

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 Business Review on pages 4 to 6.

2. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union for the first time with effect from 1 January 2005. They therefore comply with Article 4 of the EU IAS Regulation and have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in Note 39.

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 International Financial Reporting Standards. 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.

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.

Notes to the Financial Statements continued

2. Significant accounting policies continued

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. 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.

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.

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.

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.

2. Significant accounting policies continued

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.

Derivatives embedded in other financial instruments or other host contracts are treated as derivatives when their risks and characteristics are not closely related to those host contracts.

The Group has taken the exemption available in IFRS 1 not to restate comparatives for IAS 32 and IAS 39. Consequently, the comparative information for 2004 shown in Note 21 is in accordance with the figures previously presented under UK GAAP.

Provisions

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring and the plan has been communicated to the affected parties. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. They are not discounted to present value as the effect is not material.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group has issued equity-settled and cash-settled share-based payments to certain employees. The fair value (excluding the effect of non-market related conditions), as determined at the grant date, is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest and adjusted for the effect of non-market related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans, and a binomial model for the share awards under the 2005 Long Term Incentive Plan.

The liability in respect of equity-settled amounts is included in equity, whereas the liability in respect of cash-settled amounts is included in current and non-current liabilities as appropriate.

Segmental analysis

Under IFRS, segmental detail is presented according to a primary segment and a secondary segment. The Group's primary segmental analysis is based on the industries that it serves: Aerospace, Automotive and Industrial. The secondary analysis is presented according to geographic markets comprising North America, Europe (split between the UK and Rest of Europe) and the Rest of the World. This is consistent with the way the Group manages itself and with the format of the Group's internal financial reporting.

Notes to the Financial Statements continued

2. Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

Where critical accounting judgements and key estimations have been applied, these are referred to in the relevant Notes, the most significant being in goodwill, derivative financial instruments, share-based payments and retirement benefit schemes.

3. Revenue

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

	Year ended 2005 £m	Year ended 2004 £m
Sale of goods	325.7	310.5
Revenue from construction contracts	12.9	15.4
	338.6	325.9
Continuing operations	338.6	306.8
Discontinued operations	–	19.1
Total	338.6	325.9

4. Business and geographical segments

Business segments

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

	External revenue Year ended 2005 £m	Inter segment revenue Year ended 2005 £m	Total revenue Year ended 2005 £m	Segment result Year ended 2005 £m	External revenue Year ended 2004 £m	Inter segment revenue Year ended 2004 £m	Total revenue Year ended 2004 £m	Segment result Year ended 2004 £m
Aerospace	155.8	0.4	156.2	12.8	139.5	0.1	139.6	11.1
Automotive	135.2	0.7	135.9	8.9	122.6	0.3	122.9	8.4
Industrial	47.6	0.2	47.8	2.2	44.7	0.2	44.9	0.9
Sub total	338.6	1.3	339.9	23.9	306.8	0.6	307.4	20.4
Eliminations		(1.3)	(1.3)	–		(0.6)	(0.6)	–
Central costs				(4.3)				(3.8)
Total continuing operations	338.6	–	338.6	19.6	306.8	–	306.8	16.6
Exchange gain on long-term intercompany loans				2.0				–
Investment income				1.3				2.1
Finance costs				(6.3)				(6.2)
Profit before tax				16.6				12.5
Tax				(2.5)				(1.6)
Loss for the period from discontinued operations				–				(4.4)
Profit after tax and discontinued operations				14.1				6.5

Segment results for 2005 shown above are stated after charging a £0.2m loss on sale of fixed assets, attributed wholly to the Aerospace segment. Segment results for 2004 shown above are stated after crediting profit on sale of fixed assets of £0.5m attributed wholly to the Automotive segment.

The total Group revenue was £338.6m (2004 – £325.9m), with discontinued operations contributing £nil (2004 – £19.1m). Details on the loss for the 2004 year from discontinued operations are shown in Note 10. The discontinued operations related wholly to the Industrial segment.

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

	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	Assets Year ended 2004 £m	Liabilities Year ended 2004 £m	Additions to PPE and intangibles Year ended 2004 £m	Depreciation and amortisation Year ended 2004 £m
Aerospace	143.0	25.9	3.1	5.2	132.1	20.6	4.1	5.5
Automotive	91.9	22.7	13.2	6.1	73.2	21.8	4.4	6.5
Industrial	34.0	9.0	0.3	0.6	33.5	9.1	1.5	0.6
Sub total continuing operations	268.9	57.6	16.6	11.9	238.8	51.5	10.0	12.6
Unallocated corporate amounts	13.8	132.8	–	0.1	14.0	117.6	0.1	0.1
Discontinued operations	–	–	–	–	–	–	0.3	0.6
Total	282.7	190.4	16.6	12.0	252.8	169.1	10.4	13.3

Additions to property, plant and equipment and intangibles during the year amounting to £nil (2004 – £0.4m) were financed by new finance leases. The additions in 2004 were attributed wholly to the Aerospace segment.

Notes to the Financial Statements continued

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 2005 £m	Segment assets Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m	Sales revenue Year ended 2004 £m	Segment assets Year ended 2004 £m	Additions to PPE and intangibles Year ended 2004 £m
North America	178.5	137.9	10.6	158.5	112.2	5.7
UK	40.7	62.3	1.7	42.2	62.4	0.8
Rest of Europe	94.2	51.4	2.9	88.7	52.2	2.7
Rest of World	25.2	17.3	1.4	17.4	12.0	0.8
Sub total continuing operations	338.6	268.9	16.6	306.8	238.8	10.0
Unallocated corporate amounts	—	13.8	—	—	14.0	0.1
Discontinued operations	—	—	—	19.1	—	0.3
Total	338.6	282.7	16.6	325.9	252.8	10.4

Revenue from the Group's discontinued operations was derived from North America (2005 – £nil, 2004 – £6.3m), UK (2005 – £nil, 2004 – £4.2m), Europe (2005 – £nil, 2004 – £7.4m) and Rest of World (2005 – £nil, 2004 – £1.2m).

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

Additions to property, plant and equipment and intangibles during the year amounting to £nil (2004 – £0.4m) were financed by new finance leases. The additions in 2004 were attributed wholly to North America.

The additions to property, plant and equipment and intangibles relating to the Group's discontinued operations were as follows:

North America (2005 – £nil, 2004 – £nil), UK (2005 – £nil, 2004 – £0.1m), Europe (2005 – £nil, 2004 – £0.2m) and Rest of World (2005 – £nil, 2004 – £nil).

