Age 65. Chairman of Davenham Group Holdings plc, and of Acertec plc, to which he was appointed in April 2006. He is also a non-executive director of Gartmore Fledgling Trust plc. He joined the Board in 1996 and was appointed Chairman in 2001. He is Chairman of the Nominations Committee. He intends to retire from the Board during 2007.



Main Board

The main Board met a total of 11 times during the period 1 January 2006 to 31 December 2006. There was full attendance at every Board Meeting during the year.

Audit Committee

Martin Clark (Chairman) and Ian Much. Met three times during the year.

Remuneration Committee

Ian Much (Chairman) and Martin Clark. James Kerr-Muir was re-appointed to the Committee on 1 August 2006. Met five times during the year.

Nominations Committee

James Kerr-Muir (Chairman), Martin Clark and Ian Much. Met twice during the year.

Health, Safety & Environment Committee

Graham Menzies (Chairman), Mike Sheppard and Ron Case (CEO Aerospace Division). Met three times during the year.

There was full attendance at every Committee of the Board during the year.

Martin Clark Non-Executive Director and Senior Independent Director, Age 61. Joined the Board in 2001 and is also a non-executive director of Clarkson plc, ICM Computer Group PLC, and Tax Computer Systems Holdings Ltd. He is Chairman of the Audit Committee and of the Trustee Board of the Senior plc Pension Plan. The Board considers Martin Clark to be independent. He is to become non-executive Chairman upon the retirement of J R Kerr-Muir.



Graham Menzies Group Chief Executive, Age 59. Joined as Group Chief Executive in 2000, previously having been with Adwest Automotive plc for over 14 years, latterly as Chief Executive. He is a non-executive director of Heywood Williams Group PLC. He is Chairman of the Health, Safety & Environment Committee.



Ian Much Non-Executive Director, Age 62. Joined the Board on 21 December 2005 and is also a non-executive director of Chemring Group plc, and Simplyhealth Group. He was formerly Chief Executive of De La Rue plc. He is Chairman of the Remuneration Committee. The Board considers Ian Much to be independent.



Mark Rollins Group Finance Director, Age 44. A Chartered Accountant, he joined the Group in 1998 from Morgan Crucible plc, and became Group Finance Director in 2000, when he joined the Board. He is Chairman of the Group's Treasury Committee. He was appointed a non-executive director of WSP Group plc in January 2006.



Michael Sheppard Executive Director, Age 48. Joined the Board on 1 September 2002. A US citizen, he has worked for Senior companies for more than twenty years, and is the Chief Executive of the Flexonics Division (formerly the Automotive and Industrial Divisions).



Report of the Directors

The Directors present their report and supplementary reports, together with the audited financial statements for the year ended 31 December 2006.

Activities and Business Review

Senior plc is a holding company. Its Principal Group Undertakings are shown on page 63 and comments on each Division's results and activities in 2006 are included in the Operating and Financial Review ("OFR") on pages 7 to 13. The OFR includes details of the principal risks and uncertainties facing the Group, expected future developments in the Group's business, an indication of its activities in the field of research and development, and details of key performance indicators that management uses.

Acquisitions and Disposals

There were no disposals during the year. Sterling Machine Co., Inc. was acquired on 27 January 2006 and Aerospace Manufacturing Technologies, Inc. ("AMT") was acquired on 27 October 2006; details of the transactions are set out in Note 33 to the Financial Statements on page 53 to 54.

Results and Dividends

The results for the year are shown in the Consolidated Income Statement on page 28.

An interim dividend of 0.619p per share (2005 – 0.619p) has already been paid and the Directors recommend a final dividend of 1.381p per share (2005 – 1.286p). The final dividend, if approved, will be payable on 31 May 2007 to shareholders on the register at the close of business on 4 May 2007. This would bring the total dividend for the year to 2.000p per share (2005 – 1.905p). The prior year dividend comparative figures have been adjusted to reflect the rights issue that took place in October 2006.

Share Capital

The following table shows the changes in the Company's share capital during 2006:

Shares in issue at 1 January 2006	309,285,740
Placing to partly finance acquisition of Sterling Machine Co., Inc.	15,000,000
Shares allotted in respect of Senior plc Savings Related Share Option Plan	692,880
Shares allotted in respect of rights issue to partly finance acquisition of AMT	64,960,962
Shares in issue at 31 December 2006	389,939,582

A further 50,626 shares were allotted under the Senior plc Savings Related Share Option Plan in January and February 2007.

Further share capital details are given in Note 25 to the Financial Statements on page 51.

Financial Instruments

Note 21 to the Financial Statements on page 48 contains disclosures on Financial Instruments.

Directors

Details on the Directors who served throughout the year can be found on page 4. The Directors' interests in the shares of the Company are included in the Remuneration Report on pages 18 to 23. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings.

J R Kerr-Muir intends to retire from the Board during 2007. M Clark is to become non-executive Chairman upon J R Kerr-Muir's retirement, and I F R Much is to be appointed the Senior Independent Director.

A new non-executive Director is expected to be appointed prior to J R Kerr-Muir's retirement. M Clark and G R Menzies retire by rotation and, being eligible, offer themselves for re-election at the AGM. M Clark has no service agreement with the Company and G R Menzies has a service agreement subject to 12 months' notice by either party.

Research and Development

In 2006, the Group incurred £8.5m (2005 – £8.3m) on research and development, before recoveries from customers of £0.8m (2005 – £0.6m). The majority of the Group's efforts are focused on product development and improved manufacturing techniques.

Charitable and Political Donations

During the year, the Group made charitable donations amounting to £35,000 (2005 – £53,000), principally to local charities serving the communities in which the Group operates. No political donations were made.

Disabled Employees and Employee Consultation

The Group's policies in respect of disabled employees and job applicants, and employee consultation are set out in the Corporate Social Responsibility Report on page 24.

Policy on Payment of Creditors

The Group's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction and to seek to adhere to those terms. Based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by suppliers, the number of days outstanding at the year-end was 15 days (2005 – 37 days). However, these figures are not considered indicative of the typical payment terms adhered to, which are estimated to be on average about 30 days for the Company.

Major Shareholdings

At 28 February 2007, the following shareholders had advised holdings in excess of 3% of the issued share capital of the Company:

Barclays	31,138,259	7.98%
Legal & General Investment Management	28,056,968	7.19%
Schroder Investment Management	26,433,546	6.78%
JO Hambro Capital Management	14,627,486	3.75%
Deutsche Asset Management	13,706,031	3.51%
Aegon Asset Management	12,456,266	3.19%
HBOS	12,361,671	3.17%
Morley Fund Management	11,745,657	3.01%

Report of the Directors continued

So far as is known, no other shareholder had a notifiable interest amounting to 3% or more of the share capital of the Company and the Directors believe that the close company provisions of the Income and Corporation Taxes Act 1988 (as amended) do not apply to the Company.

Compliance with the Combined Code

The statements of compliance with the provisions of the Combined Code on Corporate Governance that was issued in 2003 by the Financial Reporting Council are set out on page 14.

Remuneration Report

The Company's policy on executive Directors' remuneration is set out in the Remuneration Report on pages 18 to 23. The Remuneration Report is to be put to shareholder vote at the Annual General Meeting on 27 April 2007.

Annual General Meeting

The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held on Friday 27 April 2007 at the offices of ABN Amro, 250 Bishopsgate, London EC2M 4AA at 11.30 am.

Acquisition of the Company's Own Shares

The Company purchased none of its ordinary shares during the year. At the end of the year, the Directors had authority, under the shareholders' resolutions dated 28 April 2006, to make market purchases of the Company's shares up to an aggregate nominal amount of £3.24m, which represented 10% of the issued share capital of the Company.

Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte & Touche LLP as the Company's Auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Andrew Bodenham

Secretary

28 February 2007

Operating and Financial Review

To the members of Senior plc

This Operating and Financial Review ("OFR") has been prepared solely to provide additional information to enable shareholders to assess the Company's strategies and the potential for those strategies to be fulfilled. The OFR should not be relied upon by any other party for any other purpose.

The OFR contains certain forward-looking statements. Such statements are made by the Directors in good faith based on the information available to them at the time of their approval of this report, and they should be treated with caution due to the inherent uncertainties underlying any such forward-looking information.

In preparing this OFR, the Directors have sought to comply with the guidance set out in the Accounting Standards Board's Reporting Statement: "Operating and Financial Review".

This OFR has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters which are significant to Senior plc and its subsidiary undertakings when viewed as a whole. The OFR discusses the following:

- Operations
- Long-term strategy and business objectives
- Key performance indicators
- Acquisitions
- Financial review
- Divisional review
- Outlook
- Risks and uncertainties
- Resources
- Corporate responsibility

Operations

Senior is an international manufacturing group with operations in 11 countries. Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide civil aerospace, defence, diesel engine, exhaust system and energy markets. The Group is split into two Divisions, Aerospace and Flexonics.

Aerospace

Following the acquisition of two aerospace businesses in the year, Sterling Machine and AMT, the Aerospace Division is now the larger of the Group's two Divisions, consisting of 12 operating companies, seven of which are located in the USA, with the remainder in Europe. In 2006, the Division's main products were engine structures and mounting systems (30% of Divisional sales), metallic ducting systems (25%), composite ducting systems (14%), helicopter machined parts (7%), fluid control systems (6%) and airframe and other structural parts (3%). 15% of Divisional sales are to non-aerospace, but related technology, markets. In 2007, sales of airframe and other structural parts are expected to represent a much greater portion of Divisional sales, as AMT was owned by Senior for only the final two months of 2006.

Flexonics

The Flexonics Division has 11 operations and was formed at the beginning of 2006, by the consolidation of the Automotive (eight operations) and Industrial (three operations) Divisions, for managerial, technical and market-related reasons. The 11 operations are located in North America (three), Europe (five), South Africa, India and Brazil. In 2006, the Division's sales comprised of flexible mechanisms for vehicle exhaust systems (32% of Divisional sales), diesel fuel distribution pipework (13%), cooling and emission control components (12%), expansion joints and ducting for the heating and ventilation market (11%), expansion joints/control bellows/hoses for the power market (11%), for the oil and gas and chemical processing industries (7%) and for other industrial markets (14%). 2007 is anticipated to see an increasing percentage of sales coming from the diesel fuel distribution pipework, and the cooling and emission control component sectors, as production of the Group's new heavy duty diesel products ramp up.

Long-term Strategy and Business Objectives

Senior is a manufacturer of products used principally in the aerospace, diesel engine, exhaust system and energy markets.

There are four key elements to Senior's strategy for accelerating growth and creating real shareholder value. They are:

- targeted investment in new product development for markets having higher than average growth potential;
- exceeding customer expectation through advanced process engineering and excellent factory execution;
- focused acquisitions which meet strict financial and commercial criteria;
- creating an entrepreneurial culture, with strong controls, amongst its operating businesses.

The Group implements and monitors its performance against its strategy by having the following financial objectives:

- to have organic annual sales growth in excess of the rate of inflation;
- to increase adjusted earnings per share on an annual basis by more than the rate of inflation;
- to increase the Group's return on revenue margin each year;
- to generate sufficient cash to enable the Group to follow a progressive dividend policy;
- to maintain an overall return on capital employed in excess of the Group's cost of capital and to target a return in excess of 15%.

These financial objectives have more recently been supported by two non-financial objectives which are:

- to reduce the Group's carbon dioxide emissions to revenue ratio by 15% by 2010; and
- to reduce the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees by 5% per annum.

During 2006, the Group made significant progress on a number of its strategic objectives. Two aerospace businesses were acquired, both of which made strong starts within the Group, the new heavy duty diesel engine products went into production in the final quarter of the year, and on-time delivery performance was maintained at acceptable levels despite the significant ramp up in the build rates of commercial aircraft.

Operating and Financial Review continued

The Group's progress against its strategic objectives can be assessed by considering the key performance indicators set out in the table below.

Key Performance Indicators

	2006	2005
Organic revenue growth ⁽¹⁾	+9.7%	+9.2%
Adjusted earnings per share ⁽²⁾	4.65p	3.82p
– growth	+21.7%	+11.7%
Return on revenue margin ⁽³⁾	6.8%	5.8%
Return on capital employed ⁽⁴⁾	13.8%	13.7%
CO ₂ emissions/£m revenue ⁽⁵⁾	114 tonnes	n/a
Lost time injury frequency rate ⁽⁶⁾	2.77	n/a

- (1) Organic revenue growth is the rate of growth of Group revenue, at constant exchange rates, excluding the effect of acquisitions and disposals.
- (2) Adjusted earnings per share is the profit after taxation, adjusted for the profit or loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions, divided by the average number of shares in issue in the period.
- (3) Return on revenue margin is the Group's adjusted operating profit divided by its revenue.
- (4) Return on capital employed is the Group's adjusted operating profit divided by the average of the capital employed at the start and end of the period. Capital employed being total assets less total liabilities, except for those of an interest bearing nature.
- (5) CO₂ emissions/£m revenue is an estimate of the Group's carbon dioxide emissions in tonnes divided by the Group's revenue in £ millions.
- (6) Lost time injury frequency rate is the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees.

The table of Key Performance Indicators ("KPIs") above shows that the Group exceeded three of its four financial goals during the year and is on track to achieve its 15% return on capital employed target in the near future. The two non-financial KPIs were introduced during the year and hence no prior year comparative figures are included in the table.

Acquisitions

The Group completed two acquisitions in the year, the first for over six years. The acquired businesses are both leading suppliers to the aerospace industry.

Sterling Machine Co., Inc. was acquired on 27 January 2006 for \$38.0m (£21.5m) including costs and assumed net debt. Sterling Machine is a pre-eminent manufacturer of transmission and rotor-head helicopter components for military platforms, principally to Sikorsky Aircraft Corporation. The business is located in Enfield, Connecticut, USA. The purchase consideration was funded through the combination of a placing of 15 million new Senior plc shares at 60.0 pence each, raising £8.8m net of costs, and utilisation of the Group's existing borrowing facilities. Sterling Machine performed strongly during its first 11 months with the Group.

A second aerospace business, AMT, located north of Seattle in Washington State, USA, was acquired on 27 October 2006. It manufactures aluminium structural parts (mainly for Boeing commercial aircraft) utilising state-of-the-art four-axis, five-axis and long-bed machining centres. AMT's key programmes are the Boeing 737 and 777, both of which have large order books and increasing build rates. AMT is also well positioned on the new Boeing 787 ("Dreamliner") which is scheduled for delivery to its first customer during 2008 and which already has around 450 customer orders. AMT was acquired for a total consideration, including assumed debt, the net asset purchase price adjustment and acquisition costs, of \$113.9m (£60.0m). The purchase

consideration was funded through a 1 for 5 rights issue at 42.0 pence per share, which raised £25.9m net of expenses, together with the partial utilisation of the Group's new five year £80.0m revolving credit facility. AMT performed strongly during its first two months of ownership by Senior and, with its significant involvement on the B787, its prospects are excellent.

Financial Review Summary

A summary of the Group's operating results are set out in the table below. A more detailed review of each Division is included in the section entitled "Divisional Review".

	Revenue		Adjusted op profit ⁽¹⁾		Margin	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 %	2005 %
Aerospace	197.0	156.2	19.2	13.0	9.7	8.3
Flexonics	191.5	183.0	11.8	11.1	6.2	6.1
Inter-segment sales	(0.6)	(0.6)	-	-	-	-
Central costs	-	-	(4.8)	(4.3)	-	-
Group total	387.9	338.6	26.2	19.8	6.8	5.8

Adjusted operating profit⁽¹⁾ is the profit before loss on sale of fixed assets, amortisation of intangible assets arising on acquisitions, interest and tax. It may be reconciled to the operating profit shown in the Consolidated Income Statement as follows:

	2006 £m	2005 £m
Operating profit per financial statements	24.5	19.6
Loss on sale of fixed assets	0.4	0.2
Amortisation of acquisition intangible assets	1.3	-
Adjusted operating profit	26.2	19.8

Group revenue grew by 14.6%, aided in part by the two acquisitions, with the commercial aerospace, oil and gas and chemical processing markets all particularly strong. Adjusted operating profit rose by 32.3% principally due to the gearing benefit of increased sales and the strong performances from the newly acquired businesses. Operating margins consequently increased to 6.8%, a full percentage point higher than in the prior year.

The Group's free cash flow and net debt for 2006 and the prior year were:

	2006 £m	2005 £m
Free cash flow	5.1	2.2
Net debt	96.7	62.4

Free cash flow is the total net cash flow generated by the Group prior to corporate activity such as acquisitions, disposals, financing and transactions with shareholders. It may be derived from the figures contained in the Financial Statements as follows:

	2006 £m	2005 £m
Net cash from operating activities	22.3	16.5
Interest received	1.3	1.4
Proceeds on disposal of tangible fixed assets	2.2	0.9
Purchases of tangible fixed assets	(20.1)	(16.3)
Purchases of intangible assets	(0.6)	(0.3)
Free cash flow	5.1	2.2

Net debt increased from £62.4m to £96.7m largely due to the purchase of the two aerospace businesses.

Revenue

Group revenue increased by £49.3m (14.6%) to £387.9m (2005 – £338.6m) with the two aerospace acquisitions responsible for £18.8m of the increase. If the effect of the acquisitions and the small adverse year-on-year exchange effect (£2.0m) are excluded, then underlying revenue grew by 9.7% on a constant currency basis. In 2006, 57% of Group sales originated from North America, 14% from the United Kingdom, 20% from the rest of Europe and 9% from the rest of the World.

Operating profit

Group operating profit increased by 25.0% to £24.5m (2005 – £19.6m). Adjusted operating profit, that before loss on sale of fixed assets of £0.4m (2005 – £0.2m) and amortisation of intangible assets arising on acquisition of £1.3m (2005 – £nil), increased by £6.4m (32.3%) to £26.2m (2005 – £19.8m). If the effects of the acquisitions (£3.8m profit) and foreign currency (£0.3m adverse impact) are excluded then underlying adjusted operating profit increased by 14.9% on a constant currency basis.

Finance costs

Finance costs, net of investment income of £0.9m (2005 – £1.3m), increased to £6.4m (2005 – £5.0m) as global interest rates rose, particularly in North America and the UK, and the Group's debt level increased as a result of the two acquisitions undertaken in the year.

Profit before tax

Adjusted profit before tax increased by 33.8% to £19.8m (2005 – £14.8m). Reported profit before tax increased to £18.1m (2005 – £14.6m).

Tax charge

The total tax charge increased to £2.9m (2005 – £2.5m) as the Group's taxable profits increased. If the tax benefits arising from the loss on sale of fixed assets and amortisation of intangible assets from acquisitions totalling £0.6m (2005 – £nil) are added back, then the underlying tax charge of £3.5m (2005 – £2.5m) represents an underlying rate of 17.7% (2005 – 16.9%) on the adjusted profit before tax of £19.8m (2005 – £14.8m).

Earnings per share

15 million ordinary shares were issued in January 2006, by way of a share placing, to help fund the acquisition of Sterling Machine, and nearly 65 million ordinary shares were issued in October 2006, through a 1 for 5 rights issue, to help fund the acquisition of AMT. As a consequence, the weighted average number of shares for the purposes of calculating undiluted earnings per share in 2006 was 349.8 million (2005 – 322.2 million restated to reflect the bonus element of the rights issue). Having taken this into account, adjusted

earnings per share increased by 21.7% to 4.65p (2005 – 3.82p restated for the bonus element of the rights issue). Basic earnings per share increased to 4.35p (2005 – 3.75p restated).