5. Trading profit and profit for the period

Trading profit for continuing operations can be analysed as follows:

	Year ended 2005 £m	Year ended 2004 £m
Revenue	338.6	306.8
Cost of sales	(268.7)	(240.6)
Gross profit	69.9	66.2
Distribution costs	(3.7)	(3.6)
Administrative expenses	(46.4)	(46.5)
Trading profit	19.8	16.1

5. Trading profit and profit for the period continued

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

	Year ended 2005 £m	Year ended 2004 £m
Net foreign exchange gains	(0.3)	(0.5)
Research and development costs	8.3	8.7
Depreciation of property, plant and equipment	11.5	12.8
Amortisation of intangible assets included in administration expenses	0.5	0.5
Cost of inventories recognised as expense	268.7	255.3
Staff costs (see Note 6)	124.5	125.0
Auditors' remuneration for audit services (see below)	0.4	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 £0.2m (2004 – £0.4m).

Auditors' remuneration for audit services to the Company was £0.1m (2004 – £0.1m).

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

	£m	2005 %	£m	2004 %
Audit services				
– statutory audit	0.4	67	0.4	50
	0.4	67	0.4	50
Tax services				
– compliance services	0.1	16	0.3	37
– advisory services	0.1	17	0.1	13
	0.2	33	0.4	50
	0.6	100	0.8	100

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 18 and 19 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 2005 Number	Group Year ended 2004 Number	Company Year ended 2005 Number	Company Year ended 2004 Number
Production	4,175	4,201	–	–
Distribution	55	55	–	–
Sales	303	334	–	–
Administration	385	424	17	18
	4,918	5,014	17	18
	Year ended 2005 £m	Year ended 2004 £m	Year ended 2005 £m	Year ended 2004 £m
Their aggregate remuneration comprised:				
Wages and salaries	107.2	107.4	1.7	1.3
Social security costs	13.3	13.4	0.2	0.2
Other pension costs – defined contribution (see Note 37a)	2.2	2.2	–	–
Other pension costs – defined benefit (see Note 37e)	1.8	2.0	0.1	0.1
	124.5	125.0	2.0	1.6

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7. Investment income

	Year ended 2005 £m	Year ended 2004 £m
Interest on bank deposits	0.2	0.1
Foreign currency derivatives	1.0	1.1
Interest on tax refund	–	0.8
Others	0.1	0.1
Total income	1.3	2.1

8. Finance costs

	Year ended 2005 £m	Year ended 2004 £m
Interest on bank overdrafts and loans	0.7	0.7
Interest on other loans	4.3	4.3
Interest on obligations under finance leases	0.1	0.1
Cost/(benefit) on interest rate swaps	0.1	(0.1)
Net finance cost of retirement benefit obligations (Note 37e)	1.1	1.2
Total finance costs	6.3	6.2

9. Tax charge

	Year ended 2005 £m	Year ended 2004 £m
Current tax:		
UK corporation tax	–	0.1
Foreign tax	2.3	2.5
Adjustments in respect of prior periods	(0.2)	(0.9)
	2.1	1.7
Deferred tax (Note 22):		
Current year	0.7	–
Adjustments in respect of prior periods	(0.3)	–
	0.4	
	2.5	1.7
Attributable to:		
Continuing operations	2.5	1.6
Discontinued operations	–	0.1
	2.5	1.7

UK corporation tax is calculated at 30% (2004 – 30%) of the estimated assessable profit for the year.

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

9. Tax charge continued

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

	Year ended 2005 £m	Year ended 2005 %	Year ended 2004 £m	Year ended 2004 %
Profit before tax from continuing operations	16.6		12.5	
Tax at the UK corporation tax rate of 30% (2004 – 30%)	5.0		3.8	
Tax effect of income/expenses that are non taxable/deductible in determining taxable profit	(0.5)		0.1	
Tax effect of unrelieved tax losses	1.8		2.0	
Tax effect of movements in temporary differences not previously recognised	(1.4)		(1.5)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1.9)		(1.9)	
Adjustments to tax charge in respect of prior periods	(0.5)		(0.9)	
Tax expense and effective tax rate for the year	2.5	15.0	1.6	12.8

In addition to the amount charged to the income statement, tax relating to unrealised foreign exchange gains/losses amounting to £0.7m (2004 – £1.0m credited) has been charged directly to equity via hedging and translation reserves (see Note 29).

10. Discontinued operations

There have been no disposals in 2005.

In August 2004, the Group's five industrial hose operations, comprising the share capitals of Senior Flexonics Limited, Flexonics SAS, Senior Flexonics B.V., Teknofluor Holding A.B and the trade and assets of the US Hose Division of Senior Operations Inc, were sold.

The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	Year ended 2004 £m
Revenue	19.1
Expenses	(18.6)
Profit before tax	0.5
Attributable tax expense	(0.1)
Profit after tax	0.4
Loss on disposal of discontinued operations	(4.8)
Net loss attributable to discontinued operations	(4.4)

During the year, discontinued operations used £nil (2004 – £1.2m) of the Group's net operating cash flows, paid £nil (2004 – £0.3m) in respect of investing activities and paid £nil (2004 – £nil) in respect of financing activities.

A loss of £nil (2004 – £4.8m) arose on the disposal of discontinued operations, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable balance sheet goodwill.

11. Dividends

	Year ended 2005 £m	Year ended 2004 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2004 of 1.35p (2003 – 1.35p) per share	4.1	4.1
Interim dividend for the year ended 31 December 2005 of 0.65p (2004 – 0.65p) per share	2.0	2.0
	6.1	6.1
Proposed final dividend for the year ended 31 December 2005 of 1.35p (2004 – 1.35p) per share	4.2	4.1

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.