Dividends

A final dividend of 1.381p per share is proposed for 2006. This would bring the full year dividend to 2.000p per share, which would represent a 5.0% increase over the prior year's 1.905p per share as restated for the bonus element of the rights issue.

For ease of reference, the reported and restated dividends for 2006 and 2005, together with their costs, are set out in the table below.

	2006		2005	
	Restated	Reported	Restated	Reported
Pence per share				
Interim	0.619p	0.650p	0.619p	0.650p
Final (2006 proposed)	1.381p	n/a	1.286p	1.350p
Total	2.000p		1.905p	
	+5.0%			
Cost				
Interim	£2.1m		£2.0m	
Final (2006 proposed)	£5.4m		£4.4m	
Total	£7.5m		£6.4m	
	+17.2%			

Research and development and capital expenditure

The Group spent £8.5m on research and development during 2006 (2005 – £8.3m). In addition, £20.7m (2005 – £16.6m) was invested in capital expenditure mainly to bring the new heavy duty diesel engine products into production in North America and, as build rates for civil aircraft continued to rise, to increase machining capacity and capability at a number of the Group's aerospace operations.

Capital structure

The Group's consolidated balance sheet at 31 December 2006 may be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	87.6	–	87.6
Goodwill and intangible assets	126.1	–	126.1
Current assets and liabilities	139.8	(92.3)	47.5
Other non-current assets and liabilities	3.8	(3.7)	0.1
Post-retirement obligations	–	(37.5)	(37.5)
Total before net debt	357.3	(133.5)	223.8
Net debt	8.2	(104.9)	(96.7)
Total at 31 December 2006	365.5	(238.4)	127.1
Total at 31 December 2005	282.5	(190.2)	92.3

Net assets increased by 37.7% in the year to £127.1m (2005 – £92.3m) and net assets per share by 9.4% to 32.6p (2005 – 29.8p). There were 389.9 million ordinary shares in issue at the end of 2006 (2005 – 309.3 million)

Operating and Financial Review continued

Cash flow

The Group's free cash flow, whose derivation is set out in the table below, increased to £5.1m (2005 – £2.2m) on the back of increased operating profits and despite the £4.3m investment in working capital (as revenue increased) and net capital expenditure of £18.5m being nearly 1.5x the depreciation level of £12.6m (excluding £1.3m of amortisation of intangible assets acquired on acquisition).

	2006 £m	2005 £m
Operating profit	24.5	19.6
Depreciation and amortisation	13.9	12.0
Working capital movement	(4.3)	(6.9)
Pension payments above service cost	(3.4)	(2.8)
Other items	0.8	0.4
Operating cash flow	31.5	22.3
Interest paid (net)	(5.3)	(3.5)
Tax paid	(2.6)	(0.9)
Capital expenditure	(20.7)	(16.6)
Sale of fixed assets	2.2	0.9
Free cash flow	5.1	2.2
Dividends	(6.5)	(6.1)
Acquisitions and disposals	(79.7)	(0.1)
Share issues	34.8	0.5
Foreign exchange variations	11.7	(7.8)
Non-cash movements	0.3	(0.5)
Opening net debt	(62.4)	(50.6)
Closing net debt	(96.7)	(62.4)

Acquisitions, and the related share issues, played a major part in the Group's 2006 cash flow with the respective amounts shown in the table above being analysed as follows:

	Acquisitions and disposals £m	Share issues £m	
Sterling Machine	(21.5)	8.8	Share placing
AMT	(60.0)	25.9	Rights issue
less – cash acquired	0.5	–	
– deferred consideration	1.2	–	
Other	0.1	0.1	
	(79.7)	34.8	

Net debt

Net debt rose by £34.3m in the year to £96.7m (2005 – £62.4m). The increase was mainly due to the utilisation of additional borrowings to help fund the two acquisitions (£45.1m) being partly offset by an exchange benefit of £11.7m. Around 95% of the Group's gross borrowings are denominated in US \$. The US \$ weakened in 2006 from US\$1.72 : £1 at the beginning of the year to US\$1.96 : £1 at the year-end, causing the reported sterling net debt amount to reduce significantly.

Liquidity

As at 31 December 2006, the Group's gross borrowings, excluding finance leases, were £103.3m (2005 – £66.5m). The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows:

	Gross borrowings £m	Committed facilities £m
Within one year	13.1	12.8
In the second year	38.4	50.1
In years three to five	51.3	80.0
After five years	0.5	–
	103.3	142.9

In anticipation of \$25m (£12.8m) of loan notes maturing in June 2007, the Group issued \$30m (£15.3m) of new loan notes on 31 January 2007, with a maturity of 10 years and carrying a fixed interest rate of 5.85%.

Changes in accounting policies

There have been no changes in accounting policies in the current year.

Going concern basis

After making enquiries, the Directors have formed a judgement, at the time of approving the Financial Statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Divisional Review

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that, in order to make appropriate comparisons, the results for 2005 have been translated at constant currency using 2006 average exchange rates.

Aerospace Division

	2006 £m	2005 £m	Change
Revenue	197.0	155.0 ⁽¹⁾	+27.1%
Adjusted operating profit	19.2	12.9 ⁽¹⁾	+48.8%
Operating margin	9.7%	8.3%	–

(1) 2005 results translated using 2006 average exchange rates.

In the Aerospace Division (12 operations following the acquisition of Sterling Machine and AMT), revenue grew by £42.0m (27.1%) to £197.0m (2005 – £155.0m at constant currency) with the acquisitions contributing £18.8m.

Adjusted operating profit (that before profit/loss on sale of fixed assets and amortisation of intangible assets arising on acquisition) increased by £6.3m (48.8%) to £19.2m (2005 – £12.9m at constant currency) with the two acquisitions accounting for £3.8m of the increase.

The Division's results benefited from the continuing strong growth in the build rate of civil aircraft, with the combined large commercial, regional and business jet markets accounting for 57% of 2006 Divisional sales. The market for large commercial aircraft was particularly strong, with Boeing and Airbus together delivering 25% more aircraft in 2006 (832) than in 2005 (668). Their order intakes were also extremely strong, at 2.2x delivery levels. Their combined order book of 4,988 aircraft at the year-end is 25% above the level at the start of 2006 (3,986 aircraft). The six year order books, at current delivery rates, represent a very healthy picture for the future. Both Airbus and Boeing are forecasting to increase build rates further in the coming years. Elsewhere, the regional jet market was weak, but the business jet market very strong, and the military market (27% of Divisional sales) was stable.

Flexonics Division

	2006 £m	2005 £m	Change
Revenue	191.5	182.2 ⁽¹⁾	+5.1%
Adjusted operating profit	11.8	10.9 ⁽¹⁾	+8.3%
Operating margin	6.2%	6.0%	–

(1) 2005 results translated using 2006 average exchange rates.

In the Flexonics Division, the 11 operations saw combined revenue grow by £9.3m (5.1%) to £191.5m (2005 – £182.2m at constant currency), with strong energy markets but generally flat automotive markets. Whilst sales of the new heavy duty diesel engine products began in the final months of the year, the volumes were not significant.

Adjusted operating profit for the Division increased by 8.3% to £11.8m (2005 – £10.9m at constant currency) as strong energy markets and operational improvements more than offset the impact of flat automotive demand and the start up costs associated with the introduction of the diesel engine products in North America.

Automotive production levels in North America declined by 2.3% in 2006, to 16.00 million vehicles (2005 – 16.37 million), whereas Western Europe saw a 2.1% increase to 18.37 million vehicles (2005 – 18.00 million). The outlook for 2007 is for continuing flat demand, with further erosion of the sales of the "Big Three" (General Motors, Ford and Daimler Chrysler) in North America. In 2006, they had 56.5% of the market (2005 – 59.6%). The outlook in France remains challenging.

However, overall prospects for the Flexonics Division remain good given strong energy markets, the continued industrialisation of China and India, growing volumes in the European truck market and the fact that production of the new heavy duty diesel engine products in North America is now ramping up. The Group's North American plant is expected to have total sales in excess of £20m in 2008 for its diesel fuel lines, diesel common rail and diesel exhaust gas recycling cooler products. Completion of the troublesome Wembley ducting contract in January 2007 should also enhance year-on-year profitability.

Outlook

The commercial aerospace industry, representing 57% of the Aerospace Division's 2006 sales, continues to thrive. The most important sector within this category is the large commercial sector, principally Boeing, Airbus, and the engine manufacturers GE and Rolls-Royce, and their respective supplier bases. Boeing and Airbus have together received orders for 3,891 aircraft in the last two years, against the 1,500 aircraft delivered. This has resulted in their collective order book increasing from 2,597 aircraft at the beginning of 2005 to 4,988 at the end of 2006 (a six year order book at 2006 delivery rates). As a consequence, they have been increasing their build rates (2006 saw a 25% increase in deliveries) and are forecasting further increases of around 10% per annum over the next two years. The business jet sector is seeing similar buoyant market conditions to that of the large commercial sector, whilst the regional jet market (typically 30 to 90 seat aircraft) is now stabilising after a few years in decline. The military/defence sector, 27% of 2006 Aerospace Divisional sales, is healthy but stable.

In the Flexonics Division, the Group increased its sales of flexible exhaust connectors (32% of 2006 Divisional sales), largely because its Brazilian operation began production on a number of new programmes. The global market for this product is expected to stay competitive, not helped by increases in the price of stainless steel, with demand in North American and European markets remaining broadly unchanged. The industrial markets in which the Group operates, e.g. power, oil and gas, chemical processing and HVAC, are generally in a healthy condition with strong future growth anticipated for many of them. Industrial markets represented 43% of the Flexonics Division's 2006 sales.

It is anticipated that the strong commercial aerospace market, healthy industrial markets and stable automotive markets, will provide a strong foundation for the Group's future growth. Three other areas in particular further underpin the Board's confidence as to the positive future for the Group: the ramping up, through 2007, of the North American heavy duty diesel engine products (2008 is expected to see sales in excess of £20m); full year contributions from the two aerospace acquisitions (AMT was owned for only two months in 2006 and Sterling Machine for 11); and the highly successful Boeing 787 ("Dreamliner") going into production in late 2007 (the Group has significant content on this aircraft and its engines).

However, in addition to the impact of the weakened US \$ and higher stainless steel prices, there are certain risks and uncertainties inherent in the Group's business that may affect future performance. These are discussed below.

Risks and Uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's future performance, and could cause actual results to differ materially from expected and historical results.

Competitors

The Group operates in competitive market sectors. The aerospace market is principally located in North America and Europe. This is where the Group's aerospace operations are all situated, so enabling engineering support to be readily given to its customers. Whilst the industry is consolidating, the supplier base remains fragmented and the actions of a single competitor are unlikely to have a material impact on the results of the Group.

In the Flexonics Division, the industrial markets in which the Group operates (43% of 2006 Divisional sales) are diverse both geographically and in nature with engineering skills, technical qualifications and service levels being the key to success for most of them. Again, the markets are competitive, but no single competitor represents a material threat to the Group. In the automotive markets, products like the new North American heavy duty diesel engine products are similar in nature to those of aerospace, in that engineering support and process engineering are very important to the customers' choice of supplier. However, there are other automotive products where competition is fiercer and price more the defining factor. Where this is the case, the Group is increasingly manufacturing these products in its lower cost operations in the Czech Republic, South Africa, Brazil and India, rather than in its North American and Western European operations.

Markets and customers

Over half of the Group's sales are derived from the aerospace market with the majority being attributed to the commercial aircraft sector. Whilst these markets are expected to remain buoyant for a number of years, should this not be the case the Group's financial performance would be adversely affected, as was the case in 2001 following the events of "9/11". The Group has a relatively balanced portfolio of aerospace customers, nearly all of whom are financially strong, with the largest representing some 5% of 2006 Group sales. The immediate and total loss of such a customer is considered to be highly improbable given that many parts are typically supplied from a number of Senior's operations to a range of customer locations, with many products on long-term agreements.

The industrial markets are diverse, fragmented and generally healthy, with the largest single customer representing less than one half of one percent of 2006 Group sales. However, the financial health of much of the North American automotive industry is currently fragile. In the event that one of the larger automotive manufacturers were to seek protection from its creditors (known as going into Chapter 11 in the USA) then the Group would be unlikely to recover all, if any, of the amounts owed to it. The largest manufacturer accounted for around 7% of 2006 Group sales, both to the manufacturer directly and/or to its supplier base. However, production of the vehicles, and hence sales of the Group's products, would probably continue, albeit at a lower level, so rendering the impact to be of a one-off rather than ongoing nature. The Group has a strong balance sheet and insurance coverage for many of its North American automotive customers as mitigation against the effects of such an event occurring.

Manufacturing

The Group's manufacturing facilities could be disrupted for reasons beyond the Group's control, such as fire, workforce actions and other issues. As such, the Group prepares recovery plans for the most likely situations so that business continuity procedures are in place and staff are appropriately trained to implement them, should these situations occur.

Due to the rapid advancement in manufacturing technology, facilities may become outdated, affecting efficiency and product quality, which in turn may have a detrimental impact on revenue, cost of sales and profit margins. Consequently, the Group continues to invest in new manufacturing equipment and processes in order that it remains competitive in its chosen markets.

Environmental

The Group's operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials. As a result, the Group is subject to the requirements of environmental and occupational health and safety laws and regulations in a number of jurisdictions. These regulate such matters as waste water, storm water, solid and hazardous waste materials, and air quality. Under such laws and regulations, the Group may be liable for, amongst other things, the cost of investigating and remediating contamination (regardless of fault) and for fines and penalties for non-compliance. The Group's operations generally do not raise significant environmental risks, but the Group does use certain hazardous materials in its business.

Foreign exchange and interest rates

Although the Group reports in Pounds Sterling, in 2006 it derived approximately 86% of its revenue from businesses located outside the United Kingdom, of which 57% related to operations located in North America. Furthermore at the end of 2006, over 95% of the Group's gross borrowings were denominated in US Dollars. Fluctuations in the value of the US Dollar (and to a lesser extent other currencies) in relation to the Pound have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pounds Sterling. Although the Group seeks to match its foreign currency assets and liabilities, currency fluctuations could still have a significant impact on the Group's consolidated balance sheet, particularly total shareholders' funds, when the financial statements of its overseas subsidiaries are translated into Pounds Sterling. The Group also has a number of transaction-related foreign currency exposures, particularly the Euro to South African Rand. Although the Group seeks to hedge such exposures for 15 months forward, there is the risk that currency movements may have an adverse, or indeed positive, effect on the results of the Group's operations.

The majority of the Group's borrowings are subject to fixed interest rates. However, a significant element has variable rates, and consequently fluctuations in interest rates may have an effect on the results of the Group's operations.

Corporate Governance Report

This Corporate Governance Report describes the manner in which the Company has applied the Principles of Good Governance set out in Section 1 of the Combined Code on Corporate Governance and whether or not it has complied with the Code provisions. In July 2003, the Financial Reporting Council ("FRC") issued the "Combined Code on Corporate Governance" known as the "2003 FRC Code", in response to the Higgs Review on Non-executive Directors and the Smith Review on Audit Committees.

Statement of Compliance with the Combined Code

In June 2006, the FRC issued a revised Combined Code which supersedes and replaces the 2003 FRC Code for financial years beginning on or after 1 November 2006. The Board considered that it would be beneficial to take advantage of the amendment to the 2003 FRC Code restriction on the Chairman serving on the Remuneration Committee, in order to enable him to do so. The Board considered J R Kerr-Muir to be independent on appointment as Chairman.

The Company, throughout the year, has been in compliance with the provisions set out in Section 1 of the 2003 FRC Code, except that J R Kerr-Muir was re-appointed to the Remuneration Committee on 1 August 2006 (FRC Code Provision B.2.1).

Application of the Principles of the 2003 FRC Code

The Principles of Good Corporate Governance are detailed in the 2003 FRC Code under four areas which have each been reviewed by the Directors and then commented upon below:

a) Directors

The Board is structured under a non-executive Chairman, and includes three executive Directors, and two other non-executive independent Directors, who were selected for appointment because of their wide industrial and commercial experience. In addition, there is a Group Executive Committee, chaired by the Group Chief Executive, which is comprised of the executive Directors and other key executives within the Group. Brief details of the Board are included on page 4.

The Directors consider that there is in place an effective Board which leads and controls the Group, with clear divisions of responsibility between running the Board and running the Group's businesses. The Board is responsible for the strategic decisions regarding the Group, including the setting of commercial strategy and approval of Group budgets and financial statements. It also approves significant financial and contractual commitments made by the Group. The Board's Terms of Reference more fully describe the responsibilities of the Board, and may be found on the Company's website.

The Board delegates certain of its responsibilities to the Audit, Remuneration, Nominations, and Health, Safety & Environment ("HSE") Committees. The Group Chief Executive, together with the Group Executive Committee, is responsible for the implementation of the decisions made by the Board, and for the day-to-day conduct of the Group's operations.

The Board meets formally on a regular basis (11 times in 2006); and in addition there were three meetings of the Audit Committee in 2006, together with five meetings of the Remuneration Committee, two meetings of the Nominations Committee and three meetings of the HSE Committee during the year. There was full attendance at every Board meeting and Committee of the Board during the year. Other Committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from the Committee Meetings are available to the Board.

Procedures are in place to ensure that the Directors are properly briefed so that the decisions taken by the Board are based on the fullest available information. At every Board Meeting there are reviews of operational, financial and administrative matters. Health, safety & environmental performance is reviewed by the Board on a regular, and at least quarterly, basis; while social and ethical issues, agreement of budgets and levels of insurance cover are reviewed whenever appropriate.

There is a procedure by which all Directors can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

Nominations Committee

The Nominations Committee leads the process for Board appointments, and supervises management development and succession plans. It also makes recommendations to the Board on all new Board appointments. The Committee, which consists entirely of non-executive Directors, is chaired by J R Kerr-Muir, and its composition is shown on page 4. Its Terms of Reference may be found on the Company's website.

The appointment of new non-executive Directors to the Board is controlled by the Committee, assisted by appropriate external recruitment consultants. In conjunction with the external consultant, consideration is given to the role and the capabilities required for a particular appointment. Based on agreed criteria, the consultant then produces a shortlist of candidates. The Committee members interview these candidates, then present their recommendation to the Board. Consideration is also given to the number of other posts held by the candidates, and their ability to devote sufficient time to discharge their duty as a non-executive Director. J R Kerr-Muir has advised the Company that he will be retiring from the Board during 2007. The Nominations Committee recommended that M Clark, the Senior Independent Director, be appointed non-executive Chairman and I F R Much be appointed the Senior Independent Director, upon J R Kerr-Muir's retirement. In order to maintain the minimum required number of non-executive Directors, a new non-executive Director will be appointed prior to J R Kerr-Muir's retirement.

During the year, the Board undertook a formal review to evaluate its own performance, and that of its Committees and individual Directors; this process involved the completion and review of performance assessment questionnaires, and appraisal interviews. The results of the evaluation process are used to improve Board performance and to determine the training needs of the Directors. M Clark and I F R Much, in consultation with the executive Directors, undertook an evaluation of the Chairman's performance, and concluded that J R Kerr-Muir continued to provide effective leadership of the Board. Based on the results of the performance evaluation process, the Chairman considers that each member of the Board, the Board collectively, and its Committees, continue to contribute effectively to the running of the Company.

In accordance with the Company's Articles, Directors submit themselves for re-election at the Annual General Meeting following their appointment and thereafter at intervals of no more than three years.

b) Directors' Remuneration

The Remuneration Report on pages 18 to 23 describes how the Board has applied itself to remuneration matters.

c) Accountability and Audit

The Audit Committee Report on pages 16 and 17 describes the role and activities of the Audit Committee and its relationship with the internal and external auditors.

d) Relations with Shareholders

The Company maintains regular contact with its institutional shareholders. Twice a year, the Group Chief Executive and Group Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the full year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2006, J R Kerr-Muir, the Company's

non-executive Chairman, also attended the full year and interim results announcements to shareholders and analysts, in March and August respectively. No other non-executive Director formally met with shareholders during the year. The Senior Independent Director is available to attend shareholder meetings, if this is requested by shareholders, so providing an alternative channel of communication between the Company and its shareholders. The Company's largest shareholders were invited to meet I F R Much following his appointment as a non-executive Director on 21 December 2005.

The Company makes constructive use of the Annual General Meeting to communicate with private investors. A presentation of the Company's performance is given at the AGM, and a copy of the presentation, along with other investor relations material, is available on the Company's website.

All resolutions at the 2006 AGM were passed unanimously on a show of hands. Details of the proxy voting received by the Company for the AGM 2006 are set out in the table below.

The issued share capital as at 1 March 2006 (the date of the notice of the AGM 2006), was 324.73 million shares of 10p each.

A large majority of the abstentions to Resolutions 2 and 7 (approving the Remuneration Report and the election of Deloitte & Touche LLP as Auditors respectively) came from a single shareholder.

The total number of proxy votes received for the AGM 2006 represented approximately 68.1% (2005 – 71.6%) of the issued share capital of the Company. The Company is supportive of initiatives to promote greater shareholder participation and offers CREST members the facility to appoint a proxy or proxies through the CREST electronic proxy appointment service. Further details of this service may be found in the enclosed Notice of the Annual General Meeting.

Proxy voting for the AGM 2006

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	220,828,542	181,186	153,186	1,000	221,164,332
2. To approve Remuneration Report	217,370,970	583,743	162,422	3,047,192	221,164,332
3. To declare a final dividend	221,003,792	6,186	154,354	0	221,164,332
4. To re-elect Mark Rollins as a Director	219,766,582	1,204,001	191,749	2,000	221,164,332
5. To re-elect Michael Sheppard as a Director	219,660,278	1,261,849	191,749	50,456	221,164,332
6. To elect Ian Much as a Director	219,701,090	1,212,637	197,749	52,856	221,164,332
7. To re-elect Deloitte & Touche LLP as auditors	218,075,437	208,163	185,822	2,694,910	221,164,332
8. Authority to allot shares	220,872,236	84,031	190,422	17,643	221,164,332
9. Disapplication of pre-emption rights	220,840,983	115,736	190,122	17,491	221,164,332
10. Authority to buy back shares	220,918,631	52,410	188,304	4,987	221,164,332

Audit Committee Report

Summary of the Role of the Audit Committee

The Audit Committee is appointed by the Board from the non-executive Directors. The duties of the Committee include:

- considering and making recommendations to the Board regarding the appointment of the external auditors, the audit fee, and any questions of the resignation or dismissal of the external auditors;
- considering (if appropriate) the degree of any work undertaken by the external auditors for the Group other than the statutory audit;
- reviewing the half-year and annual financial statements before submission to the Board and to report on them to the Board;
- discussing with the external auditors problems and reservations arising from the interim and final audits and any other matters the external auditors may raise;
- reviewing the internal audit programme, to receive periodical reports from the Group Finance Director, to consider the major findings of internal audit investigations and management's response, to ensure co-ordination between the Group and the external auditors and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;
- reviewing the effectiveness of internal control systems and to review the external auditors' management letter and management's response;
- reviewing the effectiveness of the Risk Management Process ensuring that the process is active, dynamic and focused on the achievement of strategy at both Group and operational levels, and to ensure key business risks and other issues arising from the process are effectively identified and communicated to the Board; and
- considering any other topics specifically delegated to the Committee by the Board from time to time.

The Audit Committee is required to report its findings to the Board, identify any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken.

The Audit Committee's Terms of Reference may be found on the Company's website.

Composition of the Audit Committee

The members of the Audit Committee, both of which are independent non-executive Directors, are:

	Date of appointment	Qualification
M Clark	1 February 2001	Both members of the Committee have significant commercial and financial experience at a senior management level. M Clark is a Certified Accountant and has previously acted as Finance Director at a number of major businesses.
I F R Much	21 December 2005	

M Clark is to become non-executive Chairman upon the retirement of J R Kerr-Muir during 2007. It is intended that a new non-executive Director will replace M Clark on the Audit Committee prior to M Clark's appointment as Chairman. Two members constitute a quorum for the Committee.

The Board expects the Audit Committee members to have an understanding of:

- the principles of, contents of, and developments in financial reporting including the applicable accounting standards and statements of recommended practice;
- key aspects of the Group's operations including corporate policies, group financing, products and systems of internal control;
- matters that influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the role of internal and external auditing and risk management; and
- the regulatory framework for the Group's businesses.

Meetings

The Audit Committee met three times during the year and has an agenda linked to events in the Group's financial calendar. The agenda is predominantly cyclical, although each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items.

The Audit Committee invites the non-executive Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller, Group Internal Auditor, and senior representatives of the external auditors to attend all of its meetings, although it reserves the right to require any of these individuals to withdraw at any time.

The Audit Committee meets the external auditors at least twice a year without the executive Directors being present.

Overview of the Actions Taken by the Audit Committee to Discharge its Duties

During the year, the Audit Committee has:

- reviewed the Financial Statements in the Annual Report 2005, the Interim Report issued in August 2006, as well as formal announcements relating to the Group's financial position. As part of this review, the Committee received a report from the external auditors on their audit of the Annual Report and review of the Interim Report;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report;
- reviewed and agreed the scope of the audit work to be undertaken by the external auditors;
- agreed the fees to be paid to the external auditors for their audit of the 2006 Accounts and review of the Interim Report;
- reviewed its own effectiveness;
- agreed a programme of work for the Group Internal Auditor;
- undertaken an evaluation of the performance of the external auditors; and
- received reports from the Group Internal Auditor on the work he has undertaken and the management responses to proposals made in his audit reports during the year.

External Auditors

The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The Audit Committee is responsible for monitoring the independence, objectivity and compliance with regulatory requirements.

Whilst the Company does not have a policy of subjecting its external auditors to a regular fixed-term rotation, the Committee remains cognisant of the importance of maintaining the objectivity of the Company's external auditors.

The Audit Committee reviews the scope, cost and timing of the work of the external auditors, and acts to ensure their findings are appropriately implemented. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditors. In 2006, £0.7m (2005 – £0.2m) was paid in fees to the external auditors relating to non-audit work, for advice in relation to the two acquisitions made by the Group during the year, and for tax compliance. The Committee considered it was beneficial to retain Deloitte & Touche LLP for this work, because of their expertise in this area and knowledge of the Group. However, the Committee will continue to keep the nature and extent of such services under review, in order to balance the maintenance of objectivity and value for money.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee reviewed:

- the changes in key external audit staff; the audit partner rotated at the end of 2005 and a new senior audit manager was appointed during 2006;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest and to maintain their independence; and
- the overall extent of non-audit services provided by the external auditors.

To assess the effectiveness of the external auditors, the Committee reviewed the external auditors' performance during the year and their fulfilment of the agreed audit plan.

The Audit Committee is satisfied with the effectiveness and independence of the external auditors.

As a consequence of its satisfaction with the results of the activities of the external auditors, the Committee has recommended to the Board that the external auditors are re-appointed.

Internal Control

The Company has a well-established and ongoing process, which was in place for the full year and up to the date of the Financial Statements, for identifying, evaluating and managing significant risks, including non-financial risks, faced by the Group. This process is regularly reviewed by the Board and has been further improved during the year. The process continues to accord with the Turnbull guidance on internal control.

Prior to any acquisitions, the Company undertakes a due diligence review of the business to be acquired. Post acquisition, work is then undertaken to bring the control systems and procedures of the acquired business in line with Group standards.

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed for completeness and accuracy by the Group's management committees. This information is presented to the Board, for it to assess the effectiveness of the system of internal control. Whilst the Board acknowledges its overall responsibility for internal control, it believes strongly that senior management within

the Group's operating businesses should contribute in a substantial way, and this has been built into the process.

In carrying out its review of the effectiveness of internal control in the Group, the Board takes into consideration the following key features of the risk management process and system of internal control:

- senior management of each business has spent time identifying and assessing business unit and Group objectives, key issues, opportunities and controls. This assessment encompassed operational, compliance, financial and business risks and is updated on an ongoing basis. A risk assessment has similarly been prepared for the Group covering central functions and strategic risks;
- a detailed system of budgeting, reporting and forecasting for the Group's operations is in place; this is monitored, both locally and centrally, through a review of monthly management information;
- the Group has expanded the remit of the Internal Audit function, whose audit plan, which includes a cyclical programme of visits to all Group operations, is reviewed, updated and approved by the Committee. The conclusions from the function's work are reported to the Committee, the Group Chief Executive and the Group Finance Director;
- the Group Internal Audit function also co-ordinates semi-annual Financial Integrity Declarations and self-assessment questionnaires which are applied on a cyclical basis and subjected to review. The results of these reviews and internal audit visits are reported to the Audit Committee, along with those from the external auditors; and
- there is in place a formal annual risk management sign-off process for senior management in each of the business units. This is operated in order to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.

The whole risk management process is subject to review twice a year by the Audit Committee, and strengthened as appropriate. Steps are taken to embed internal controls and risk management further into the operations of the business, and to deal with areas of improvement which come to management's and the Board's attention. The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness. Such a system is designed to manage, rather than to eliminate, the risk of failure to achieve the Group's objectives, and can only provide reasonable but not absolute assurance against misstatement or loss.

Overview

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditors. The Chairman of the Audit Committee will be available at the Annual General Meeting 2007 to answer any questions about the work of the Committee.

Approval

This report was approved by the Audit Committee and signed on its behalf by:

M Clark

Chairman of the Audit Committee
28 February 2007

Remuneration Report

The Directors present their Remuneration Report for the year ended 31 December 2006 in accordance with Schedule 7A of the Companies Act 1985 and the relevant provisions of the Listing Rules of the Financial Services Authority. The report also describes how the Board has applied the Principles of Good Governance relating to Directors' Remuneration.

The Companies Act 1985 ("the Act") requires the external auditors to report to the Company's members on certain parts of the Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. The Remuneration Report has therefore been divided into separate sections for audited and unaudited information.

Unaudited Information

Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors. I F R Much (Chairman) and M Clark were members of the Committee throughout the year. J R Kerr-Muir was re-appointed to the Remuneration Committee on 1 August 2006.

Role of the Remuneration Committee

The primary role of the Committee is to consider and make recommendations to the Board concerning the remuneration packages and conditions of service of the executive Directors and approximately 90 other senior managers. The terms of reference of the Remuneration Committee may be found on the Company's website. During the financial year, the Committee met five times. Details of Directors' attendance at these meetings are disclosed on page 4.

Advisers to the Remuneration Committee

All advisers to the Remuneration Committee are appointed and instructed by the Committee. During the year, the Committee was advised by New Bridge Street Consultants in relation to a review of executive Directors' and senior managers' remuneration, by Slaughter & May in relation to the adoption of the Senior plc 2006 Savings Related Share Option Scheme, and by the Group Company Secretary.

Remuneration Policy

In determining remuneration of the executive Directors, the Committee seeks to maintain a competitive programme, which enables the Company to attract and retain the highest calibre of executive. The performance-related elements of remuneration form a significant proportion of the total remuneration package of executive Directors, details of which are set out in paragraphs (c) and (d) below. They are designed to align their interests with those of shareholders and to give such executive Directors incentives to perform at the highest levels.

The non-executive Directors do not participate in any pension, bonus, share incentive or other share option plans. Their remuneration reflects both the time given and the contribution made by them to the Company's affairs, including membership or chairmanship of the Board or its Committees. The remuneration of the non-executive Directors is determined by the Board of Directors. The non-executive Directors do not participate in any discussion or decisions relating to their own remuneration.

Before recommending proposals for Board approval, the Remuneration Committee may seek advice from external remuneration consultants to ensure it is fully aware of comparative external remuneration practice as well as legislative and regulatory developments. The services of remuneration consultants were used in determining the 2007 salaries of executive Directors and senior managers.

a) Service Agreements

Each executive Director has a service agreement providing for a rolling period of notice of one year. There are no provisions in those agreements or otherwise for additional termination payments. The service agreements for G R Menzies, M Rollins and M Sheppard are dated 27 April 2000, 1 November 2000 and 4 February 2004, respectively. The agreements contain provisions requiring the relevant Director to mitigate his loss in the event of termination. G R Menzies' agreement (the terms of which remain unchanged since his appointment) provides that in the event of a change of control of the Company, he has the option to resign within three months of such change of control without a duty to mitigate his loss.

The non-executive Directors do not have service agreements with the Company. J R Kerr-Muir was appointed Chairman with effect from 11 May 2001. His contract is terminable upon 12 months' notice by either party on or after the third anniversary. J R Kerr-Muir intends to retire from the Board during 2007. M Clark was appointed with effect from 1 February 2001 for an initial three year term, which was subsequently renewed for further three year terms to 1 February 2010. I F R Much was appointed with effect from 21 December 2005 for an initial three year term.

With prior approval of the Board, executive Directors may hold external non-executive directorships and retain any fees paid for these appointments. At the year-end, G R Menzies and M Rollins held one such position each. M Rollins has held his non-executive directorship from January 2006. In 2006, G R Menzies and M Rollins received and retained non-executive directorship fees of £37,000 and £30,000 respectively.

b) Base Salaries

In setting the base salary of each Director, the Committee takes into account the pay practice of other companies and the performance of that Director.

The Committee is also responsible for ratifying the salaries of approximately 90 senior managers and therefore is fully cognisant of pay levels in the Group when determining the pay of the executive Directors.

The base salaries in 2006 for the executive Directors for the year were as follows: G R Menzies – £323,000 (2005 – £313,500), M Rollins – £190,000 (2005 – £190,000), and M Sheppard – £165,800 (2005 – £156,100).

As a result of the review of the executive Directors' remuneration, the Remuneration Committee recommended that the base salaries for the executive Directors for 2007 should be as follows: G R Menzies – £340,000, M Rollins – £210,000, and M Sheppard – £166,700.

The 2006 fees for J R Kerr-Muir and M Clark increased by £6,000 each to £78,000 p.a. and £40,000 p.a. respectively; these being the first increases since 2002. I F R Much's fee for 2006 was £33,000. The non-executive Directors' fees for 2007 remain unchanged from 2006.

c) Annual Performance Bonus Scheme

Under the performance bonus scheme, bonuses up to 60% (2005 – up to 60%) of basic salary could be earned by the executive Directors depending on the Group's actual performance compared to the prior year and to internal targets in respect of underlying earnings per share and cash flow. The table below provides details of the maximum possible awards for 2006, together with details of the bonuses paid to G R Menzies and M Rollins as a percentage of their respective salaries:

	Cash flow target		Earnings per share target		Total %
	Interim %	Full year %	Internal target %	Year-on-year growth %	
Maximum possible award for 2006 and 2005	6.0	9.0	20.0	25.0	60.0
2005 bonus paid	5.9	8.3	15.8	9.8	39.8
2006 bonus paid	4.9	9.0	14.2	21.7	49.8

As M Sheppard serves as a Director of the Company, in addition to his role as Chief Executive of the Flexonics Division, his bonus for the year was 80% dependent on the operating profits and cash flow performance of the Flexonics Division and 20% on Group performance. In 2006, he earned a bonus of 38.6% of salary (2005 – 51.5%) consisting of 28.64% for Divisional performance and 9.96% for Group performance.

The scheme in place for 2007 is broadly unchanged from the 2006 scheme.

d) Share Plans

The Company's policy regarding the granting of share options is to encourage participating Directors and other employees to build and retain a long-term stake in the Group and align their interests with those of the shareholders.

All executive Directors are, or were, eligible to participate in the following share plans:

i) 1999 Executive Share Option Plan ("the 1999 Plan") (closed for new awards)

No more options are to be granted under the 1999 Plan following the introduction of the Senior plc 2005 Long Term Incentive Plan.

The 1999 Plan was open to executive Directors and other senior managers, with the performance target determined by the Remuneration Committee to be challenging in the light of the Company's performance and prevailing financial circumstances at the time.

The maximum number of shares over which options could be awarded to a participant was subject to their value at the time of grant not exceeding:

- 100% of the Director's basic salary at the time of the award;
- 125% of the Director's basic salary taking into account the combined notional current value of all awards under the 1996 Long Term Share Incentive Plan (this plan has now lapsed) and awards under the 1999 Plan in any year; and
- the £30,000 statutory limit for the Approved Option element of the 1999 Plan.

The total value of options under the 1999 Plan and any earlier executive share option schemes, to subscribe for new issue shares granted in any 10 year period could not exceed 4 x current annual basic salary or, if higher, remuneration excluding benefits in kind over the previous 12 months. Where options had already been exercised, further "replacement" options could be granted provided that the market value of all outstanding options did not exceed 4 x current annual basic salary or, if higher, remuneration (excluding benefits in kind) over the previous 12 months.

All options granted under this 1999 Plan, in normal circumstances, only become exercisable if the Group's underlying earnings per share grows by not less than 4% p.a. compound above the growth in the UK Retail Prices Index over a period of three or more financial years. If not exercised within six years of the date of grant, the options will lapse.

Options granted to the Directors are shown under Directors' Interests, together with the base underlying earnings per share figure to be used when determining whether the performance target has been met.

ii) Senior plc 2005 Long Term Incentive Plan ("the 2005 LTIP")

At the AGM 2005, shareholders approved the adoption of the 2005 LTIP, a long term share incentive plan to replace the existing 1999 Plan, and the lapsed Long Term Share Incentive Plan.

The Remuneration Committee considers that the 2005 LTIP (the main details of which are set out below) is in line with current practice and the evolving views of investors, and provides an effective link between senior management performance and reward.

Each year, an individual can receive an award worth up to 100% of annual salary (or 200% of salary in the case of recruitment). The awards made in 2006 under the 2005 LTIP were limited to 50% of salary. The awards are conditional allocations, where the executives will receive free ordinary shares in the Company automatically on the vesting of their award. Awards will normally vest on, or shortly following, the third anniversary of grant once the Committee has determined the extent to which the applicable performance conditions (see below) have been satisfied, and provided that the participant is still employed within the Company's group.

Remuneration Report continued

All awards are subject to performance conditions set by the Remuneration Committee. The 2005 LTIP is designed to reward senior executives partly for delivering superior total shareholder return ("TSR") performance and partly for achieving challenging earnings per share ("EPS") growth targets. In each case, performance will be measured over a three year performance period beginning on the first day of the financial year in which the award is made. The vesting of one half of each of the awards will depend on the Company's TSR performance compared to that of the members of the FTSE Small Cap Index (excluding investment trusts), while the vesting of the other half of each award will depend on the growth of the Company's adjusted EPS relative to RPI.