Notes to the Financial Statements continued

12. Earnings per share

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

	Year ended 2005 m	Year ended 2004 m
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	306.8	306.5
Effect of dilutive potential shares:		
Share options	5.6	4.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share	312.4	310.8

Earnings and earnings per share	Year ended 2005		Year ended 2004	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period from continuing operations	14.1	4.59	10.9	3.56
Loss for the period from discontinued operations	–	–	(4.4)	(1.44)
Profit for the period from continuing and discontinued operations	14.1	4.59	6.5	2.12
Adjust:				
Loss/(profit) on sale of fixed assets net of tax of £nil (2004 – £0.2m)	0.2	0.07	(0.3)	(0.10)
Exchange gain on long-term intercompany loans net of tax of £nil (2004 – £nil)	(2.0)	(0.65)	–	–
Loss on disposal of discontinued operations	–	–	4.8	1.57
Adjusted earnings after tax	12.3	4.01	11.0	3.59
Earnings per share				
– basic continuing		4.59p		3.56p
– basic discontinued		–		(1.44)p
– basic		4.59p		2.12p
– diluted		4.51p		2.09p
– adjusted		4.01p		3.59p
– adjusted and diluted		3.94p		3.54p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2004 – £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 disposal of fixed assets
- gains or losses arising from the disposal of discontinued operations
- gains or losses arising from the re-translation of long-term intercompany loans

13. Goodwill

	Group Year ended 2005 £m	Group Year ended 2004 £m
Cost		
At 1 January	73.1	76.7
Exchange differences	4.2	(2.3)
Derecognised on disposal of a subsidiary	–	(1.3)
Other changes	(0.2)	–
At 31 December	77.1	73.1
Accumulated impairment losses		
At 1 January and at 31 December	–	–
Carrying amount at 31 December	77.1	73.1

The amount shown on 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 2005 £m	Group Year ended 2004 £m
Aerospace		
– Senior UK Limited	36.4	36.4
– Jet Products	15.0	13.4
– Other	1.3	1.3
	52.7	51.1
Automotive	7.4	6.8
Industrial		
– Pathway	15.6	14.0
– Other	1.4	1.2
	17.0	15.2
Total	77.1	73.1

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 8.4%.

Notes to the Financial Statements continued

14. Other intangible assets

	Group Year ended 2005 Computer software £m	Group Year ended 2004 Computer software £m	Company Year ended 2005 Computer software £m	Company Year ended 2004 Computer software £m
Cost				
At 1 January	4.1	4.1	0.1	0.1
Additions	0.3	0.2	–	–
Disposals	(0.1)	–	–	–
Exchange differences	0.5	(0.2)	–	–
At 31 December	4.8	4.1	0.1	0.1
Amortisation				
At 1 January	2.9	2.5	0.1	0.1
Charge for the year	0.5	0.5	–	–
Disposals	(0.1)	–	–	–
Exchange differences	0.4	(0.1)	–	–
At 31 December	3.7	2.9	0.1	0.1
Carrying amount at 31 December	1.1	1.2	–	–

15. Property, plant and equipment

a) Group

	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	Year ended 2004 Freehold land and buildings £m	Year ended 2004 Leasehold land and buildings £m	Year ended 2004 Plant and equipment £m	Year ended 2004 Total £m
Cost or valuation								
At 1 January	39.9	1.2	155.4	196.5	40.5	1.2	169.1	210.8
Additions	0.9	–	15.4	16.3	1.6	0.1	8.5	10.2
Exchange differences	1.9	0.2	9.3	11.4	(1.2)	(0.1)	(4.9)	(6.2)
Business disposal	–	–	–	–	(0.9)	–	(15.3)	(16.2)
Disposals	(1.9)	–	(3.7)	(5.6)	(0.1)	–	(2.0)	(2.1)
At 31 December	40.8	1.4	176.4	218.6	39.9	1.2	155.4	196.5
Accumulated depreciation and impairment								
At 1 January	8.8	0.7	118.2	127.7	8.4	0.7	124.2	133.3
Charge for the year	0.9	0.1	10.5	11.5	1.0	–	11.8	12.8
Exchange differences	0.4	0.1	7.4	7.9	(0.3)	–	(4.0)	(4.3)
Business disposal	–	–	–	–	(0.3)	–	(11.9)	(12.2)
Eliminated on disposals	(0.9)	–	(3.7)	(4.6)	–	–	(1.9)	(1.9)
At 31 December	9.2	0.9	132.4	142.5	8.8	0.7	118.2	127.7
Carrying amount at 31 December	31.6	0.5	44.0	76.1	31.1	0.5	37.2	68.8

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £2.9m (2004 – £3.1m) 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 2005, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £7.3m (2004 – £2.5m).

15. Property, plant and equipment continued

b) Company

	Year ended 2005 Plant and equipment £m	Year ended 2004 Plant and equipment £m
Cost		
At 1 January and at 31 December	0.4	0.4
Accumulated depreciation		
At 1 January	0.3	0.2
Charge for the year	–	0.1
At 31 December	0.3	0.3
Carrying amount at 31 December	0.1	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 59.

	Company Year ended 2005 £m	Company Year ended 2004 £m
At 1 January	30.3	30.3
Additional investment in subsidiary	61.7	–
At 31 December	92.0	30.3

Additional investment in subsidiary comprises re-capitalisation of the subsidiary by means of the capitalisation of part of an interest bearing loan due from the subsidiary.

17. Inventories

	Group Year ended 2005 £m	Group Year ended 2004 £m
Raw materials	18.8	15.3
Work-in-progress	21.4	17.4
Finished goods	7.5	5.7
	47.7	38.4

An amount of £1.0m (2004 – £1.1m) has been charged in respect of inventory write-downs.

Notes to the Financial Statements continued

18. Construction contracts

	Group Year ended 2005 £m	Group Year ended 2004 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in current assets	3.4	4.5
Amounts due to contract customers included in trade and other payables	(0.1)	–
	3.3	4.5
Current costs incurred plus recognised profits less recognised losses to date	10.7	6.9
Less: progress billings	(7.4)	(2.4)
	3.3	4.5

At 31 December 2005, retentions held by customers for contract work amounted to £0.6m (2004 – £0.7m). Advances received from customers for contract work amounted to £nil (2004 – £nil).

At 31 December 2005, amounts of £0.2m (2004 – £0.1m) 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 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Non-current assets				
Deferred consideration on disposal of Hose operations	2.8	3.0	–	–
Trade receivables	0.2	0.1	–	–
Other receivables	0.8	0.7	–	–
Due from subsidiaries	–	–	134.4	191.0
	3.8	3.8	134.4	191.0
Current assets				
Trade receivables	56.9	49.2	–	–
Current tax recoverable	0.4	1.2	1.6	–
Value added tax	0.6	0.9	0.1	–
Currency derivatives	1.4	–	0.2	–
Prepayments and accrued income	5.0	3.5	0.4	0.5
Other receivables	0.6	0.7	0.7	0.7
Due from subsidiaries	–	–	0.1	1.9
	64.9	55.5	3.1	3.1
Total trade and other receivables	68.7	59.3	137.5	194.1

The average credit period taken on sales of goods is 74 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.5m (2004 – £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.

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.

The amounts due from subsidiaries have been reduced due to the re-capitalisation of a subsidiary as referred to in Note 16.

20. Bank overdrafts and loans

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Bank overdrafts	–	1.5	–	–
Bank loans	7.2	1.1	7.2	–
Other loans	59.3	52.6	58.7	52.1
	66.5	55.2	65.9	52.1

The borrowings are repayable as follows:

On demand or within one year	0.2	2.6	0.2	–
In the second year	21.7	–	21.7	–
In the third to fifth years inclusive	44.0	52.1	44.0	52.1
After five years	0.6	0.5	–	–
	66.5	55.2	65.9	52.1
Less: amount due for settlement within 12 months (shown under current liabilities)	(0.2)	(2.6)	(0.2)	–
Amount due for settlement after 12 months	66.3	52.6	65.7	52.1

Analysis of borrowings by currency:

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

31 December 2004

	Total £m	Sterling £m	Euros £m	US dollars £m
Bank overdrafts	1.5	–	1.5	–
Bank loans	1.1	–	1.1	–
Other loans	52.6	–	0.5	52.1
	55.2	–	3.1	52.1

The weighted average interest rates paid were as follows:

	Year ended 2005 %	Year ended 2004 %
Bank overdrafts	3.55	3.45
Bank loans	3.20	2.75
Other loans	7.47	7.47

Bank loans and overdrafts of £7.2m (2004 – £2.6m) 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 £5.8m (2004 – £16.1m) had been taken out at the year-end to convert interest from fixed rates to floating rates.

Notes to the Financial Statements continued

20. Bank overdrafts and loans continued

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

	Year ended 2005 £m	Year ended 2004 £m
Bank overdrafts	–	1.5
Bank loans	7.2	1.1
Other loans	60.6	54.4
	67.8	57.0

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.

a) Loan notes of \$75m, 2005 £43.6m (2004 – £39.1m) 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, 2005 £14.5m (2004 – £13.0m) 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 £46m multi-currency facility maturing on 31 October 2007 and a committed single bank \$25m (£14.5m) facility maturing on 31 May 2007. As at 31 December 2005, £7.2m was drawn under the first facility, comprising \$5m (£2.9m) and €6.3m (£4.3m). There were no amounts drawn under this facility at 31 December 2004. There were no amounts drawn under the second facility at 31 December 2005 and 2004.

As at 31 December 2005, the Group had available £53.3m (2004 – £59.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

21. Derivative financial instruments

The Group has taken the exemption available in IFRS 1 not to restate comparatives for IAS 32 and IAS 39. Consequently, the comparative information for 2004 shown in this note is in accordance with the figures previously presented under UK GAAP.

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 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Forward foreign exchange contracts	98.5	46.7	8.3	–

At 31 December 2005, the fair value of the Group's currency derivatives is estimated to be approximately £1.4m liability (2004 – £0.6m asset). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £1.2m assets included in trade and other receivables and £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 £0.7m has been deferred in equity.

An amount of £0.3m has been transferred to the income statement in respect of contracts matured during the period.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with an average nominal value of \$27.4m (£15.0m) (2004 – \$27.0m, £14.8m) had receipts of fixed interest at an average rate of 2.28% (2004 – 2.15%) per annum and floating interest payments at LIBOR for periods up until May 2006.

The fair value of swaps entered into at 31 December 2005 is estimated at £0.1m liability (2004 – £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 fair value hedges. An amount of £0.1m has been charged (2004 – £0.1m offset) against hedged interest payments made in the period.

22. Deferred tax

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 2004	5.8	1.2	0.9	(0.4)	(2.8)	(3.4)	1.3
Charge (credit) to income	1.4	–	0.6	–	(1.0)	(1.0)	–
Credit to equity	–	(0.1)	–	–	–	–	(0.1)
Disposal of subsidiary	–	–	–	–	(0.3)	–	(0.3)
Exchange differences	(0.2)	–	(0.1)	(0.1)	0.3	–	(0.1)
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
Charge to equity	–	0.7	–	–	–	–	0.7
Exchange differences	0.4	–	0.2	–	(0.5)	–	0.1
As 31 December 2005	7.4	2.0	2.4	(0.6)	(4.7)	(4.5)	2.0

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 2005 £m	Group Year ended 2004 £m
Deferred tax liabilities	2.1	0.9
Deferred tax assets	(0.1)	(0.1)
	2.0	0.8

At the balance sheet date, the Group has unused tax losses of £36.6m (2004 – £44.6m) available for offset against future profits. A deferred tax asset has been recognised in respect of £12.5m (2004 – £17.8m) of such losses. No deferred tax asset has been recognised in respect of the remaining £24.1m (2004 – £26.8m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £5.2m (2004 – £9.3m) that will expire within 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 £107.6m (2004 – £104.7m). 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 there were deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £36.7m (2004 – £38.1m), share-based payments of £1.5m (2004 – £0.8m), accelerated book depreciation of £6.2m (2004 – £4.4m) and other temporary differences of £2.3m (2004 – £0.7m). 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 has £5.0m (2004 – £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 £16.3m (2004 – £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.

Notes to the Financial Statements continued

23. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2005 £m	Group Year ended 2004 £m	Group Year ended 2005 £m	Group Year ended 2004 £m
Amounts payable under finance leases:				
Within one year	0.3	0.4	0.2	0.3
In the second to fifth years inclusive	1.0	1.1	0.7	0.7
After five years	1.1	1.3	0.9	1.1
	2.4	2.8	1.8	2.1
Less: future finance charges	(0.6)	(0.7)	–	–
Present value of lease obligations	1.8	2.1	1.8	2.1
Less: amount due for settlement within 12 months (shown under current liabilities)			(0.2)	(0.3)
Amount due for settlement after 12 months			1.6	1.8

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 73% of the Group's obligations, expires in 2014. For the year ended 31 December 2005, the average effective borrowing rate was 6.2% (2004 – 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 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Non-current liabilities				
Due to subsidiaries	–	–	29.1	46.0
	–	–	29.1	46.0
Current liabilities				
Trade payables	36.5	30.5	0.4	0.4
Due to subsidiaries	–	–	–	0.2
Social security and PAYE	4.7	4.6	0.1	0.1
Value added tax	0.3	0.1	–	–
Foreign currency derivatives	3.3	0.7	–	0.4
Other payables and accruals	24.9	23.7	1.8	1.4
	69.7	59.6	2.3	2.5
	69.7	59.6	31.4	48.5

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

The average credit period taken for trade purchases is 69 days.