The vesting of the TSR-related half of the awards will be determined on the following basis:

Ranking of Company's TSR compared with the FTSE Small Cap Index (excluding investment trusts) over the performance period	Percentage of TSR half of an award which vests
Below Median	0%
Median	25%
Upper Quintile (top 20%)	100%
Between Median and Upper Quintile	Pro rata on a straight-line basis between 25% and 100%

TSR will be averaged over three months prior to the start and end of the performance period.

The vesting of the EPS-related half of an award will be determined on the following basis:

Company's average annual adjusted EPS performance in excess of RPI	Vesting percentage – EPS half of an award
Less than 5% p.a.	0%
5% p.a.	25%
12% p.a.	100%
Between 5% and 12% p.a.	Pro rata on a straight-line basis between 25% and 100%

The Remuneration Committee believes that this mixture of conditions provides an effective balance so that executives are encouraged to enhance underlying financial performance whilst retaining focus on the need to deliver superior returns for the Company's shareholders.

The Remuneration Committee encourages Directors to own shares in the Company and, in support of this policy, it expects Directors to retain at least 50% of the shares they acquire under the 2005 LTIP, after allowing for tax liabilities, until a holding of 100% of base salary is built up.

iii) Savings-Related Share Option Plan ("the Sharesave Plan")

The Company's Sharesave Plan was first launched in 1996 to eligible employees across the Group, and was updated and renewed for a further 10 years in 2006. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs ("HMRC") rules for savings-related plans. As employees, executive Directors are eligible to participate and their options under the Sharesave Plan are shown on page 22 under Directors' Interests.

e) Retirement Benefits

G R Menzies' and M Rollins' pension arrangements are provided by the Group's UK pension plan and are based upon their pensionable salaries up to the HMRC's "cap". G R Menzies and M Rollins contribute 7.5% of salary to cap. From 6 April 2006 (A-Day), the Group's UK pension plan adopted its own earnings cap, which has been calculated on the same basis as the HMRC's pre-A-Day "cap". M Sheppard participates in a defined benefit plan that has now closed to new entrants and a defined contribution plan that remains available to the Group's US employees. His base salary is pensionable up to a "cap" of \$220,000 p.a.

f) Other Benefits

The executive Directors also receive non-cash benefits including the provision of a fully expensed car and medical insurance.

Audited Information

The information presented in the remainder of this report has been audited, with the exception of the Directors' Interests in shares and the Total Shareholder Return graph.

Directors' Emoluments

Directors' emoluments

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2006 Total £000's	2005 Total £000's
Executive					
G R Menzies	323	161	26	510	513
M Rollins	190	95	14	299	280
M Sheppard	166	64	15	245	261
Non-executive					
J R Kerr-Muir	78	-	-	78	72
M Clark	40	-	-	40	34
I F R Much (from 21 December 2005)	33	-	-	33	1
G A Campbell (to 30 November 2005)	-	-	-	-	25
	830	320	55	1,205	1,186

Bonuses as shown above are payable to G R Menzies, M Rollins and M Sheppard under the Annual Performance Bonus scheme. The above figures for emoluments do not include any amount for the value of share options or awards granted to, or held by, Directors.

Aggregate remuneration

	2006 £000's	2005 £000's
Emoluments	1,205	1,186
Gains on exercise of share options and incentives (see Options and other share incentives table below)	10	-
Money purchase pension contributions	7	6
Total	1,222	1,192

In addition to setting the remuneration of the executive Directors, the Remuneration Committee oversees the remuneration of 90 other senior managers. The table below shows the cumulative benefits of the three other Divisional directors and the three most senior Corporate managers:

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2006 Total £000's	2005 Total £000's
	593	225	49	867	815

Directors' Interests

The Directors who served during the year and their interests (which are all beneficial), including family interests, in the 10p ordinary shares of the Company were as follows:

Shares

	Shares 2006	Shares 2005
G R Menzies	840,000	600,000
M Rollins	120,000	100,000
M Sheppard	-	-
J R Kerr-Muir	210,982	175,819
M Clark	60,000	50,000
I F R Much	-	-

The Directors subscribed in full for their rights under the 2006 rights issue. There were no changes to the Directors' shareholdings between the end of the year and the date of this report.

Remuneration Report continued

Options and other share incentives

Date of grant/award	At 31.12.05	Granted 2006	Exercised 2006	Gains on exercise/ vesting 2006	Market price on exercise/ vesting 2006	Forfeited 2006	Lapsed 2006	31.12.06	Option price	Exercise period/ maturity date
G R Menzies										
1999 Executive Share Option Plan										
05.04.00	238,660	–	–	–	–	–	238,660	0	78.56p	3 years to 04.04.06
13.09.00	242,318	–	–	–	–	–	242,318	0	51.58p	3 years to 12.09.06
12.03.03	1,070,643	–	–	–	–	–	–	1,070,643	21.97p	3 years to 11.03.09
Sharesave Plan										
06.10.00	40,736	–	40,736	£9,857	–	–	–	0	41.42p	6 months to 31.05.06
Long Term Share Incentive Award Plan – Performance Awards										
2005 Long Term Incentive Plan										
20.05.05	650,810	–	–	–	–	–	–	650,810	–	March 08
M Rollins										
1999 Executive Share Option Plan										
13.09.00	290,782	–	–	–	–	–	290,782	0	51.58p	3 years to 12.09.06
12.03.03	547,122	–	–	–	–	–	–	547,122	21.97p	3 years to 11.03.09
Long Term Share Incentive Award Plan – Performance Awards										
2005 Long Term Incentive Plan										
20.05.05	394,115	–	–	–	–	–	–	394,115	–	March 08
15.03.06	–	146,706	–	–	–	–	–	146,706	–	March 09
M Sheppard										
1999 Executive Share Option Plan										
13.09.00	344,618	–	–	–	–	–	344,618	0	51.58p	3 years to 12.09.06
12.03.03	524,789	–	–	–	–	–	–	524,789	21.97p	3 years to 11.03.09
Long Term Share Incentive Award Plan – Performance Awards										
2005 Long Term Incentive Plan										
20.05.05	332,563	–	–	–	–	–	–	332,563	–	March 08
15.03.06	–	134,572	–	–	–	–	–	134,572	–	March 09

The market price (adjusted for the effect of the rights issue) of the Company's shares on 20 May 2005, the date of the first award under the 2005 LTIP, was 38.28p; and on 15 March 2006, the date of the second award under the 2005 LTIP, was 65.86p. The adjusted share price on the date G R Menzies exercised his option under the Sharesave Plan was 65.62p. Details of the share schemes referred to in the above table may be found on pages 19 and 20.

All outstanding options and awards become exercisable only when certain performance targets have been met. The base underlying earnings per share figures used to determine whether the target has been met are as follows:

Date of grant	05.04.00	13.09.00	12.03.03	20.05.05	15.03.06
Base underlying EPS (adjusted for the effect of the rights issue)	5.74p	5.74p	4.26p	3.42p	3.82p

The total net value of the Directors' unexercised options at 31 December 2006 (excluding awards under the 2005 LTIP), all of which were unexercisable, was £900,515 (2005 – £791,701) representing options held by G R Menzies (£449,991), M Rollins (£229,955) and M Sheppard (£220,569). The net value of unexercised options is the positive difference between the closing middle market price of the Company's shares at the year-end (64.00p per share) and the exercise price of the options. It does not take into account the likelihood of the performance targets being met.

At 31 December 2006, 1,044,859 ordinary shares (2005 – 870,716 ordinary shares) were held by the Senior plc Employee Benefit Trust, a discretionary trust resident in Jersey. The market value of these shares at 31 December 2006 was £668,710 (2005 – £518,076). The prior year comparative figures for both the number of shares and the value of shares held by the Trust are not adjusted to reflect the 2006 rights issue. The Trust has materially waived its rights to dividends on these shares. The executive Directors are not collectively interested in these shares.

Dividends do not accrue on shares that vest under the 2005 LTIP arrangements and are not credited to share option awards under the 1999 Plan. The Remuneration Committee notes the introduction of International Accounting Standard 33 "Earnings per Share", and confirms that any change to the presentation of the EPS performance targets for the Company's share schemes will not result in any less stringent performance targets than those applying to the existing share awards.

The closing middle market price of the shares at 31 December 2006 was 64.00p (2005 – 56.58p). During 2006, the shares traded in the range of 51.35p to 66.75p.



This graph compares the Total Shareholder Return of the Company's shares against the FTSE Industrial Engineering Index and the FTSE Small Cap Index over a five-year period (where dividends are included gross of tax). This graph allows a comparison to be made against organisations facing broadly similar economic and market conditions as the Company.

Directors' Pension Entitlements

The Directors had accrued entitlements under defined benefit plans as follows:

	Gross increase in accrued pension (A)	Increase in accrued pension net of inflation (B)	Total accrued pension at 31.12.06 (C)	Value of net increase in accrual over period (D)	Change in transfer value during period (E)	Transfer value of accrued pension at 31.12.06 (F)	Transfer value of accrued pension at 31.12.05 (G)
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
G R Menzies	4	3	24	59	104	505	393
M Rollins	4	3	23	23	45	251	198
M Sheppard	3	2	32	5	17	70	62
Total	11	8	79	87	166	826	653

1. The pension entitlement shown is that which would be paid annually on retirement based on service to, and final pensionable salary at, 31 December 2006.
2. The gross increase in accrued pension during the year (A) includes an increase for inflation; the net increase in accrued pension (B) excludes any such increase.
3. The transfer values have been calculated in accordance with version 9.2 of Guidance Note GN11 issued by the actuarial profession.
4. Any Additional Voluntary Contributions paid by the Directors and the resulting benefits are not shown.
5. The figures quoted above for M Sheppard are in respect of the defined benefit element of his pension only. In addition, he participated in the defined contribution plan to which he paid \$11,000 and the Company paid \$13,658 during the year.
6. The transfer value of net increase (D) represents the incremental value to the Director of his service during the year, calculated assuming service terminated at the year-end. It is based on the accrued pension increase (B) and is quoted after deducting the Director's contribution.
7. The change in the transfer value (E) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is quoted after deducting the Director's contribution.

Shareholder Approval for the Remuneration Report

The Company is proposing an ordinary resolution to its shareholders approving this Remuneration Report.

This report was approved by the Board on 28 February 2007 and signed on its behalf by:

I F R Much

Chairman of the Remuneration Committee

Corporate Social Responsibility Report

Principles

The policy of the Board is to enhance shareholder value in an ethical and socially responsible manner which helps to preserve health, safety and the environment. The Board believes that operating in such a way is an integral part of efficient and profitable business management, and recognises that success in these areas depends on the involvement and commitment of everyone in the organisation.

As a minimum, the Group operations around the world are required to meet their legal and regulatory obligations. This policy is reviewed annually for validity and is revised and reissued as necessary.

Goals

a) Ethical Operations

Applications for employment by disabled persons are encouraged, bearing in mind the respective aptitudes, skills and abilities of the applicant concerned and the requirements of the position. In the event of employees becoming disabled, the Group's aim is to ensure continued employment where possible and to arrange appropriate training. It is the policy of the Group to maintain, wherever feasible, the training, career development and promotion of disabled persons.

Group policy is that employment-related decisions are based on relevant aptitudes, skills and abilities, and promote a policy of equal opportunity in employment, without unlawful consideration of sex, race, nationality, age, disability, religion or any other category protected by law.

The Group promotes the dissemination of relevant information so that employees are kept regularly advised of Group and operating company developments. Where practical, local briefing sessions are held concerning such matters as health and safety, pension plans, etc.

There is a formal Code of Business Conduct in place for the Group, which promotes a commitment to maintaining the highest standard of ethics and integrity in the conduct of the Group's business throughout the world. This Code includes requirements for the personal conduct of Group employees, including specifically conflict of interests, business gifts, and bribery and corruption. The Code does not permit employees to make contributions to political parties or organisations or candidates for public office with a view to gaining any advantage.

The Company has a Whistle Blowing policy that is communicated throughout the Group. This policy provides employees with the opportunity to report unethical or illegal corporate conduct. M Clark is the Company's Senior Independent Director. His position provides shareholders with an alternative channel of communication if they have concerns that the Chairman, Group Chief Executive or Group Finance Director has failed to resolve, or for which such contact is inappropriate.

b) Socially Aware Operations

The management of each operation in the Group is aware of the importance of being a good neighbour in its community and is encouraged to build a relationship with local organisations. Each operation within the Group looks to offer a competitive remuneration package to its employees which assists in the retention of its skilled workforce. Each operation aims to recognise and respond constructively to any community concerns about the health, safety and environmental aspects of its activities.

c) Health, Safety and Environment

The Board as a whole takes an active interest in ensuring that its operations provide a safe working environment for their employees. The members of the Health, Safety and Environment ("HSE") Committee are G R Menzies (Chairman), M Sheppard (CEO Flexonics Division) and R Case (CEO Aerospace Division). The Committee's terms of reference can be found on the Senior plc website.

The HSE Committee normally sits on a quarterly basis and is responsible for formulating the Group's HSE strategy and objectives, for reviewing the Group's HSE performance against the objectives, and for ensuring that key HSE risks and issues are effectively identified and managed.

The Board also reviews the health and safety performance of all the Group's operations. The executive Directors, together with the CEOs of the local operations, are responsible for delivering improved HSE performance. The Group's operations promote employee involvement in HSE matters, by open communication and encouragement of active participation.

Improving the Group's HSE performance has been a particular focus over the past 12 months, with some important foundations being established on which to build its programme; these improvements include:

- The publication of a Group HSE Charter and Framework which defines the principles, expectations and the standards that Senior plc is seeking to implement with each of its operations.
- The development of an HSE Improvement Strategy, which is directed by the HSE Committee.
- The appointment of a Group HSE Manager in April 2006, whose role is to co-ordinate initiatives across the business, oversee the HSE Improvement Strategy, and assist the operations in identifying and prioritising opportunities for improvement.
- Establishing a network of HSE Co-ordinators within each operation, and hiring full-time practitioners where appropriate.
- A doubling of the number of operations which have achieved ISO 14001 certification, with significant progress being made in the remaining operations to achieve this standard by the end of 2007.
- The establishment of an Internal Audit programme for HSE, whereby each operation undergoes a comprehensive audit annually.
- The formalisation of a uniform set of performance metrics covering accidents, energy, waste and water. These, along with the results of Internal Audits, allow for the measurement of improvement.

Having taken the above steps, the Group is in a position to set targets for HSE; the 2007 annual business planning process included improvement targets covering a range of HSE indices. Responsibility for establishing and fulfilling these targets is devolved to the CEO of each operation as part of their leadership responsibilities, and is overseen by the HSE Committee.

d) Environment

Whilst already subject to various laws and regulations governing the emission of substances which could affect human health or the environment, each operation examines different means by which to reduce further such emissions. Each operation considers the possible environmental impact of new products and processes, and the Group considers environmental issues during acquisitions and divestments. Each operation aims to provide resources in terms of people, training and plant and equipment to meet applicable environmental obligations.

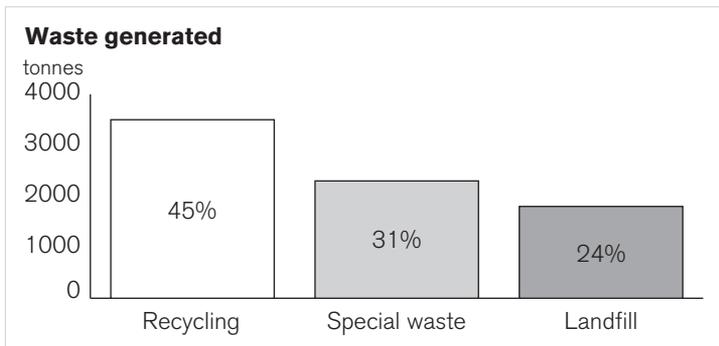
Performance Indices

Outlined below are details of the Group's environmental performance. This data should be taken in the context of the operations' product usage; many of the Group's products help to improve the environmental and health and safety performance of its customers' products. Although the Group has not sought to quantify this benefit, a key part of its contribution to sustainability is to enhance flight safety, and reduce environmental impact; this has been done by way of reducing fossil fuel consumption, noise or the use of raw materials.

i. Waste

The Group maintains a strong focus on waste reduction through its Lean Manufacturing Initiative. Many of the Group's operations maintain recycling levels at 90-95% of raw materials, and utilise the ISO 14001 programme to share best practices.

Excluding recycled waste, the Group's total waste disposed in 2006 was 4,200 tonnes, which represents 55% of the total disposed material. In 2007, the Group is targeting a significant reduction in the quantities of special waste and landfill waste generated.



ii. Water usage

The Group's primary use of water is in product cleaning. In 2006, the water usage was 500 mega litres. A Group reduction target of 9% has been set for 2007, which is to be achieved through changes in working practices and the installation of new capital equipment.

iii. Energy

The vast majority of the Group's greenhouse gas emission is derived from energy usage; its carbon footprint has been calculated using UK conversion methodologies, and the results are shown in the "Carbon dioxide generated by source" chart.



The Group's energy reduction programme is in its early stages, and many opportunities have been identified to facilitate the reduction in base

consumption. The Group is in the process of quantifying the Volatile Organic Compounds utilised by its operations, and will report the results, together with details of its reduction programme, next year.

Occupational Health and Safety

The Group has adopted a number of international methods for measuring its safety performance, including the OSHA Days Away Case Rate (DACR) and the Accident Severity rate. The DACR measures the number of OSHA recordable injury and illness cases involving days away from work per 100 employees which were 2.77 for 2006, whilst the Severity Rate was 70.15; this rate measures the number of lost workdays resulting from occupational injuries and illnesses per 100 employees.

A large proportion of the lost workdays in 2006 resulted from injuries incurred in the prior year, and some injuries were incurred by businesses pre-acquisition. The Group has established a set of challenging targets to improve performance in this area over the next three year period. Underpinning these targets will be programmes based upon risk analysis techniques, ergonomic enhancements, occupational health programmes, and improved hygiene practices.

The Group continues to work closely with its employees, local works councils, and trade unions, where applicable. It values its employees and encourages long-term commitment by promoting job security and appropriate training packages for employees at all levels.

Organisation and Responsibilities

Operating in an ethical and socially aware manner which preserves health, safety and the environment is a mainstream management responsibility. Executive and line managers at all levels within the Group are directly responsible, through the normal management structure, for these matters in the specific operations under their control.

All of the Group's employees have a responsibility to act in an ethical and socially aware manner, to take reasonable care of themselves and others while at work and to participate positively in the task of preserving workplace health and safety and the environment.

Each operation is expected to adopt policies in keeping with these principles and goals, and for making arrangements for putting them into practice.

Ethical, social, health, safety and environmental factors can represent risks to the Group's short and long-term value, as well as opportunities to enhance value that may arise from an appropriate response. The Board has established reporting structures to provide it with information on such risks and opportunities. Ethical, social, health, safety and environmental issues that represent significant business risk or opportunity are monitored and reported as part of the Group's risk management process, as described in the Corporate Governance Report.

The Group Chief Executive, as Chairman of the HSE Committee, leads the Board's efforts in improving the Group's ethical, social, health, safety and environmental performance and is also responsible for external stakeholder issues.