25. Issued share capital

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Authorised: 500 million ordinary shares of 10p each	50.0	50.0
Issued and fully paid 309.3 million ordinary shares of 10p each	30.9	30.7

At 31 December 2004, the issued and fully paid up share capital was 307.5 million ordinary shares of 10p each.

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

26. Share premium account

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Balance at 1 January	3.5	3.5
Movement in year	0.3	–
Balance at 31 December	3.8	3.5

27. Equity reserve

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Balance at 1 January	0.2	0.1
Movement in year	0.2	0.1
Balance at 31 December	0.4	0.2

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

Notes to the Financial Statements continued

28. Other reserve

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Balances at 1 January	17.0	17.0	83.8	83.8
Transfer to retained earnings	(17.0)	–	(83.8)	–
Balance at 31 December	–	17.0	–	83.8

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 is no longer written off directly to reserves, the original purpose of the account has been fulfilled and, as the undertakings to the Court have also been fulfilled, it is now considered that the reserve represents realised profits of the Company. For presentation purposes it has therefore been merged with retained earnings.

29. Hedging and translation reserves

a) Group

	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 £m	Total Year ended 2005 £m	Hedging reserve Year ended 2004 £m	Translation reserve Year ended 2004 £m	Total Year ended 2004 £m
Balance at 1 January	–	0.7	0.7	–	–	–
Initial recognition of financial instruments	(0.2)	–	(0.2)	–	–	–
Exchange differences on translation of overseas operations	–	2.2	2.2	–	(0.5)	(0.5)
Change in fair value of hedging derivatives	(1.6)	–	(1.6)	–	–	–
Disposal of subsidiary	–	–	–	–	0.2	0.2
Tax on items taken directly to equity	–	(0.7)	(0.7)	–	1.0	1.0
Balance at 31 December	(1.8)	2.2	0.4	–	0.7	0.7

Under IAS 21 as currently endorsed by the EU, exchange differences that arise on re-translation of intercompany loans that are in a currency different to that of either counterparty are taken to the income statement. An amendment to IAS 21 was issued in December 2005 stating such exchange differences are to be taken to reserves. However, the amendment has not yet been endorsed by the EU and consequently the Group has recognised a gain of £2.0m (2004 – £nil) in the income statement in respect of such loans. It is anticipated that the EU will endorse the amendment to the Standard in 2006 at which time the Group will recognise this £2.0m gain and any such future exchange differences in the translation reserve.

b) Company

	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 £m	Total Year ended 2005 £m	Hedging reserve Year ended 2004 £m	Translation reserve Year ended 2004 £m	Total Year ended 2004 £m
Balance at 1 January	–	(0.3)	(0.3)	–	–	–
Initial recognition of financial instruments	(0.7)	–	(0.7)	–	–	–
Exchange differences on translation	–	(0.1)	(0.1)	–	(0.3)	(0.3)
Increase in fair value of hedging derivatives	0.2	–	0.2	–	–	–
Balance at 31 December	(0.5)	(0.4)	(0.9)	–	(0.3)	(0.3)

30. Retained earnings

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Balance at 1 January	32.9	32.8	(18.1)	(28.3)
Dividends paid	(6.1)	(6.1)	(6.1)	(6.1)
Net profit for the year	14.1	6.5	14.8	14.7
Pension actuarial gain/(loss)	0.2	(0.3)	0.9	1.6
Transfer from other reserves of special reserve	17.0	–	83.8	–
Balance at 31 December	58.1	32.9	75.3	(18.1)

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

31. Own shares

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Balance at 1 January and at 31 December	1.3	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 options schemes (see Note 36).

32. Disposal of subsidiary

In August 2004, the Group's five industrial hose operations, comprising the share capitals of Senior Flexonics Limited, Flexonics SAS, Senior Flexonics B.V., Teknofluor Holding A.B and the trade and assets of the US Hose Division of Senior Operations Inc, were sold.

The net assets at the date of disposal were as follows:

	August 2004 £m
Property, plant and equipment	4.0
Inventories	6.1
Trade and other receivables	6.8
Bank balances and cash	0.7
Deferred tax liability	(0.3)
Trade and other payables	(5.6)
Bank overdraft	(0.2)
Attributable goodwill	1.3
Recycled foreign exchange differences	0.2
	13.0
Loss on disposal	(4.8)
Total consideration	8.2
Satisfied by:	
Cash	5.8
Costs	(0.6)
Deferred consideration	3.0
	8.2
Net cash inflow arising on disposal:	
Cash consideration	5.8
Costs	(0.6)
Cash and cash equivalents disposed of	(0.5)
	4.7

The impact on the Group's results in the prior periods is disclosed in Note 10.

Notes to the Financial Statements continued

33. Acquisitions

The amount of £0.1m (2004 – £0.2m) shown in the Group cash flow statement relates 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 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Operating profit/(loss) from continuing operations	19.6	16.6	(3.0)	(2.1)
Discontinued operations profit before tax	–	0.5	–	–
Adjustments for:				
Depreciation of property, plant and equipment	11.5	12.8	–	0.1
Amortisation of intangible assets	0.5	0.5	–	–
Share options	0.2	0.1	0.2	0.1
Loss/(gain) on disposal of property, plant and equipment	0.2	(0.5)	–	–
Pension payments in excess of service cost	(2.8)	(4.0)	(2.5)	(1.4)
Operating cash flows before movements in working capital	29.2	26.0	(5.3)	(3.3)
Increase in inventories	(9.3)	(4.4)	–	–
Increase in receivables	(8.1)	(3.3)	–	(0.3)
Increase/(decrease) in payables	7.9	3.1	(0.1)	(0.4)
Working capital currency movements	2.6	(1.0)	–	–
Cash generated by operations	22.3	20.4	(5.4)	(4.0)
Income taxes(paid)/received	(0.9)	2.7	–	(1.9)
Interest paid	(4.9)	(5.4)	(5.4)	(6.2)
Net cash from operating activities	16.5	17.7	(10.8)	(12.1)
Cash and cash equivalents comprise:				
Cash	8.5	7.4	7.4	8.5
Bank overdrafts	–	(1.5)	–	–
Total	8.5	5.9	7.4	8.5

Additions to property, plant and equipment during the year amounting to £nil (2004 – £0.4m) were financed by new finance leases.