Customers and Suppliers

The nature of the businesses in which the Group operates and relies heavily on forming close and long-term relationships with both its customers and suppliers. Generally, these relationships are managed at a local level, with Divisional support.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards ("IFRS") as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRS as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors' Report to the Members of Senior plc

We have audited the Group and parent company financial statements (the "financial statements") of Senior plc for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Group and Company Statements of Recognised Income and Expense, the Group and Company Balance Sheets, the Group and Company cash flow statements and the related notes 1 to 38. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Activities and Business Review section of the Directors' Report.

In addition we 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 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 the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' 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 financial statements and the part of the Directors' Remuneration Report to be audited.

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 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Nottingham
28 February 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	Year ended 2006 £m	Year ended 2005 (restated) £m
Continuing operations			
Revenue	3	387.9	338.6
Trading profit	5	24.9	19.8
Loss on sale of fixed assets		(0.4)	(0.2)
Operating profit ⁽¹⁾		24.5	19.6
Investment income	7	0.9	1.3
Finance costs	8	(7.3)	(6.3)
Profit before tax ⁽²⁾		18.1	14.6
Tax	10	(2.9)	(2.5)
Profit for the period	5	15.2	12.1
Attributable to:			
Equity holders of the parent		15.2	12.1
Earnings per share			
Basic	12	4.35p	3.75p
Diluted	12	4.25p	3.69p
(1) Adjusted operating profit	9	26.2	19.8
(2) Adjusted profit before tax	9	19.8	14.8

The comparative figures for 2005 have been restated to reflect adoption of the amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" issued in December 2005, which was endorsed by the EU in May 2006. See Note 2 for details.

Statements of Recognised Income and Expense

For the year ended 31 December 2006

	Group Year ended 2006 £m	Group Year ended 2005 (restated) £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Initial recognition of financial instruments	-	(0.2)	-	(0.7)
(Losses)/gains on cash flow hedges	(0.4)	0.5	-	-
Gains/(losses) on revaluation of financial instruments	3.5	(1.8)	0.3	0.2
Exchange differences on translation of foreign operations	(10.5)	4.2	-	(0.1)
Actuarial (losses)/gains on defined benefit pension schemes	(1.0)	0.2	(1.7)	0.9
Tax on items taken directly to equity	(0.7)	(0.7)	-	-
Net (loss)/income recognised directly in equity	(9.1)	2.2	(1.4)	0.3
Amounts transferred to profit or loss on cash flow hedges	-	(0.3)	-	-
Profit for the period	15.2	12.1	(1.7)	14.8
Total recognised income and expense for the period	6.1	14.0	(3.1)	15.1
Attributable to:				
Equity holders of the parent	6.1	14.0	(3.1)	15.1

The comparative figures for 2005 have been restated to reflect adoption of the amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" issued in December 2005, which was endorsed by the EU in May 2006. See Note 2 for details.

Balance Sheets

As at 31 December 2006

	Notes	Group Year ended 2006 £m	Group Year ended 2005 (restated) £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Non-current assets					
Goodwill	13	111.0	77.1	-	-
Other intangible assets	14	15.1	1.1	-	-
Investments in subsidiaries	16	-	-	111.8	92.0
Property, plant and equipment	15	87.6	76.1	0.2	0.1
Deferred tax assets	22	0.1	0.1	-	-
Trade and other receivables	19	3.7	3.8	166.5	134.4
Total non-current assets		217.5	158.2	278.5	226.5
Current assets					
Inventories	17	69.8	47.7	-	-
Construction contracts	18	3.5	3.4	-	-
Trade and other receivables	19	67.5	64.9	3.8	3.1
Cash and cash equivalents	34a	7.2	8.5	10.0	7.4
Total current assets		148.0	124.5	13.8	10.5
Total assets		365.5	282.7	292.3	237.0
Current liabilities					
Trade and other payables	24	82.1	69.7	2.4	2.3
Tax liabilities		10.2	10.0	-	0.2
Obligations under finance leases	23	0.2	0.2	-	-
Bank overdrafts and loans	20	13.1	0.2	14.1	0.2
Total current liabilities		105.6	80.1	16.5	2.7
Non-current liabilities					
Trade and other payables	24	-	-	21.5	29.1
Bank and other loans	20	90.2	66.3	89.7	65.7
Retirement benefit obligations	37	37.5	39.9	30.8	31.3
Deferred tax liabilities	22	3.3	2.1	-	-
Obligations under finance leases	23	1.4	1.6	-	-
Others		0.4	0.4	-	-
Total non-current liabilities		132.8	110.3	142.0	126.1
Total liabilities		238.4	190.4	158.5	128.8
Net assets		127.1	92.3	133.8	108.2
Equity					
Issued share capital	25	39.0	30.9	39.0	30.9
Share premium account	26	11.2	3.8	11.2	3.8
Equity reserve	27	0.8	0.4	0.8	0.4
Distributable reserve	28	19.4	-	19.4	-
Other reserve	29	-	-	-	-
Hedging and translation reserve	30	(5.9)	2.4	(0.6)	(0.9)
Retained earnings	31	64.0	56.1	65.4	75.3
Own shares	32	(1.4)	(1.3)	(1.4)	(1.3)
Equity attributable to equity holders of the parent		127.1	92.3	133.8	108.2
Total equity		127.1	92.3	133.8	108.2

The Financial Statements were approved by the Board of Directors and authorised for issue on 28 February 2007. They were signed on its behalf by:

J R Kerr-Muir, Director
M Rollins, Director

The comparative figures for 2005 have been restated to reflect adoption of the amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" issued in December 2005, which was endorsed by the EU in May 2006. See Note 2 for details.

Cash Flow Statements

For the year ended 31 December 2006

	Notes	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Net cash from/(used in) operating activities	34a	22.3	16.5	(10.5)	(10.8)
Investing activities					
Interest received		1.3	1.4	5.4	10.1
Dividends received from subsidiaries		-	-	0.3	14.3
Disposal of subsidiary		0.1	-	-	-
Proceeds on disposal of property, plant and equipment		2.2	0.9	-	-
Purchases of property, plant and equipment		(20.1)	(16.3)	(0.1)	-
Purchases of intangible assets		(0.6)	(0.3)	-	-
Acquisition of Sterling Machine	33	(21.5)	-	-	-
Acquisition of AMT, net of cash acquired	33	(58.3)	-	-	-
Acquisition of subsidiaries		-	(0.1)	-	-
Net cash (used in)/from investing activities		(96.9)	(14.4)	5.6	24.4
Financing activities					
Dividends paid		(6.5)	(6.1)	(6.5)	(6.1)
Repayment of borrowings		(7.1)	(1.0)	(7.1)	-
Repayments of obligations under finance leases		(0.2)	(0.3)	-	-
Share issues		34.8	0.5	34.8	0.5
New loans raised		53.1	7.1	53.1	7.1
Net loans advanced to subsidiaries		-	-	(68.1)	(15.8)
Net cash outflow on forward contracts		(0.2)	(0.2)	-	(0.4)
Net cash from/(used in) financing activities		73.9	-	6.2	(14.7)
Net (decrease)/increase in cash and cash equivalents		(0.7)	2.1	1.3	(1.1)
Cash and cash equivalents at beginning of period		8.5	5.9	7.4	8.5
Effect of foreign exchange rate changes		(0.8)	0.5	-	-
Cash and cash equivalents at end of period		7.0	8.5	8.7	7.4

Notes to the Financial Statements

1. General information

Senior plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 4 and in the Operating and Financial Review on pages 7 to 13.

2. Significant accounting policies

Basis of accounting

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union and they therefore comply with Article 4 of the EU IAS Regulation. They have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

At the time of preparation of the Group's annual Financial Statements for 2005 the EU had not endorsed an amendment to IAS 21 which required exchange differences that arise on re-translation of inter-company loans in a currency different to that of either counterparty to be taken to reserves and consequently a gain of £2.0m was recognised in the income statement in respect of such loans, under IAS 21 as then endorsed. In May 2006 the EU endorsed the amendment to IAS 21 and consequently these Financial Statements have been prepared in accordance with the revised Standard and the December 2005 comparatives have been adjusted to recognise the gain of £2.0m in the translation reserve.

At the date of authorisation of these Financial Statements, the following standards and interpretations which have not been applied in these financial statements were in issue and adopted by the EU but are not yet effective:

IFRS 7 Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures. Effective for periods commencing on or after 1 January 2007.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. Effective for periods commencing on or after 1 March 2006.

IFRIC 8 Scope of IFRS 2. Effective for periods commencing on or after 1 May 2006.

IFRIC 9 Reassessment of embedded derivatives. Effective for periods commencing on or after 1 June 2006.

The Directors anticipate that the adoption of these standards in future periods will not have a material impact on these Financial Statements, except for additional disclosures, when the relevant standards come into effect. As none of the Group entities has a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.

The separate Financial Statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act, the separate statements have been prepared in accordance with IFRS. They have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies adopted are the same as those set out below, except in respect of investments in subsidiaries, which are stated at cost less, where appropriate, provisions for impairment.

The principal accounting policies under IFRS are set out below.

Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of Senior plc and the entities controlled by it (its subsidiaries) made up to 31 December. Control is achieved when Senior plc has the power to govern the financial and operating policies of an invested entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the profit and loss account in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

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

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 jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. Significant accounting policies continued

Goodwill arising on acquisitions prior to the date of transition to IFRS has been retained at the previous UK GAAP amount subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or 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.

Sales of goods are recognised when goods are delivered in accordance with the terms and conditions of the sale.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts, as outlined below.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' legal rights to receive payment have been established.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally calculated in accordance with the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work and claims are included to the extent that it is probable that they will be recovered from the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is only recognised to the extent that contract costs incurred will probably be recoverable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Income Statement.

Rentals payable under operating leases are expensed on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as incentives to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

Transactions in currencies other than Pounds Sterling are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity, subject to meeting the requirements under IAS 21.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see section on Derivative financial instruments and hedging below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during that period in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Government grants

Government grants received for items of a revenue nature are recognised as income over the period necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to investment in property, plant and equipment are deducted from the initial carrying value of the related capital asset.

Operating profit

Operating profit is stated after charging restructuring costs, and before investment income and finance costs, as they relate to external borrowings and retirement benefit obligations.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Significant accounting policies continued

Retirement benefit costs

Payments to defined contribution retirement schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement scheme.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Method, with full actuarial valuations being carried out on a triennial basis, and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and are presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested. Otherwise, it is amortised on a straight-line basis over the period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets. Any net asset resulting from this calculation is limited to the past service cost plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their historic cost, or at modified historic cost, being a revaluation undertaken in 1988. Land and buildings were revalued to fair value at date of revaluation.

The Group does not intend to conduct annual revaluations.

Fixtures, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged on a straight-line basis over the estimated useful life of the asset, and is charged from the time an asset becomes available for its intended use. Annual rates are as follows:

Freehold buildings	2%
Improvements to leasehold buildings	according to remaining lease term
Plant and equipment	5% – 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over 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 sale proceeds and the carrying amount of the asset at disposal and is recognised in income.

Other intangible assets

Other intangible assets include computer software and customer relationships acquired in a business combination. Computer software is measured initially at purchase cost and the cost of customer relationships acquired in a business combination is generally based on fair market values. Intangible assets are amortised on a straight-line basis over their estimated useful lives, being between three and five years.

Internally generated intangible assets – research and development expenditure

An internally generated intangible asset arising from the Group's development activities is recognised if all of the following conditions are met:

- (i) An asset is created that can be separately identified;
- (ii) It is probable that the asset created will generate future economic benefits; and
- (iii) The development cost of the asset can be measured reliably.

2. Significant accounting policies continued

Internally generated intangible assets are amortised on a straight-line basis over their useful lives.

Development work is also carried out on a funded basis. In such circumstances the costs are accumulated in inventory and are recognised when the related billings are made. Any amounts held in inventory are subject to normal inventory valuation principles. Otherwise expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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 the fair value less the costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and an appropriate allocation of production overheads. Cost is calculated using the first in first out method. Net realisable value represents the estimated selling price less the estimated costs of completion and the costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank 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.

Non-derivative financial liabilities

Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs.

Equity instruments

Equity instruments issued by the Company are recorded at the value of the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange contracts and interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group's treasury policy as approved by the Board of Directors, which provides written principles on the use of derivatives. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and are effective as a cash flow hedge are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative are also recognised in profit or loss. If the hedge is effective, these entries will offset in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Notes to the Financial Statements continued

3. Revenue

An analysis of the Group's revenue is as follows:

	Year ended 2006 £m	Year ended 2005 £m
Sale of goods	378.2	325.7
Revenue from construction contracts	9.7	12.9
Total	387.9	338.6

4. Business and geographical segments

Business segments

Segment information for revenue, operating profit and a reconciliation to entity net profit is presented below.

	Aerospace Year ended 2006 £m	Flexonics Year ended 2006 £m	Eliminations/ Central costs Year ended 2006 £m	Total Year ended 2006 £m	Aerospace Year ended 2005 £m	Flexonics Year ended 2005 £m	Eliminations/ Central costs Year ended 2005 £m	Total Year ended 2005 (restated) £m
External revenue	196.6	191.3	–	387.9	155.8	182.8	–	338.6
Inter segment revenue	0.4	0.2	(0.6)	–	0.4	0.2	(0.6)	–
Total revenue	197.0	191.5	(0.6)	387.9	156.2	183.0	(0.6)	338.6
Adjusted operating profit (see Note 9)	19.2	11.8	(4.8)	26.2	13.0	11.1	(4.3)	19.8
Profit/(loss) on sale of fixed assets	0.5	(0.9)	–	(0.4)	(0.2)	–	–	(0.2)
Amortisation of intangible assets from acquisitions	(1.3)	–	–	(1.3)	–	–	–	–
Operating profit	18.4	10.9	(4.8)	24.5	12.8	11.1	(4.3)	19.6
Investment income				0.9				1.3
Finance costs				(7.3)				(6.3)
Profit before tax				18.1				14.6
Tax				(2.9)				(2.5)
Profit after tax				15.2				12.1

Segment information for assets, liabilities, property, plant and equipment and intangible assets and depreciation and amortisation is presented below.

	Assets Year ended 2006 £m	Liabilities Year ended 2006 £m	Additions to PPE and intangibles Year ended 2006 £m	Depreciation and amortisation Year ended 2006 £m	Assets Year ended 2005 £m	Liabilities Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m	Depreciation and amortisation Year ended 2005 £m
Aerospace	227.8	35.1	7.6	6.8	143.0	25.9	3.1	5.2
Flexonics	124.5	37.8	13.0	7.0	125.9	31.7	13.5	6.7
Sub total continuing operations	352.3	72.9	20.6	13.8	268.9	57.6	16.6	11.9
Unallocated corporate amounts	13.2	165.5	0.1	0.1	13.8	132.8	–	0.1
Total	365.5	238.4	20.7	13.9	282.7	190.4	16.6	12.0

4. Business and geographical segments continued

Geographical segments

The Group's operations are principally located in North America and Europe.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services. The carrying amount of segment assets and additions to property, plant and equipment and intangible assets, are analysed by the geographical area in which the assets are located.

	Sales revenue Year ended 2006 £m	Segment assets Year ended 2006 £m	Additions to PPE and intangibles Year ended 2006 £m	Sales revenue Year ended 2005 £m	Segment assets Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m
North America	210.7	219.7	15.2	178.5	137.9	10.6
UK	41.3	62.5	1.2	40.7	62.3	1.7
Rest of Europe	104.0	52.4	3.2	94.2	51.4	2.9
Rest of World	31.9	17.7	1.0	25.2	17.3	1.4
Sub total continuing operations	387.9	352.3	20.6	338.6	268.9	16.6
Unallocated corporate amounts	-	13.2	0.1	-	13.8	-
Total	387.9	365.5	20.7	338.6	282.7	16.6

The carrying values of segment assets all relate to continuing operations.

5. Trading profit and profit for the period

Trading profit for continuing operations can be analysed as follows:

	Year ended 2006 £m	Year ended 2005 £m
Revenue	387.9	338.6
Cost of sales	(305.8)	(268.7)
Gross profit	82.1	69.9
Distribution costs	(4.4)	(3.7)
Administrative expenses	(52.8)	(46.4)
Trading profit	24.9	19.8

Profit for the period has been arrived at after charging/(crediting):

	Year ended 2006 £m	Year ended 2005 £m
Net foreign exchange gains	(0.5)	(0.3)
Research and development costs	8.5	8.3
Depreciation of property, plant and equipment	12.1	11.5
Amortisation of intangible assets included in administration expenses	1.8	0.5
Cost of inventories recognised as expense	305.8	268.7
Staff costs (see Note 6)	133.1	124.5
Auditors' remuneration for audit services (see below)	0.5	0.4

Amounts payable to Deloitte & Touche LLP and their associates by the Company and its subsidiary undertakings in respect of non-audit services were £0.7m (2005 – £0.2m).

Auditors' remuneration for audit services to the Company was £0.1m (2005 – £0.1m).

Notes to the Financial Statements continued

5. Trading profit and profit for the period continued

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	£m	2006 %	£m	2005 %
Audit services				
– statutory audit	0.5	42	0.4	67
	0.5	42	0.4	67
Non-audit services				
– tax compliance services	0.1	8	0.1	16
– tax advisory services	0.1	8	0.1	17
– other services	0.5	42	–	–
	0.7	58	0.2	33
	1.2	100	0.6	100

The other services relate to corporate finance services on the acquisitions and the rights issue, and have been treated as acquisition and rights issue costs and not charged to the income statement.

A description of the work of the Audit Committee is set out on pages 16 and 17 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

6. Staff costs

The average monthly number of employees (including executive Directors) was:

	Group Year ended 2006 Number	Group Year ended 2005 Number	Company Year ended 2006 Number	Company Year ended 2005 Number
Production	4,444	4,175	–	–
Distribution	53	55	–	–
Sales	291	303	–	–
Administration	414	385	18	17
	5,202	4,918	18	17
	Year ended 2006 £m	Year ended 2005 £m	Year ended 2006 £m	Year ended 2005 £m
Their aggregate remuneration comprised:				
Wages and salaries	114.0	107.0	1.8	1.5
Social security costs	14.1	13.3	0.2	0.2
Other pension costs – defined contribution (see Note 37a)	2.4	2.2	–	–
Other pension costs – defined benefit (see Note 37e)	2.0	1.8	0.1	0.1
Share-based payments	0.6	0.2	–	0.2
	133.1	124.5	2.1	2.0

7. Investment income

	Year ended 2006 £m	Year ended 2005 £m
Interest on bank deposits	0.2	0.2
Foreign currency derivatives	0.5	1.0
Others	0.2	0.1
Total income	0.9	1.3

8. Finance costs

	Year ended 2006 £m	Year ended 2005 £m
Interest on bank overdrafts and loans	2.1	0.7
Interest on other loans	4.3	4.3
Interest on obligations under finance leases	0.1	0.1
Cost on interest rate swaps	-	0.1
Net finance cost of retirement benefit obligations (Note 37e)	0.8	1.1
Total finance costs	7.3	6.3

9. Adjusted operating profit and adjusted profit before tax

The provision of adjusted operating profit and adjusted profit before tax, derived in accordance with the table below, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of gains or losses arising from the sale of fixed assets and amortisation of intangible assets acquired on acquisitions.