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 and disposals and transactions with shareholders. It is derived as follows:

	Group Year ended 2005 £m	Group Year ended 2004 £m
Net cash from operating activities	16.5	17.7
Interest received	1.4	2.5
Proceeds on disposal of property, plant and equipment	0.9	0.7
Purchases of property, plant and equipment – cash	(16.3)	(9.8)
– finances leases	–	(0.4)
Purchase of intangible assets	(0.3)	(0.2)
Free cash flow	2.2	10.5

34. Notes to the cash flow statement continued

c) Analysis of net debt
Group

	At 1 January 2005 £m	Cash flow £m	Non cash items £m	Exchange movement £m	At 31 December 2005 £m
Cash	7.4	0.6	–	0.5	8.5
Overdrafts	(1.5)	1.5	–	–	–
Cash and cash equivalents	5.9	2.1	–	0.5	8.5
Debt due within one year	(1.1)	1.0	(0.2)	0.1	(0.2)
Debt due after one year	(52.6)	(7.1)	(0.3)	(6.3)	(66.3)
Finance leases	(2.1)	0.3	–	–	(1.8)
Forward exchange contract losses	(0.7)	0.2	–	(2.1)	(2.6)
Total	(50.6)	(3.5)	(0.5)	(7.8)	(62.4)

Debt due within one year shown above includes short-term bank borrowings of £nil (1 January 2005 – £1.1m).

The forward exchange contract losses shown above are reported as £2.8m (2004 – £0.7m) in current liabilities within trade and other payables and £0.2m (2004 – £nil) in current assets within trade and other receivables.

Non cash items shown above relate to the recognition of financial instruments under IAS 39.

Additions to property, plant and equipment during the period of £nil (2004 – £0.4m) were financed by new finance leases.

35. Operating lease arrangements

The Group and the Company as lessee

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	3.9	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 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Within one year	3.6	3.2	0.2	0.2
In the second to fifth years inclusive	10.9	9.8	0.6	0.6
After five years	15.7	15.0	0.3	0.5
	30.2	28.0	1.1	1.3

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 59% of the Group's commitment, expire in 2018 and 2026, with rentals fixed for 2.5 years and 1 year respectively.

The Company has guaranteed £1.4m (2004 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

Notes to the Financial Statements continued

36. Share-based payments

The Group and Company recognised total expenses of £0.2m (2004 – £0.1m) related to share-based payments, of which £0.2m (2004 – £0.1m) related to equity-settled share-based payments.

(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 2005 and 2004:

	Year ended 2005		Year ended 2004	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	11,023,221	38.92p	12,602,246	39.88p
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	(1,253,196)	35.94p	(1,579,025)	46.57p
Expired	(420,587)	154.35p	–	–
Outstanding at 31 December	9,349,438	34.13p	11,023,221	38.92p
Exercisable at 31 December	–	n/a	–	n/a

The options outstanding at 31 December 2005 had exercise prices ranging from 23.08p – 82.50p per share, and a weighted average remaining contractual life of 2.3 years. The options outstanding at 31 December 2004 had exercise prices ranging from 23.08p – 154.35p per share, and a weighted average remaining contractual life of 3.2 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 237,941 shares were outstanding as at 31 December 2005 and 2004 with an exercise price of 23.08p per share and a remaining contractual life of 3.2 years (2004 – 4.2 years).

(ii) 2005 Long Term Incentive Plan

1,596,241 shares were awarded under the 2005 Long Term Incentive Plan on 20 May 2005. Awards under this plan have a three year vesting period, subject to earnings per share (EPS) and total shareholder return (TSR) performance condition 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 participant.

The estimated fair value for the awards with EPS conditions is 34.00p per share, which is essentially the share price at the date of grant of 40.25p per share less an allowance for dividends foregone over the three year vesting period. The estimated fair value for the awards with TSR conditions is 15.90p per share, reflecting an adjustment of 47% to the fair value of the awards with EPS conditions due to the stringent TSR condition.

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 40.25p, a risk free interest rate of 4.3% per annum, expected volatility of 46.0% per annum, net dividend yield of 5.5% 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.

(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 period as the EPS performance criteria of at least 3% per annum growth above RPI over the four year period had not been achieved.

36. Share-based payments continued

(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 Inland Revenue rules for such savings plans. No such options have been awarded since 6 September 2002. The following options were outstanding as at 31 December 2005 and 2004:

	Year ended 2005		Year ended 2004	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	4,656,280	30.11p	6,446,249	33.83p
Granted	–	–	–	–
Exercised	(1,834,994)	26.38p	(65,159)	25.25p
Forfeited	(370,403)	31.45p	(864,226)	34.97p
Expired	(540,803)	48.21p	(860,584)	53.44p
Outstanding at 31 December	1,910,080	28.31p	4,656,280	30.11p
Exercisable at 31 December	568,033	28.24p	543,015	48.39p

The weighted average share price at the date of exercise for share options exercised during the period was 53.53p (2004 – 39.76p). The options outstanding at 31 December 2005 had exercise prices ranging from 25.25p – 43.50p per share, and a weighted average remaining contractual life of 1.7 years. The options outstanding at 31 December 2004 had exercise prices ranging from 25.25p – 91.50p per share, and a weighted average remaining contractual life of 1.9 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 5 April 2004 and, for the purposes of accounting under IAS 19, this valuation has been rolled forward to 31 December 2005.

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.

The Group has early adopted amendments to disclosures under IAS 19.

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 £2.2m (2004 – £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 as follows:

	31 December 2005				31 December 2004			
	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	(165.7)	(23.2)	(3.7)	(192.6)	(150.9)	(19.8)	(3.5)	(174.2)
Fair value of plan assets	134.4	18.3	–	152.7	117.2	15.6	–	132.8
Plan deficit per balance sheet	(31.3)	(4.9)	(3.7)	(39.9)	(33.7)	(4.2)	(3.5)	(41.4)

Notes to the Financial Statements continued

37. Retirement benefit schemes continued

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

	31 December 2005				31 December 2004			
	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	150.9	19.8	3.5	174.2	146.2	18.8	3.3	168.3
Current service costs	1.2	0.5	0.1	1.8	1.4	0.4	0.1	1.9
Interest cost	8.1	1.2	0.2	9.5	8.0	1.1	0.2	9.3
Contributions by plan participants	0.7	–	–	0.7	0.8	–	–	0.8
Actuarial losses	10.2	0.2	0.4	10.8	0.2	1.4	0.2	1.8
Benefits paid	(5.4)	(0.9)	(0.4)	(6.7)	(5.7)	(0.8)	(0.3)	(6.8)
Past service cost	–	–	–	–	–	0.1	–	0.1
Exchange	–	2.4	(0.1)	2.3	–	(1.2)	–	(1.2)
At 31 December	165.7	23.2	3.7	192.6	150.9	19.8	3.5	174.2