	Year ended 2006 £m	Year ended 2005 (restated) £m
Operating profit	24.5	19.6
Loss on sale of fixed assets	0.4	0.2
Amortisation of intangible assets from acquisitions	1.3	-
Adjustments to operating profit	1.7	0.2
Adjusted operating profit	26.2	19.8
Profit before tax	18.1	14.6
Adjustments to profit as above before tax	1.7	0.2
Adjusted profit before tax	19.8	14.8

Notes to the Financial Statements continued

10. Tax charge

	Year ended 2006 £m	Year ended 2005 £m
Current tax:		
UK corporation tax	–	–
Foreign tax	3.6	2.3
Adjustments in respect of prior periods	(0.7)	(0.2)
	2.9	2.1
Deferred tax (Note 22):		
Current year	0.8	0.7
Adjustments in respect of prior periods	(0.8)	(0.3)
	–	0.4
	2.9	2.5
Attributable to:		
Continuing operations	2.9	2.5

UK corporation tax is calculated at 30% (2005 – 30%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year on profit from continuing operations can be reconciled to the profit per the income statement as follows:

	Year ended 2006 £m	Year ended 2006 %	Year ended 2005 £m	Year ended 2005 (restated) %
Profit before tax from continuing operations	18.1		14.6	
Tax at the UK corporation tax rate of 30% (2005 – 30%)	5.4		4.4	
Tax effect of income/expenses that are non taxable/deductible in determining taxable profit	0.4		(0.2)	
Tax effect of unrelieved tax losses	1.3		1.8	
Tax effect of movements in temporary differences not previously recognised	(1.2)		(1.1)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1.4)		(1.9)	
Adjustments to tax charge in respect of prior periods	(1.6)		(0.5)	
Tax expense and effective tax rate for the year	2.9	16.0	2.5	17.1

In addition to the amount charged to the income statement, tax relating to unrealised foreign exchange gains/losses amounting to £0.9m (2005 – £0.7m) has been charged directly to equity via hedging and translation reserves (see Note 30), and tax relating to deductible temporary differences amounting to £0.2m (2005 – £nil) has been credited directly to equity via retained earnings (see Note 31).

11. Dividends

	Year ended 2006 £m	Year ended 2005 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2005 of 1.286p (2004 – 1.286p) per share	4.4	4.1
Interim dividend for the year ended 31 December 2006 of 0.619p (2005 – 0.619p) per share	2.1	2.0
	6.5	6.1
Proposed final dividend for the year ended 31 December 2006 of 1.381p (2005 – 1.286p) per share	5.4	4.2

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The dividend per share figures for dividends already paid have been adjusted to take account of the bonus element of the 2006 rights issue.

The final dividend paid for the year ended 31 December 2005 of £4.4m included dividends paid on the 15 million ordinary shares issued in January 2006.

12. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 2006 m	Year ended 2005 m
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	349.8	322.2
Effect of dilutive potential shares:		
Share options	7.9	5.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share	357.7	328.1

The weighted average number of shares for 2005 has been adjusted to take account of the bonus element of the 2006 rights issue.

	Year ended 2006		Year ended 2005 (restated)	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Earnings and earnings per share				
Profit for the period	15.2	4.35	12.1	3.75
Adjust:				
Loss on sale of fixed assets net of tax of £0.1m (2005 – £nil)	0.3	0.07	0.2	0.07
Amortisation of intangible assets from acquisitions net of tax of £0.5m (2005 – £nil)	0.8	0.23	–	–
Adjusted earnings after tax	16.3	4.65	12.3	3.82
Earnings per share				
– basic		4.35p		3.75p
– diluted		4.25p		3.69p
– adjusted		4.65p		3.82p
– adjusted and diluted		4.56p		3.75p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2005 – £nil).

The denominators used for all basic, diluted and adjusted earnings per share are as detailed in the “Number of shares” table above.

The provision of an adjusted earnings per share, derived in accordance with the table above, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of the following items:

- gains or losses arising from the sale of fixed assets
- amortisation of intangible assets acquired on acquisitions

Notes to the Financial Statements continued

13. Goodwill

	Group Year ended 2006 £m	Group Year ended 2005 £m
Cost		
At 1 January	77.1	73.1
Exchange differences	(6.7)	4.2
Recognised on acquisition of subsidiaries	40.6	–
Other changes	–	(0.2)
At 31 December	111.0	77.1
Accumulated impairment losses		
At 1 January and at 31 December	–	–
Carrying amount at 31 December	111.0	77.1

The amount shown for other changes represents a reduction in the deferred consideration payable in respect of QSI Technologies, upon expiry of the time period for contingent consideration to be payable from the acquisition of the business in June 1998.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	Group Year ended 2006 £m	Group Year ended 2005 £m
Aerospace		
– Senior UK Limited	36.4	36.4
– Jet Products	13.2	15.0
– Aerospace Manufacturing Technologies	27.5	–
– Sterling Machine	11.0	–
– Other	1.3	1.3
	89.4	52.7
Flexonics		
– Pathway	13.7	15.6
– Other	7.9	8.8
	21.6	24.4
Total	111.0	77.1

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for these calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows thereafter based on an estimated growth rate of 2% per annum. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 8.6%.

14. Other intangible assets

	Group Year ended 2006 Customer relationships £m	Group Year ended 2006 Computer software £m	Group Year ended 2006 Total £m	Group Year ended 2005 Computer software £m	Company Year ended 2006 Computer software £m	Company Year ended 2005 Computer software £m
Cost						
At 1 January	-	4.8	4.8	4.1	0.1	0.1
Additions	-	0.6	0.6	0.3	-	-
Acquired on acquisition of subsidiaries	15.9	-	15.9	-	-	-
Disposals	-	-	-	(0.1)	-	-
Exchange differences	(0.7)	(0.5)	(1.2)	0.5	-	-
At 31 December	15.2	4.9	20.1	4.8	0.1	0.1
Amortisation						
At 1 January	-	3.7	3.7	2.9	0.1	0.1
Charge for the year	1.3	0.5	1.8	0.5	-	-
Disposals	-	-	-	(0.1)	-	-
Exchange differences	(0.1)	(0.4)	(0.5)	0.4	-	-
At 31 December	1.2	3.8	5.0	3.7	0.1	0.1
Carrying amount at 31 December	14.0	1.1	15.1	1.1	-	-

15. Property, plant and equipment

a) Group

	Year ended 2006 Freehold land and buildings £m	Year ended 2006 Leasehold land and buildings £m	Year ended 2006 Plant and equipment £m	Year ended 2006 Total £m	Year ended 2005 Freehold land and buildings £m	Year ended 2005 Leasehold land and buildings £m	Year ended 2005 Plant and equipment £m	Year ended 2005 Total £m
Cost or valuation								
At 1 January	40.8	1.4	176.4	218.6	39.9	1.2	155.4	196.5
Additions	2.3	0.1	17.7	20.1	0.9	-	15.4	16.3
Acquired on acquisition	3.4	-	9.5	12.9	-	-	-	-
Exchange differences	(3.0)	(0.1)	(15.7)	(18.8)	1.9	0.2	9.3	11.4
Disposals	(0.3)	-	(8.0)	(8.3)	(1.9)	-	(3.7)	(5.6)
At 31 December	43.2	1.4	179.9	224.5	40.8	1.4	176.4	218.6
Accumulated depreciation and impairment								
At 1 January	9.2	0.9	132.4	142.5	8.8	0.7	118.2	127.7
Charge for the year	1.0	-	11.1	12.1	0.9	0.1	10.5	11.5
Exchange differences	(0.7)	-	(11.3)	(12.0)	0.4	0.1	7.4	7.9
Eliminated on disposals	(0.1)	-	(5.6)	(5.7)	(0.9)	-	(3.7)	(4.6)
At 31 December	9.4	0.9	126.6	136.9	9.2	0.9	132.4	142.5
Carrying amount at 31 December	33.8	0.5	53.3	87.6	31.6	0.5	44.0	76.1

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £1.9m (2005 – £2.9m) in respect of assets held under finance leases.

Some land and buildings were revalued in 1988 and this valuation has been treated as the deemed cost under IFRS 1.

At 31 December 2006, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £6.0m (2005 – £7.3m).

Notes to the Financial Statements continued

15. Property, plant and equipment continued

b) Company

	Year ended 2006 Plant and equipment £m	Year ended 2005 Plant and equipment £m
Cost		
At 1 January	0.4	0.4
Additions	0.1	–
At 31 December	0.5	0.4
Accumulated depreciation		
At 1 January	0.3	0.3
Charge for the year	–	–
At 31 December	0.3	0.3
Carrying amount at 31 December	0.2	0.1

16. Investments in subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given on page 63.

	Company Year ended 2006 £m	Company Year ended 2005 £m
At 1 January	92.0	30.3
Additional investment in subsidiaries	19.8	61.7
At 31 December	111.8	92.0

Additional investment in subsidiaries includes £19.4m (2005 – £nil) from transfer of shares from a subsidiary, £nil (2005 – £61.7m) re-capitalisation of subsidiaries by means of the capitalisation of part of an interest bearing loan due from the subsidiaries, and £0.4m (2005 – £nil) in relation to equity-settled share-based payments to employees of subsidiaries.

17. Inventories

	Group Year ended 2006 £m	Group Year ended 2005 £m
Raw materials	26.8	18.8
Work-in-progress	30.7	21.4
Finished goods	12.3	7.5
	69.8	47.7

An amount of £2.4m (2005 – £1.0m) has been charged in respect of inventory write-downs.

18. Construction contracts

	Group Year ended 2006 £m	Group Year ended 2005 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in current assets	3.5	3.4
Amounts due to contract customers included in trade and other payables	-	(0.1)
	3.5	3.3
Current costs incurred plus recognised profits less recognised losses to date	9.7	10.7
Less: progress billings	(6.2)	(7.4)
	3.5	3.3

At 31 December 2006, retentions held by customers for contract work amounted to £0.5m (2005 – £0.6m). Advances received from customers for contract work amounted to £nil (2005 – £nil).

At 31 December 2006, amounts of £0.2m (2005 – £0.2m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

19. Other financial assets

Trade and other receivables at the balance sheet date comprise the following:

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Non-current assets				
Deferred consideration on disposal of Hose operations	2.6	2.8	-	-
Trade receivables	0.2	0.2	-	-
Other receivables	0.9	0.8	-	-
Due from subsidiaries	-	-	166.5	134.4
	3.7	3.8	166.5	134.4
Current assets				
Trade receivables	60.1	56.9	-	-
Current tax recoverable	0.2	0.4	1.5	1.6
Value added tax	1.0	0.6	0.1	0.1
Currency derivatives	1.9	1.4	-	0.2
Prepayments and accrued income	3.7	5.0	0.8	0.4
Other receivables	0.5	0.6	0.5	0.7
Deferred consideration on disposal of Hose operations	0.1	-	-	-
Due from subsidiaries	-	-	0.9	0.1
	67.5	64.9	3.8	3.1
Total trade and other receivables	71.2	68.7	170.3	137.5

The average credit period taken on sales of goods is 64 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £2.1m (2005 – £1.5m). This allowance has been determined in accordance with Group policy.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Notes to the Financial Statements continued

19. Other financial assets continued

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter-parties and customers.

20. Bank overdrafts and loans

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Bank overdrafts	0.2	–	1.3	–
Bank loans	51.3	7.2	51.3	7.2
Other loans	51.8	59.3	51.2	58.7
	103.3	66.5	103.8	65.9

The borrowings are repayable as follows:

On demand or within one year	13.1	0.2	14.1	0.2
In the second year	38.4	21.7	38.4	21.7
In the third to fifth years inclusive	51.3	44.0	51.3	44.0
After five years	0.5	0.6	–	–
	103.3	66.5	103.8	65.9

Less: amount due for settlement within 12 months (shown under current liabilities)	(13.1)	(0.2)	(14.1)	(0.2)
Amount due for settlement after 12 months	90.2	66.3	89.7	65.7

Analysis of borrowings by currency:

31 December 2006

	Total £m	Sterling £m	Euros £m	US dollars £m
Bank overdrafts	0.2	–	0.2	–
Bank loans	51.3	–	1.3	50.0
Other loans	51.8	–	0.6	51.2
	103.3	–	2.1	101.2

An analysis of the Company's borrowings is as follows: Bank overdrafts Sterling £1.3m, Bank loans Euros £1.3m and US dollars £50.0m and Other loans US dollars £51.2m.

31 December 2005

	Total £m	Sterling £m	Euros £m	US dollars £m
Bank overdrafts	–	–	–	–
Bank loans	7.2	–	4.3	2.9
Other loans	59.3	–	0.6	58.7
	66.5	–	4.9	61.6

An analysis of the Company's borrowings is as follows: Bank overdrafts £nil, Bank loans Euros £4.3m and US dollars £2.9m and Other loans US dollars £58.7m.

20. Bank overdrafts and loans continued

The weighted average interest rates paid were as follows:

	Year ended 2006	Year ended 2005
	%	%
Bank overdrafts	5.55	3.55
Bank loans	5.31	3.20
Other loans	7.28	7.47

Bank loans and overdrafts of £51.5m (2005 – £72m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk. Interest rate swaps of £10.2m (2005 – £nil) had been taken out at the year-end to convert interest from floating rates to fixed rates with an effective start date of April 2007. In 2005 fair value hedges of £5.8m had been taken out at the year-end.

The Directors estimate the fair value of the Group's borrowings to be as follows:

	Group Year ended 2006	Group Year ended 2005	Company Year ended 2006	Company Year ended 2005
	£m	£m	£m	£m
Bank overdrafts	0.2	–	1.3	–
Bank loans	51.3	7.2	51.3	7.2
Other loans	52.2	60.6	51.6	60.0
	103.7	67.8	104.2	67.2

The other principal features of the Group's borrowings are as follows:

Bank overdrafts are repayable on demand. The effective interest rates on bank overdrafts are determined based on appropriate LIBOR rates plus applicable margin.

The Group's and the Company's main loans are unsecured guaranteed loan notes in the US private placement market and revolving credit facilities.

- a) Loan notes of \$75m, 2006 £38.2m (2005 – £43.6m) were taken out in October 1998 and are due for repayment in October 2008. The loan notes carry interest at the rate of 6.52% per annum.
- b) Loan notes of \$25m, 2006 £12.8m (2005 – £14.5m) were taken out in October 1992 and are due for repayment in June 2007. The loan notes carry interest at the rate of 8.75% per annum.

The Group also has two revolving credit facilities: a committed £80m syndicated multi-currency facility maturing in September 2011 and a committed single bank \$23m (£11.7m) facility maturing in August 2008. As at 31 December 2006, £51.3m was drawn by the Company under the first facility, comprising \$98m (£50m) and €2m (£1.3m). There were no amounts drawn under the second facility. The £80m facility replaced the £46m facility which existed at 31 December 2005 and was refinanced in September 2006 and was also used to partly finance the acquisition of Aerospace Manufacturing Technologies, Inc. At 31 December 2005, £7.2m was drawn by the Company under this facility, comprising \$5m (£2.9m) and €6.3m (£4.3m).

The \$23m (£11.7m) facility is an amendment to the \$25m (£14.5m) facility which existed at 31 December 2005, and the maturity has been extended from May 2007 to August 2008. There were no amounts drawn under this facility as at 31 December 2005. The Company is not a guarantor under this facility.

On 31 January 2007 new loan notes of \$30m (£15.3m) were issued with a maturity of 10 years, carrying interest at the rate of 5.85%, to refinance the \$25m (£12.8m) loan notes which are due to mature in June 2007.

As at 31 December 2006, the Group had available £40.4m (2005 – £53.3m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the Financial Statements continued

21. Derivative financial instruments

Currency derivatives

The Group utilises currency derivatives to hedge significant fair values, cash flows and net investments denominated in foreign currencies. The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the Balance Sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group and the Company have committed are below.

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Forward foreign exchange contracts	87.6	98.5	-	8.3

At 31 December 2006, the fair value of the Group's currency derivatives is estimated to be approximately £1.1m asset (2005 – £1.4m liability). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £1.9m (2005 – £1.2m) assets included in trade and other receivables and £0.8m (2005 – £2.6m) liabilities included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £nil (2005 – £0.7m) has been deferred in equity.

An amount of £nil (2005 – £0.3m gain) has been transferred to the income statement in respect of contracts which matured during the period.

Interest rate swaps

The Group and Company use interest rate swaps to manage their exposure to interest rate movements on their bank borrowings. A contract with a nominal value of \$10.0m (£5.4m) (2005 – average \$27.4m (£15.0m)) had receipts of fixed interest at a rate of 2.83% (2005 – average 2.28%) per annum and floating interest payments at Libor. This contract expired as of 30 May 2006.

The Group and Company have entered into another contract with a nominal value of \$20m with fixed interest payments of 4.8775% and receipts of floating interest rates at Libor until 20 July 2009.

The fair value of swaps entered into at 31 December 2006 is estimated at £nil (2005 – £0.1m liability). These amounts are based on market values of equivalent instruments at the balance sheet date. All of these interest rate swaps are designated and effective as cash flow hedges. An amount of £nil has been charged (2005 – £0.1m charged) against hedged interest payments made in the period.

22. Deferred tax liabilities and assets

The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation £m	Unrealised FX gains £m	Goodwill amortisation £m	Retirement benefit obligations £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 January 2005	7.0	1.1	1.4	(0.5)	(3.8)	(4.4)	0.8
Charge/(credit) to income	–	0.2	0.8	(0.1)	(0.4)	(0.1)	0.4
Credit to equity	–	0.7	–	–	–	–	0.7
Exchange differences	0.4	–	0.2	–	(0.5)	–	0.1
At 1 January 2006	7.4	2.0	2.4	(0.6)	(4.7)	(4.5)	2.0
Charge/(credit) to income	(0.6)	–	0.6	0.1	(1.2)	1.1	–
Charge/(credit) to equity	–	0.6	–	–	(0.2)	–	0.4
Acquisition of subsidiaries	0.8	–	–	–	–	–	0.8
Exchange differences	(0.6)	–	(0.3)	–	0.7	0.2	–
As 31 December 2006	7.0	2.6	2.7	(0.5)	(5.4)	(3.2)	3.2

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Group Year ended 2006 £m	Group Year ended 2005 £m
Deferred tax liabilities	3.3	2.1
Deferred tax assets	(0.1)	(0.1)
	3.2	2.0

At the Balance Sheet date, the Group has unused tax losses of £35.0m (2005 – £36.6m) available for offset against future profits. A deferred tax asset has been recognised in respect of £10.2m (2005 – £12.5m) of such losses. No deferred tax asset has been recognised in respect of the remaining £24.8m (2005 – £24.1m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £1.4m (2005 – £5.2m) that will expire within 7 years (2005 – 20 years). Other losses may be carried forward indefinitely.

At the Balance Sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £214.1m (2005 – £107.6m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

In addition, at the Balance Sheet date, the Group has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £34.4m (2005 – £36.7m), share-based payments of £1.7m (2005 – £1.5m), accelerated book depreciation of £2.4m (2005 – £6.2m) and other temporary differences of £nil (2005 – £2.3m). The Company has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £30.8m (2005 – £31.3m), share-based payments of £0.5m (2005 – £0.3m), accelerated book depreciation of £0.5m (2005 – £0.3m) and other temporary differences of £0.5m (2005 – £0.5m). Deferred tax assets have not been recognised in respect of these differences due to the unpredictability of both the timing of the reversal of these temporary differences and of the future profit streams in the entities concerned.