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

	31 December 2005				31 December 2004			
	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	117.2	15.6	–	132.8	110.5	13.6	–	124.1
Expected return on plan assets	7.1	1.3	–	8.4	7.0	1.1	–	8.1
Actuarial gains/(losses)	11.1	(0.1)	–	11.0	1.8	(0.3)	–	1.5
Contributions from employer	3.7	0.5	–	4.2	2.8	2.9	–	5.7
Contributions by plan participants	0.7	–	–	0.7	0.8	–	–	0.8
Benefits paid	(5.4)	(0.9)	–	(6.3)	(5.7)	(0.8)	–	(6.5)
Exchange	–	1.9	–	1.9	–	(0.9)	–	(0.9)
At 31 December	134.4	18.3	–	152.7	117.2	15.6	–	132.8

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

	31 December 2005				31 December 2004			
	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	1.2	0.5	0.1	1.8	1.4	0.4	0.1	1.9
Past service cost	–	–	–	–	–	0.1	–	0.1
Included within operating profit	1.2	0.5	0.1	1.8	1.4	0.5	0.1	2.0
Interest cost	8.1	1.2	0.2	9.5	8.0	1.1	0.2	9.3
Expected return on plan assets	(7.1)	(1.3)	–	(8.4)	(7.0)	(1.1)	–	(8.1)
Included within finance costs	1.0	(0.1)	0.2	1.1	1.0	–	0.2	1.2
	2.2	0.4	0.3	2.9	2.4	0.5	0.3	3.2

Of the current and past service cost for the year, £1.2m (2004 – £1.2m) has been included in cost of sales, and £0.6m (2004 – £0.8m) has been included in administrative expenses.

Actuarial gains of £0.2m (2004 – £0.3m losses) 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 2005 is £0.1m (2004 – £0.3m).

37. Retirement benefit schemes continued

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2005 £m	2004 £m	2005 £m	2004 £m
Fair value of plan assets				
Equities	78.0	66.4	12.6	10.1
Bonds	11.3	20.5	5.0	4.4
Gilts	44.8	29.7	–	–
Properties & other	0.3	0.6	0.7	1.1
Total	134.4	117.2	18.3	15.6
Actual return on plan assets	18.2	8.8	1.2	0.8
Major Assumptions (per annum %)				
Inflation	2.6%	2.6%	2.5%	2.5%
Increase in salaries	3.6%	3.6%	4.0%	4.0%
Increase in pensions	2.6%	2.6%	0.0%	0.0%
Increase in deferred pensions	2.6%	2.6%	0.0%	0.0%
Rate used to discount plan liabilities	5.0%	5.4%	5.9%	6.0%
Expected return on assets	5.6%	6.1%	8.0%	8.0%
Life expectancy of a male aged 65 in 2005	18.6	18.6	16.7	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 2006 to the UK Plan is £4.2m (£3.0m of which is additional to normal contributions to fund the past service deficit) and to the US Funded Plans is £1.0m (all of which is discretionary).

g) Other Post-Retirement Liabilities

This balance comprises an unfunded German pension plan £2.4m (2004 – £2.2m), unfunded closed pension and post-retirement healthcare plans in the US £0.5m (2004 – £0.4m) and provision for post-retirement payments in France of £0.8m (2004 – £0.9m).

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 4.0%, 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.

Notes to the Financial Statements continued

37. Retirement benefit schemes continued

h) History of experience gains and losses

	2005 £m	2004 £m
UK plan funded		
Present value of defined benefit obligations	(165.7)	(150.9)
Fair value of plan assets	134.4	117.2
Plan deficit	(31.3)	(33.7)
Experience gain on plan liabilities	0.3	6.1
Experience gain on plan assets	11.1	1.8
US plan funded		
Present value of defined benefit obligations	(23.2)	(19.8)
Fair value of plan assets	18.3	15.6
Plan deficit	(4.9)	(4.2)
Experience loss on plan liabilities	(0.1)	(0.8)
Experience loss on plan assets	(0.1)	(0.3)
Unfunded plans		
Present value of defined benefit obligations	(3.7)	(3.5)
Fair value of plan assets	–	–
Plan deficit	(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. Events after the balance sheet date

On 27 January 2006, the Group acquired Sterling Machine Co., Inc., a manufacturer of precision machined parts for the aerospace industry, based in Enfield, Connecticut, USA. The cash consideration, including assumed net debt, was £21.4m including costs of which £1.2m related to the purchase of property. The acquisition was funded in part by a placing of 5m ordinary shares generating net proceeds of £8.8m, the balance being funded by the Group's existing revolving credit facilities.

39. Explanation of transition to IFRS

This is the first year that the Group and the Company have presented their financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition was therefore 1 January 2004.

a) Reconciliation of equity at 1 January 2004 (date of transition to IFRS)

	Notes	Group UK GAAP £m	Group adjustment £m	Group IFRS £m	Company UK GAAP £m	Company adjustment £m	Company IFRS £m
Non-current assets							
Goodwill		76.7	–	76.7	–	–	–
Intangible assets	(i)	–	1.6	1.6	–	–	–
Investments in subsidiaries		–	–	–	30.3	–	30.3
Property, plant and equipment	(i)	79.1	(1.6)	77.5	0.2	–	0.2
Deferred tax assets		0.1	–	0.1	–	–	–
Financial assets		1.0	–	1.0	396.5	–	396.5
Total non-current assets		156.9	–	156.9	427.0	–	427.0
Current assets							
Inventories		40.1	–	40.1	–	–	–
Construction contracts		4.9	–	4.9	–	–	–
Trade and other receivables		62.0	–	62.0	1.4	–	1.4
Cash and cash equivalents		11.6	–	11.6	1.5	–	1.5
Total current assets		118.6	–	118.6	2.9	–	2.9
Total assets		275.5	–	275.5	429.9	–	429.9
Liabilities							
Trade and other payables	(ii)	65.6	(4.1)	61.5	226.5	(4.1)	222.4
Current tax liabilities		6.0	–	6.0	2.1	–	2.1
Obligations under finance leases		2.0	–	2.0	–	–	–
Interest bearing loans		77.1	–	77.1	81.2	–	81.2
Retirement benefit obligations	(iii)	44.0	0.2	44.2	–	35.7	35.7
Deferred tax liabilities	(iv)	0.8	0.6	1.4	–	–	–
Others		0.5	–	0.5	–	–	–
Total liabilities		196.0	(3.3)	192.7	309.8	31.6	341.4
Total assets less total liabilities		79.5	3.3	82.8	120.1	(31.6)	88.5
Equity							
Issued share capital		30.7	–	30.7	30.7	–	30.7
Share premium account		3.5	–	3.5	3.5	–	3.5
Equity reserve	(v)	–	0.1	0.1	–	0.1	0.1
Other reserve	(vi)	17.7	(0.7)	17.0	83.8	–	83.8
Hedging and translation reserve	(vi)	–	–	–	–	–	–
Retained earnings	(vi)	28.9	3.9	32.8	3.4	(31.7)	(28.3)
Own shares		(1.3)	–	(1.3)	(1.3)	–	(1.3)
Total equity		79.5	3.3	82.8	120.1	(31.6)	88.5