At the Balance Sheet date, the Group and Company have £5.0m (2005 – £5.0m) of surplus ACT previously written off, for which no deferred tax asset has been recognised as it is unlikely to be recovered in the foreseeable future due to the anticipated ongoing level of dividend payments and UK earnings. The Group also has £14.4m (2005 – £16.3m) of unused capital losses available for offset against future capital gains for which no deferred tax asset has been recognised as no such capital gains are anticipated to arise in the foreseeable future. The Company has £15.6m (2005 – £17.4m) of such unused capital losses.

Notes to the Financial Statements continued

23. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2006 £m	Group Year ended 2005 £m	Group Year ended 2006 £m	Group Year ended 2005 £m
Amounts payable under finance leases:				
Within one year	0.3	0.3	0.2	0.2
In the second to fifth years inclusive	1.0	1.0	0.7	0.7
After five years	0.7	1.1	0.7	0.9
	2.0	2.4	1.6	1.8
Less: future finance charges	(0.4)	(0.6)	-	-
Present value of lease obligations	1.6	1.8	1.6	1.8
Less: amount due for settlement within 12 months (shown under current liabilities)			(0.2)	(0.2)
Amount due for settlement after 12 months			1.4	1.6

It is the Group's policy to lease certain of its buildings and fixtures and equipment under finance leases. The most significant lease, representing approximately 77% (2005 – 73%) of the Group's obligations, expires in 2014. For the year ended 31 December 2006, the average effective borrowing rate was 6.2% (2005 – 6.2%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

24. Other financial liabilities

Trade and other payables at the balance sheet date comprise the following:

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Non-current liabilities				
Due to subsidiaries	-	-	21.5	29.1
	-	-	21.5	29.1
Current liabilities				
Trade payables	45.3	36.5	0.3	0.4
Social security and PAYE	4.6	4.7	0.1	0.1
Value added tax	0.4	0.3	-	-
Foreign currency derivatives	0.8	3.3	-	-
Other payables and accruals	31.0	24.9	2.0	1.8
	82.1	69.7	2.4	2.3
	82.1	69.7	23.9	31.4

The Directors consider that the carrying amount of trade payables approximates to their fair value.

The average credit period taken for trade purchases is 59 days.

25. Issued share capital

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Authorised: 500 million ordinary shares of 10p each	50.0	50.0
Issued and fully paid 389.9 million ordinary shares of 10p each	39.0	30.9

At 31 December 2005, the issued and fully paid up share capital was 309.3 million ordinary shares of 10p each.

In January 2006, the Company issued 15,000,000 ordinary shares of 10p each at 60.0p per share through a placing which raised £9.0m before expenses of £0.2m.

In October 2006 the Company issued 64,960,962 ordinary shares of 10p each at 42.0p per share through a 1 for 5 rights issue which raised £27.3m before expenses of £1.4m. A further 692,880 shares were issued during 2006 at an average price of 29.33p per share under share option plans raising £0.2m.

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

26. Share premium account

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Balance at 1 January	3.8	3.5
Movement in year	7.4	0.3
Balance at 31 December	11.2	3.8

27. Equity reserve

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Balance at 1 January	0.4	0.2
Movement in year	0.4	0.2
Balance at 31 December	0.8	0.4

This reserve represents the provision being established in respect of the value of equity-settled share options and share awards.

28. Distributable reserve

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Balance at 1 January	–	–
Movement in year	19.4	–
Balance at 31 December	19.4	–

This reserve represents additional distributable reserves. The movement in 2006 relates to the creation of additional distributable reserves approximately equal to the net proceeds of the rights issue less the nominal value of the ordinary shares.

Notes to the Financial Statements continued

29. Other reserve

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Balances at 1 January	-	170	-	83.8
Transfer to retained earnings	-	(170)	-	(83.8)
Balance at 31 December	-	-	-	-

In 1997, the Company effected a reduction of its share premium account and the simultaneous creation of a special reserve for the purpose of setting-off goodwill arising on the consolidated balance sheet of the Group as a result of acquisitions. The reduction of capital was confirmed by the Court in accordance with Section 135 of the Companies Act.

The special reserve was initially established with a value of £87.0m and, at Group level, in 1997 an amount of £70.0m of goodwill was set off against this. The acquisitions giving rise to this goodwill were made by subsidiaries of the Company, not the Company itself. Hence, in the Company there was no equivalent offset to the special reserve.

Under the terms of the undertakings given to the Court, the Company was permitted to transfer amounts equivalent to the net proceeds of subsequent capital issues from the special reserve to the profit and loss account. This has resulted in a transfer of £3.2m over the period from July 1997 to December 2004, thereby reducing the value of the special reserve to £83.8m in the Company.

The special reserve was considered undistributable without either the settlement, or consent, of creditors existing at the time of the reorganisations in 1997. To the extent that such creditors have not been settled, consent has been obtained.

As goodwill arising on acquisitions was no longer written off directly to reserves, the original purpose of the account had been fulfilled and, as the undertakings to the Court had also been fulfilled, it was considered that the reserve represented realised profits of the Company. For presentation purposes it was therefore merged with retained earnings in 2005.

30. Hedging and translation reserves

a) Group

	Hedging reserve Year ended 2006 £m	Translation reserve Year ended 2006 £m	Total Year ended 2006 £m	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 (restated) £m	Total Year ended 2005 (restated) £m
Balance at 1 January	(1.8)	4.2	2.4	-	0.7	0.7
Initial recognition of financial instruments	-	-	-	(0.2)	-	(0.2)
Exchange differences on translation of overseas operations	-	(10.5)	(10.5)	-	4.2	4.2
Change in fair value of hedging derivatives	3.1	-	3.1	(1.6)	-	(1.6)
Tax on items taken directly to equity	-	(0.9)	(0.9)	-	(0.7)	(0.7)
Balance at 31 December	1.3	(7.2)	(5.9)	(1.8)	4.2	2.4

b) Company

	Hedging reserve Year ended 2006 £m	Translation reserve Year ended 2006 £m	Total Year ended 2006 £m	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 £m	Total Year ended 2005 £m
Balance at 1 January	(0.5)	(0.4)	(0.9)	-	(0.3)	(0.3)
Initial recognition of financial instruments	-	-	-	(0.7)	-	(0.7)
Exchange differences on translation	-	-	-	-	(0.1)	(0.1)
Increase in fair value of hedging derivatives	0.3	-	0.3	0.2	-	0.2
Balance at 31 December	(0.2)	(0.4)	(0.6)	(0.5)	(0.4)	(0.9)

31. Retained earnings

	Group Year ended 2006	Group Year ended 2005 (restated)	Company Year ended 2006	Company Year ended 2005
	£m	£m	£m	£m
Balance at 1 January	56.1	32.9	75.3	(18.1)
Dividends paid	(6.5)	(6.1)	(6.5)	(6.1)
Net profit/(loss) for the year	15.2	12.1	(1.7)	14.8
Pension actuarial (loss)/gain	(1.0)	0.2	(1.7)	0.9
Transfer from other reserves of special reserve	-	17.0	-	83.8
Tax credit on deductible temporary differences	0.2	-	-	-
Balance at 31 December	64.0	56.1	65.4	75.3

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own income statement.

32. Own shares

	Group and Company Year ended 2006	Year ended 2005
	£m	£m
Balance at 1 January	1.3	1.3
Movement in the year	0.1	-
Balance at 31 December	1.4	1.3

The own shares reserve represents the cost of shares purchased in the market and held by the Senior plc Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 36).

33. Acquisitions

Sterling Machine Co., Inc.

On 27 January 2006, the Group acquired 100% of the issued share capital of Sterling Machine Co., Inc. ("Sterling Machine"), a manufacturer of precision machined parts for the aerospace industry, based in Enfield, Connecticut, USA. The cash consideration was £21.5m, including costs, of which £1.2m related to the purchase of property. The acquisition was funded in part by the placing of 15 million ordinary shares generating net proceeds of £8.8m, the balance being funded by the Group's existing revolving credit facilities.

Set out below is a summary of the net assets acquired and details of the fair value adjustments:

	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	-	2.7
Property, plant and equipment	2.1	2.1
Inventories	3.8	3.4
Trade and other receivables	2.4	2.1
Trade and other payables	(1.1)	(1.1)
Net assets acquired	7.2	9.2
Goodwill		12.3
Total consideration		21.5
Consideration satisfied by:		
Cash paid		21.3
Directly attributable costs		0.2
Net cash outflow arising on acquisition		21.5

Notes to the Financial Statements continued

33. Acquisitions continued

The intangible assets acquired as part of the acquisition relate to customer contracts, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows. Goodwill represents the value of the assembled workforce and its contribution to anticipated future profitability arising from additional capital investment.

Sterling Machine contributed £12.7m revenue and £2.4m to the Group's operating profit from the date of acquisition to 31 December 2006.

Aerospace Manufacturing Technologies, Inc.

On 27 October 2006, the Group acquired 100% of the issued share capital of Aerospace Manufacturing Technologies, Inc. ("AMT"), a manufacturer of structural aluminium parts for the commercial aerospace industry, based in Arlington, Washington State, USA.

The cash consideration was £60.0m, including costs, of which £1.2m was paid in February 2007. The acquisition was funded in part through a rights issue generating net proceeds of £25.9m, the balance being funded by the Group's new revolving credit facility.

Set out below is a summary of the net assets acquired and details of the fair value adjustments:

	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible assets	–	13.2
Property, plant and equipment	8.8	10.8
Inventories	7.2	7.2
Trade and other receivables	4.5	4.5
Cash and cash equivalents	0.5	0.5
Trade and other payables	(3.7)	(3.7)
Deferred tax liability	–	(0.8)
Net assets acquired	17.3	31.7
Goodwill		28.3
Total consideration		60.0
Consideration satisfied by:		
Cash (including £1.2m deferred consideration)		59.1
Directly attributable costs		0.9
Total consideration		60.0
Less deferred consideration		(1.2)
Less cash acquired		(0.5)
Net cash outflow arising on acquisition		58.3

The fair value adjustments contain some provisional amounts which will be finalised in the Financial Statements for the year ending 31 December 2007.

The intangible assets acquired as part of the acquisition relate to customer contracts, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows. Goodwill represents the value of the assembled workforce and its contribution to anticipated future profitability arising from additional capital investment.

AMT contributed £6.1m revenue and £1.4m to the Group's operating profit from the date of acquisition to 31 December 2006.

If both the above acquisitions had been completed on 1 January 2006, Group revenue for the year ended 2006 would have been £415.7m and Group operating profit would have been £30.4m.

The amounts shown in the Group Cash Flow Statement for acquisition of subsidiaries include £nil (2005 – £0.1m) relating to deferred consideration payable in respect of previous acquisitions.

34. Notes to the cash flow statement

a) Reconciliation of operating profit to net cash from operating activities

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Operating profit/(loss) from continuing operations	24.5	19.6	(3.3)	(3.0)
Adjustments for:				
Depreciation of property, plant and equipment	12.1	11.5	-	-
Amortisation of intangible assets	1.8	0.5	-	-
Share options	0.4	0.2	-	0.2
Loss on disposal of property, plant and equipment	0.4	0.2	-	-
Pension payments in excess of service cost	(3.4)	(2.8)	(2.9)	(2.5)
Operating cash flows before movements in working capital	35.8	29.2	(6.2)	(5.3)
Increase in inventories	(11.5)	(9.3)	-	-
Decrease/(increase) in receivables	3.6	(8.1)	(0.2)	-
Increase/(decrease) in payables	9.0	7.9	0.1	(0.1)
Working capital currency movements	(5.4)	2.6	-	-
Cash generated by operations	31.5	22.3	(6.3)	(5.4)
Income taxes(paid)/received	(2.6)	(0.9)	1.6	-
Interest paid	(6.6)	(4.9)	(5.8)	(5.4)
Net cash from/(used in) operating activities	22.3	16.5	(10.5)	(10.8)
Cash and cash equivalents comprise:				
Cash	7.2	8.5	10.0	7.4
Bank overdrafts	(0.2)	-	(1.3)	-
Total	7.0	8.5	8.7	7.4

Cash and cash equivalents held by the Group and the Company (which are presented as a single class of assets on the face of the balance sheets) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

b) Free cash flow

Free cash flow, a non-statutory item, highlights the total net cash generated by the Group prior to corporate activity such as acquisitions, disposals, financing and transactions with shareholders. It is derived as follows:

	Group Year ended 2006 £m	Group Year ended 2005 £m
Net cash from operating activities	22.3	16.5
Interest received	1.3	1.4
Proceeds on disposal of property, plant and equipment	2.2	0.9
Purchases of property, plant and equipment – cash	(20.1)	(16.3)
Purchase of intangible assets	(0.6)	(0.3)
Free cash flow	5.1	2.2

Notes to the Financial Statements continued

34. Notes to the cash flow statement continued

c) Analysis of net debt

Group

	At 1 January 2006 £m	Cash flow £m	Non-cash items £m	Exchange movement £m	31 December 2006 £m
Cash	8.5	(0.5)	-	(0.8)	7.2
Overdrafts	-	(0.2)	-	-	(0.2)
Cash and cash equivalents	8.5	(0.7)	-	(0.8)	7.0
Debt due within one year	(0.2)	-	(12.7)	-	(12.9)
Debt due after one year	(66.3)	(46.0)	13.0	9.1	(90.2)
Finance leases	(1.8)	0.2	-	-	(1.6)
Forward exchange contract losses	(2.6)	0.2	-	3.4	1.0
Total	(62.4)	(46.3)	0.3	11.7	(96.7)

The forward exchange contract losses shown above are reported as £nil (2005 – £2.8m) in current liabilities within trade and other payables and £1.0m (2005 – £0.2m) in current assets within trade and other receivables.

Non-cash items shown above relate to the recognition of financial instruments under IAS 39, and reclassification of debt which became due within one year.

35. Operating lease arrangements

The Group and the Company as lessee

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	4.3	3.9	0.2	0.2

At the Balance Sheet date, the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Within one year	3.5	3.6	0.2	0.2
In the second to fifth years inclusive	10.8	10.9	0.6	0.6
After five years	11.6	15.7	0.2	0.3
	25.9	30.2	1.0	1.1

Operating lease payments principally represent rentals payable by the Group for certain of its manufacturing properties. The leases with the two largest outstanding commitments, representing 56% (2005 – 59%) of the Group's commitment, respectively expire in 2018 (with rentals fixed for 1.5 years) and in 2026 (with rentals currently under review).

The Company has guaranteed £1.4m (2005 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

36. Share-based payments

The Group recognised total expenses of £0.6m (2005 – £0.2m) related to share-based payments, of which £0.4m (2005 – £0.2m) related to equity-settled share-based payments, and £0.2m (2005 – £nil) related to social security costs on share-based payments. At 31 December 2006, the Group had a liability of £0.3m (2005 – £nil) arising from share-based payments of which £0.2m (2005 – £nil) related to social security costs. The Company recognised total expenses of £nil (2005 – £0.2m) related to equity-settled share-based payments.

The number of shares and exercise prices for all periods presented have been adjusted to take account of the bonus element of the 2006 rights issue. The disclosures below are in respect of both Group and Company.

(i) 1999 Executive Share Option Plan

Equity-settled share option plans

Under the 1999 Executive Share Option Plan, options will normally only become exercisable if the Group's Adjusted Earnings per Share grows by not less than 4% per annum compound above the growth in the UK Retail Price Index (RPI) over a period of three or more financial years commencing in January of the year of grant. They will lapse if not exercised within six years of the date of grant. Options are exercisable at a price equal to the average of the closing mid-market price of the Company's shares in the three days prior to the date of grant. No options were granted or exercised under the 1999 Executive Share Option Plan during the year. The following options were outstanding as at 31 December 2006 and 2005:

	Year ended 2006		Year ended 2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	9,817,929	32.49p	11,575,582	37.06p
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(218,962)	21.97p	(1,315,990)	34.22p
Expired	(3,020,854)	53.71p	(441,663)	146.98p
Outstanding at 31 December	6,578,113	23.10p	9,817,929	32.49p
Exercisable at 31 December	-	n/a	-	n/a

The options outstanding at 31 December 2006 had exercise prices ranging from 21.97p to 50.07p per share, and a weighted average remaining contractual life of 2.0 years. The options outstanding at 31 December 2005 had exercise prices ranging from 21.97p to 78.56p per share, and a weighted average remaining contractual life of 2.3 years.

Cash-settled share option plans

Under the 1999 Executive Share Option Plan, shadow options have been granted to certain employees. These are subject to the same general terms and conditions as the above equity-settled options, however, on exercise the holder is entitled to receive an amount equal to the difference between the exercise price and the then market value of the shares in relation to which the shadow option is exercised. No shadow options were granted or exercised under the 1999 Executive Share Option Plan during the year. Shadow share options over 307,620 shares were outstanding as at 31 December 2006 and 2005 with exercise prices ranging from 21.97p to 28.56p per share and a weighted average remaining contractual life of 1.9 years (2005 – 2.9 years).

(ii) 2005 Long Term Incentive Plan

1,323,820 shares were awarded under the 2005 Long Term Incentive Plan on 15 March 2006. Awards under this plan have a three year vesting period, subject to earnings per share (EPS) and total shareholder return (TSR) performance conditions being met. Half the awards have an attaching performance target for EPS growth over the three year performance period of at least 5% per annum above the RPI. The other half of the awards begin to vest if the Company's TSR falls in the top half of a comparator group at the end of the three year performance period. Vesting levels increase with higher performance. The awards are settled by delivering shares to the participants.

The estimated fair value for the awards granted in the year with EPS conditions is 59.33p per share, which is essentially the share price at the date of grant of 64.75p per share less an allowance for dividends foregone over the three year vesting period. The estimated fair value for the awards granted in the year with TSR conditions is 35.71p per share, reflecting an adjustment of 60% to the fair value of the awards with EPS conditions due to the stringent TSR condition.

Notes to the Financial Statements continued

36. Share-based payments continued

These fair values were calculated by applying a binomial option pricing model. This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition. The model inputs at the date of grant were the share price of 64.75p, a risk-free interest rate of 4.4% per annum, expected volatility of 34.0% per annum, net dividend yield of 2.9% per annum, and the performance conditions as noted above. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years.

The following share awards were outstanding as at 31 December 2006 and 2005:

	Year ended 2006	Year ended 2005
	Number of shares	Number of shares
Outstanding at 1 January	1,676,231	–
Granted	1,323,820	1,676,231
Exercised	–	–
Forfeited	(73,353)	–
Outstanding at 31 December	2,926,698	1,676,231

(iii) Long Term Share Incentive Plan

The award of 870,000 shares made under the Long Term Share Incentive Plan in October 2001 lapsed during the year ended 31 December 2005, as the EPS performance criteria of at least 3% per annum growth above RPI over the four year period had not been achieved.

(iv) Savings-Related Share Option Plan

The Company operates a Savings-Related Share Option Plan for eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs rules for such savings plans. No such options have been awarded since 6 September 2002. The following options were outstanding as at 31 December 2006 and 2005:

	Year ended 2006		Year ended 2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	2,005,797	26.95p	4,889,611	28.67p
Granted	–	–	–	–
Exercised	(718,891)	29.33p	(1,926,948)	25.12p
Forfeited	(75,099)	29.60p	(388,963)	29.95p
Expired	(60,323)	35.07p	(567,903)	45.90p
Outstanding at 31 December	1,151,484	24.87p	2,005,797	26.95p
Exercisable at 31 December	59,906	39.99p	596,498	26.89p

The number of share options exercised in 2006 was 692,880, however this has been adjusted to 718,891 to take account of the bonus element of the 2006 rights issue. The weighted average share price at the date of exercise for share options exercised during the period was 61.35p (2005 – 50.91p). The options outstanding at 31 December 2006 had exercise prices ranging from 24.04p to 39.99p per share, and a weighted average remaining contractual life of 1.3 years. The options outstanding at 31 December 2005 had exercise prices ranging from 24.04p to 41.42p per share, and a weighted average remaining contractual life of 1.7 years.

37. Retirement benefit schemes

The Group operates a number of pension plans in the UK, North America and Europe. These include both defined contribution arrangements and defined benefit arrangements. The largest defined benefit arrangement for the Group and Company, the Senior plc Pension Plan, is a funded scheme in the UK, providing benefits based on final pensionable emoluments for the employees of the Group and Company. The latest full actuarial valuation was carried out as at 6 April 2004 and, for the purposes of accounting under IAS 19, this valuation has been rolled forward to 31 December 2006.

In addition, the Group operates three defined benefit schemes in the USA. Separate disclosure is made for the funded UK and US defined benefit arrangements. In both the UK and the USA the assets of funded schemes are held in separate trustee administered funds managed by independent financial institutions and have pension costs assessed by consulting actuaries using the projected unit method.

The Group also has a small number of unfunded post-retirement plans, including a closed healthcare scheme in the US. Separate disclosure is provided for these arrangements.

37. Retirement benefit schemes *continued*

a) Defined Contribution Schemes

The Group has a number of different defined contribution and government sponsored arrangements in place in the countries in which it operates. None of these are individually material to the Group and the aggregate cost of such schemes for the period was £2.4m (2005 – £2.2m).

b) Defined Benefit Schemes

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes is set out below. The Company's defined benefit scheme obligations are set out in the "UK plans funded" column below.

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Present value of defined benefit obligations	(172.1)	(21.8)	(3.5)	(197.4)	(165.7)	(23.2)	(3.7)	(192.6)
Fair value of plan assets	141.3	18.6	-	159.9	134.4	18.3	-	152.7
Plan deficit per balance sheet	(30.8)	(3.2)	(3.5)	(37.5)	(31.3)	(4.9)	(3.7)	(39.9)

c) Movements in the present value of defined benefit obligations were as follows:

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	165.7	23.2	3.7	192.6	150.9	19.8	3.5	174.2
Current service costs	1.3	0.5	0.2	2.0	1.2	0.5	0.1	1.8
Interest cost	8.2	1.3	0.1	9.6	8.1	1.2	0.2	9.5
Contributions by plan participants	0.7	-	-	0.7	0.7	-	-	0.7
Actuarial losses/(gains)	2.4	0.8	(0.1)	3.1	10.2	0.2	0.4	10.8
Benefits paid	(6.2)	(1.0)	(0.3)	(7.5)	(5.4)	(0.9)	(0.4)	(6.7)
Exchange differences	-	(3.0)	(0.1)	(3.1)	-	2.4	(0.1)	2.3
At 31 December	172.1	21.8	3.5	197.4	165.7	23.2	3.7	192.6

d) Movements in the fair value of plan assets were as follows:

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	134.4	18.3	-	152.7	117.2	15.6	-	132.8
Expected return on plan assets	7.5	1.3	-	8.8	7.1	1.3	-	8.4
Actuarial gains/(losses)	0.7	1.4	-	2.1	11.1	(0.1)	-	11.0
Contributions from employer	4.2	1.0	-	5.2	3.7	0.5	-	4.2
Contributions by plan participants	0.7	-	-	0.7	0.7	-	-	0.7
Benefits paid	(6.2)	(1.0)	-	(7.2)	(5.4)	(0.9)	-	(6.3)
Exchange differences	-	(2.4)	-	(2.4)	-	1.9	-	1.9
At 31 December	141.3	18.6	-	159.9	134.4	18.3	-	152.7

Notes to the Financial Statements continued

37. Retirement benefit schemes continued

e) Amounts recognised in income in respect of these defined benefit schemes are as follows:

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost included within operating profit	1.3	0.5	0.2	2.0	1.2	0.5	0.1	1.8
Interest cost	8.2	1.3	0.1	9.6	8.1	1.2	0.2	9.5
Expected return on plan assets	(7.5)	(1.3)	-	(8.8)	(7.1)	(1.3)	-	(8.4)
Included within finance costs	0.7	-	0.1	0.8	1.0	(0.1)	0.2	1.1
	2.0	0.5	0.3	2.8	2.2	0.4	0.3	2.9

Of the current service cost for the year, £1.2m (2005 – £1.2m) has been included in cost of sales, and £0.8m (2005 – £0.6m) has been included in administrative expenses.

Actuarial losses of £1.0m (2005 – £0.2m gains) have been recognised in the Statement of Recognised Income and Expense. The cumulative amount of actuarial losses recognised in the statement of recognised income and expense as at 31 December 2006 is £1.1m (2005 – £0.1m).

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2006 £m	2005 £m	2006 £m	2005 £m
Fair value of plan assets				
Equities and active currency	79.9	78.0	12.3	12.6
Bonds	11.2	11.3	5.1	5.0
Gilts	49.7	44.8	-	-
Properties & other	0.5	0.3	1.2	0.7
Total	141.3	134.4	18.6	18.3
Actual return on plan assets	8.2	18.2	2.7	1.2
Major Assumptions (per annum %)				
Inflation	2.9%	2.6%	3.0%	2.5%
Increase in salaries	3.9%	3.6%	4.0%	4.0%
Increase in pensions	2.9%	2.6%	0.0%	0.0%
Increase in deferred pensions	2.9%	2.6%	0.0%	0.0%
Rate used to discount plan liabilities	5.3%	5.0%	5.9%	5.9%
Expected return on assets	5.8%	5.6%	8.0%	8.0%
Life expectancy of a male aged 65 in 2006	18.6	18.6	17.7	16.7

The expected rate of return on assets is calculated as a weighted average rate of return on each asset class. Where such rates are not available in the market, the expected rate of return for each asset class is calculated by giving consideration to inflation, the risk-free rate of return (based on government gilts/securities), and the risk premium (expected return in excess of the risk-free rate). The market provides implied forecasts of both the inflation rate and the risk-free rate. The risk premium is based primarily on historical data adjusted to reflect any systemic changes that have occurred in the relevant markets.

The estimated amounts of contributions expected to be paid during 2007 to the UK plan is £4.3m (£3.0m of which is additional to normal contributions to fund the past service deficit) and to the USA funded plans is £0.8m (all of which is discretionary).

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £2.3m (2005 – £2.4m), unfunded closed pension and post-retirement healthcare plans in the USA £0.4m (2005 – £0.5m) and provision for post-retirement payments in France of £0.8m (2005 – £0.8m).

37. Retirement benefit schemes continued

The closed pension and post-retirement healthcare plans in the US have been valued on a projected unit method with the following assumptions: discount rate 5.9%, and annual healthcare cost trend rate of 8.0%, reducing to 4.0% in 2014. The effect of a 1% increase or decrease in the healthcare cost trend rate is negligible to the Group's results. The German plan has been subject to formal actuarial valuation on a projected unit method with the following assumptions: discount rate 4.4%, salary growth 2.0% and inflation 1.5%. In France, the provision arises from a legal obligation to make payments to retirees in the first two years post-retirement. Hence, it is not subject to discounting to the same extent as the other longer term post-retirement liabilities.

h) History of experience gains and losses

	2006 £m	2005 £m	2004 £m
UK plan funded			
Present value of defined benefit obligations	(172.1)	(165.7)	(150.9)
Fair value of plan assets	141.3	134.4	117.2
Plan deficit	(30.8)	(31.3)	(33.7)
Experience (loss)/gain on plan liabilities	(2.2)	0.3	6.1
Experience gain on plan assets	0.7	11.1	1.8
	2006 £m	2005 £m	2004 £m
US plan funded			
Present value of defined benefit obligations	(21.8)	(23.2)	(19.8)
Fair value of plan assets	18.6	18.3	15.6
Plan deficit	(3.2)	(4.9)	(4.2)
Experience gain/(loss) on plan liabilities	0.1	(0.1)	(0.8)
Experience gain/(loss) on plan assets	1.4	(0.1)	(0.3)
	2006 £m	2005 £m	2004 £m
Unfunded plans			
Present value of defined benefit obligations	(3.5)	(3.7)	(3.5)
Fair value of plan assets	-	-	-
Plan deficit	(3.5)	(3.7)	(3.5)
Experience gain/(loss) on plan liabilities	-	-	-

The Group has applied the exemption under IFRS 1 to only disclose amounts as they are determined for each accounting period prospectively from the transition date.

38. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, are set out below. These eliminate on consolidation.

	Year ended 2006 £m	Year ended 2005 £m
Transactions in year		
Management charges	0.3	0.2
Dividends receivable	0.3	14.3
Interest receivable	6.1	8.3
Interest payable	(0.1)	(0.6)
Balances at year-end		
Investments in subsidiaries	111.8	92.0
Amounts due from subsidiaries	167.4	134.5
Amounts due to subsidiaries	21.5	29.1

The management and interest charges are made on terms equivalent to those that prevail in arm's length transactions.

The remuneration of the Directors, who are the key management personnel of the Group, is set out in the Remuneration Report on pages 18 to 23.

Five Year Summary

Group income statement	2006 £m	IFRS		UK GAAP	
		2005 £m*	2004 £m	2003 £m*	2002 £m*
Revenue					
Continuing operations	387.9	338.6	306.8	322.9	368.4
Discontinued operations	-	-	19.1	32.0	36.0
	387.9	338.6	325.9	354.9	404.4
Operating profit before impairment and amortisation of goodwill					
Continuing operations	24.5	19.6	16.6	17.8	23.0
Discontinued operations	-	-	0.5	1.1	(0.1)
	24.5	19.6	17.1	18.9	22.9
Amortisation of goodwill	-	-	-	(5.4)	(5.8)
Operating profit	24.5	19.6	17.1	13.5	17.1
Loss on disposal of discontinued operations	-	-	(4.8)	-	(3.5)
Investment income/finance costs, net	(5.6)	(3.9)	(2.9)	(4.9)	(6.6)
Net finance cost of retirement benefit obligations	(0.8)	(1.1)	(1.2)	(2.2)	-
Profit before tax	18.1	14.6	8.2	6.4	7.0
Tax	(2.9)	(2.5)	(1.7)	(1.8)	(3.1)
Profit for the year	15.2	12.1	6.5	4.6	3.9
Depreciation and amortisation of intangibles	13.9	12.0	13.3	16.1	17.8
Gross capital expenditure (including finance lease assets)	20.7	16.6	10.4	8.0	13.1
Basic earnings per share*	4.35p	3.75p	2.02p	1.43p	1.23p
Diluted earnings per share*	4.25p	3.69p	1.99p	1.42p	1.23p
Adjusted earnings per share*	4.65p	3.82p	3.42p	2.98p	4.26p
Dividends in respect of year – per share*	2.000p	1.905p	1.905p	1.905p	1.905p
- value	7.5	6.4	6.1	6.1	6.1
Group balance sheets					
Non-current assets	217.5	158.2	147.0	155.8	175.7
Net current assets	42.4	44.4	33.8	41.8	45.8
Non-current liabilities	(132.8)	(110.3)	(97.1)	(118.1)	(100.2)
Net assets	127.1	92.3	83.7	79.5	121.3
Net borrowings	(96.7)	(62.4)	(50.6)	(64.2)	(87.4)
Gearing, net	76.1%	67.6%	60.5%	80.8%	72.0%
Group cash flow					
Net cash from operating activities	22.3	16.5	17.7	25.9	36.3
Interest received	1.3	1.4	2.5	1.2	0.6
Proceeds from disposal of property, plant and equipment	2.2	0.9	0.7	1.1	1.4
Purchase of property, plant and equipment – cash	(20.1)	(16.3)	(9.8)	(8.0)	(11.6)
- finance leases	-	-	(0.4)	-	(1.5)
Purchase of intangible assets	(0.6)	(0.3)	(0.2)	-	-
Free cash flow	5.1	2.2	10.5	20.2	25.2
Dividends paid	(6.5)	(6.1)	(6.1)	(6.1)	(2.5)
Acquisitions less disposals	(79.7)	(0.1)	4.5	0.4	2.2
Share issues	34.8	0.5	-	-	-
Increase/(decrease) in loans	46.0	6.1	(18.9)	(14.8)	(32.2)
(Decrease)/increase in finance leases	(0.2)	(0.3)	0.1	(0.3)	1.4
Cash (outflow)/inflow on forward contracts	(0.2)	(0.2)	4.5	4.5	0.2
(Decrease)/increase in cash and cash equivalents	(0.7)	2.1	(5.4)	3.9	(5.7)

*The figures for 2005 have been restated to reflect adoption of the amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates". See Note 2 for details. The earnings per share and dividends per share figures for 2005 and earlier periods have been adjusted to take account of the bonus element of the 2006 rights issue. The amounts disclosed for 2003 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The figures for 2003 have been restated to reflect changes in accounting policies relating to retirement benefits and ESOP trusts following the adoption in 2004 of Financial Reporting Standard No.17 and UITF 38. Earlier years have not been restated.

Principal Group Undertakings

Operating companies	Business units	Locations
Senior Hargreaves Limited (incorporated in England and Wales)	Senior Hargreaves	Bury
Senior UK Limited (incorporated in England and Wales)	Senior Automotive – Crumlin Senior Aerospace – BWT Senior Aerospace – Bird Bellows	Crumlin Macclesfield Congleton
Senior Operations Inc. (incorporated in Delaware, USA)	Senior Aerospace – AMT* Senior Automotive – Bartlett Senior Flexonics – Pathway Senior Aerospace – Metal Bellows Senior Aerospace – SSP Senior Aerospace – Composites Senior Aerospace – Ketema	Arlington, Washington Bartlett, Illinois New Braunfels, Texas Sharon, Massachusetts Burbank, California Wichita, Kansas El Cajon, California and Saltillo, Mexico San Diego, California
Sterling Machine Co., Inc.** (incorporated in Connecticut, USA)	Senior Aerospace – Sterling Machine	Enfield, Connecticut
Senior Operations (Canada) Limited (incorporated in Canada)	Senior Flexonics – Canada	Brampton, Ontario
Senior Berghofer GmbH (incorporated in Germany)	Senior Automotive – Kassel	Kassel, Germany
Senior Automotive Czech s.r.o. (incorporated in the Czech Republic)	Senior Automotive – Olomouc	Olomouc, Czech Republic
Senior Aerospace Ermeto SAS (incorporated in France)	Senior Aerospace – Ermeto	Blois, France
Senior Automotive Blois SAS (incorporated in France)	Senior Automotive – Blois	Blois, France
Senior Calorstat SAS (incorporated in France)	Senior Aerospace – Calorstat	Dourdan, France
Senior Aerospace Bosman B.V. (incorporated in Holland)	Senior Aerospace – Bosman	Rotterdam, Holland
Senior Automotive S.A. (Pty) Limited (incorporated in the Republic of South Africa)	Senior Automotive – Cape Town	Cape Town, South Africa
Senior do Brasil Ltda. (incorporated in Brazil)	Senior Automotive – Sao Paulo	Sao Paulo, Brazil
Senior India Private Limited (incorporated in India)	Senior Automotive – New Delhi	New Delhi, India
Senior Investments AG (incorporated in Switzerland)		Schaffhausen, Switzerland

* Aerospace Manufacturing Technologies, Inc. was acquired on 27 October 2006 and was merged into Senior Operations Inc. on 19 January 2007.

** Sterling Machine Co., Inc. was acquired on 27 January 2006.

All Group undertakings are wholly and directly owned by subsidiary undertakings of Senior plc, and in every case the principal country of operation is the country of incorporation.

Additional Shareholder Information

Analysis of Shareholders at 31 December 2006

	Shareholders number	Shareholders %	Shareholdings millions	Shareholdings %
By Category				
Corporate bodies	766	19.40	371.71	95.32
Other shareholders	3,182	80.60	18.23	4.68
	3,948	100.00	389.94	100.00
By Range of Holdings				
1 – 24,999	3,534	89.51	15.57	3.99
25,000 – 49,999	144	3.65	5.09	1.31
50,000 – 249,999	139	3.52	15.38	3.94
250,000 – 499,999	32	0.81	11.52	2.95
500,000 – 999,999	33	0.84	23.07	5.92
1,000,000 – and over	66	1.67	319.30	81.89
	3,948	100.00	389.94	100.00

The number of shares in issue at 31 December 2006 was 389,939,582.

Share Registrars

All shareholder records are maintained by Lloyds TSB Registrars and all correspondence should be addressed to the Registrar, Senior plc at the Lloyds TSB Registrars' address shown on the facing page, quoting the reference number starting with 0228 detailed on your dividend vouchers. The Registrar should be notified regarding changes to name or address, loss of either share certificate or dividend warrant, or request for, or change to, a dividend mandate.

Lloyds TSB Registrars provide a range of shareholder information on-line. Shareholders can check their holdings, update details and obtain practical help on transferring shares at: www.shareview.co.uk

Instead of payment by post to your registered address, dividends can be paid through the BACS system direct into a UK bank or building society account, with the dividend voucher still sent to your registered address. If you wish to use this facility and have not previously applied, then please apply direct to Lloyds TSB Registrars and request a dividend mandate form. Shareholders who are currently receiving duplicate sets of Company mailings, as a result of any inconsistency in name or address details, should write direct to Lloyds TSB Registrars so holdings can be combined, if appropriate.

CREST Proxy Voting

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 27 April 2007 and any adjournment(s) thereof by using the procedures described in the CREST Manual. Further details relating to voting via CREST may be found on the Notice of Meeting/Proxy Card inserted within the Annual Report.

The key events for the Company are set out below. Some of the dates are indicative only and may be subject to change.

1 March

Preliminary announcement of 2006 annual results.

13 March

Publication of Annual Report 2006.

27 April

Annual General Meeting.

2 May

Shares ex-dividend for 2006 final dividend.

4 May

Record date for shareholders on the register to receive the 2006 final dividend.

31 May

Payment of 2006 final dividend.

25 June

Pre-close period statement.

2 August

Preliminary announcement of 2007 interim results.

6 August

Publication of Interim Report 2007.

31 October

Shares ex-dividend for 2007 interim dividend.

2 November

Record date for shareholders on the register to receive the 2007 interim dividend.

30 November

Payment of 2007 interim dividend.

17 December

Pre-close period statement.

Secretary and Registered Office

Andrew Bodenham
59/61 High Street, Rickmansworth, Hertfordshire WD3 1RH

Registered in England and Wales No. 282772

Registrars

Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA

Auditors

Deloitte & Touche LLP
1 Woodborough Road, Nottingham NG1 3FG

Solicitors

Slaughter and May
One Bunhill Row, London EC1Y 8YY

Principal UK Clearing Bankers

Lloyds TSB Group plc
25 Gresham Street, London EC2V 7HN

Investment Bankers

Citigroup Global Markets Limited
Citigroup Centre, 33 Canada Square, London E14 5LB

Stockbrokers

Hoare Govett Limited
250 Bishopsgate, London EC2M 4AA