Notes to the Financial Statements continued

39. Explanation of transition to IFRS continued

Notes to the reconciliation of equity at 1 January 2004

(i) Intangible assets

IFRS requires computer software to be recorded as an intangible asset and amortised over its useful life. Accordingly, £1.6m of net book value has been transferred from within plant and equipment to intangible assets.

(ii) Dividends

Under UK GAAP, any dividend proposed in respect of a year is recognised in the profit and loss account and provided for in the closing balance sheet. Under IFRS, a declared dividend does not constitute an adjusting post balance sheet event. Hence, the provision for the final dividend of £4.1m at the end of 2003 under UK GAAP has been reversed under IFRS.

(iii) Retirement benefit obligations

The Group implemented FRS 17 under UK GAAP. IFRS requires that invested assets be valued at bid price, rather than at mid-price as required under UK GAAP, by FRS 17. This revaluation causes the assets held by the funded plans to reduce in value by £0.2m, and consequently the net balance sheet pension deficit to increase by the same amount. Under FRS 17 the pension deficits were held on consolidation rather than being attributed to any specific company. IFRS requires that deficits are attributed and hence the UK plan deficit is recorded in the Company, which is the sponsoring employer to the plan. The £35.7m liability is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets.

(iv) Deferred tax

IFRS changes the focus of deferred tax from the income statement to the balance sheet and to the differences between the book value and tax base of assets and liabilities. Under IFRS, deferred tax is provided on all temporary differences, albeit that deferred tax assets are only recognised to the extent that they may be regarded as recoverable. The Group has recognised a net increase in deferred tax liabilities of £0.6m relating to the taxation of deferred foreign exchange gains arising in overseas territories.

(v) Share-based payments

Under IFRS there is an aggregate provision of £nil in respect of cash-settled share option plans, and a provision of £0.1m in respect of equity-settled share option plans.

(vi) Share capital and reserves

In line with the available exemptions in IFRS 1, the cumulative translation differences were set to zero at the transition date. Also, as allowed under IFRS 1 exemptions, the existing UK GAAP value of property, plant and equipment was taken as the deemed cost for IFRS. Hence, the revaluation reserve has been reset to zero, with the previous balance of £0.7m having been transferred to the retained earnings reserve.

b) Reconciliation of equity at 31 December 2004 (date of last UK GAAP financial statements)

	Notes	Group UK GAAP £m	Group adjustment £m	Group IFRS £m	Company UK GAAP £m	Company adjustment £m	Company IFRS £m
Non-current assets							
Goodwill	(i)	68.0	5.1	73.1	–	–	–
Intangible assets	(ii)	–	1.2	1.2	–	–	–
Property, plant and equipment	(ii)	70.0	(1.2)	68.8	0.1	–	0.1
Investments in subsidiaries		–	–	–	30.3	–	30.3
Deferred tax assets		0.1	–	0.1	–	–	–
Financial assets		3.8	–	3.8	191.0	–	191.0
Total non-current assets		141.9	5.1	147.0	221.4	–	221.4
Current assets							
Inventories		38.4	–	38.4	–	–	–
Construction contracts		4.5	–	4.5	–	–	–
Trade and other receivables		55.5	–	55.5	3.1	–	3.1
Cash and cash equivalents		7.4	–	7.4	8.5	–	8.5
Total current assets		105.8	–	105.8	11.6	–	11.6
Total assets		247.7	5.1	252.8	233.0	–	233.0
Liabilities							
Trade and other payables	(iii)	63.7	(4.1)	59.6	52.2	(4.1)	48.1
Current tax liabilities		9.5	–	9.5	0.2	–	0.2
Obligations under finance leases		2.1	–	2.1	–	–	–
Interest bearing loans		55.2	–	55.2	52.5	–	52.5
Retirement benefit obligations	(iv)	41.2	0.2	41.4	–	33.7	33.7
Deferred tax liabilities	(v)	0.4	0.5	0.9	–	–	–
Others	(vi)	0.3	0.1	0.4	–	–	–
Total liabilities		172.4	(3.3)	169.1	104.9	29.6	134.5
Total assets less total liabilities		75.3	8.4	83.7	128.1	(29.6)	98.5

39. Explanation of transition to IFRS continued

	Notes	Group UK GAAP £m	Group adjustment £m	Group IFRS £m	Company UK GAAP £m	Company adjustment £m	Company IFRS £m
Equity							
Issued share capital		30.7	–	30.7	30.7	–	30.7
Share premium account		3.5	–	3.5	3.5	–	3.5
Equity reserve	(vii)	–	0.2	0.2	–	0.2	0.2
Other reserve	(viii)	17.7	(0.7)	17.0	83.8	–	83.8
Hedging and translation reserve	(viii)	–	0.7	0.7	–	(0.3)	(0.3)
Retained earnings	(viii)	24.7	8.2	32.9	11.4	(29.5)	(18.1)
Own shares		(1.3)	–	(1.3)	(1.3)	–	(1.3)
Total equity		75.3	8.4	83.7	128.1	(29.6)	98.5

Notes to the reconciliation of equity at 31 December 2004

(i) Goodwill amortisation

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRS, goodwill is held at its carrying value (the UK GAAP net book value as at 31 December 2003) and subjected to annual impairment testing. Hence the goodwill amortisation charge of £5.1m has been reversed, leading to an equivalent increase in the goodwill value on the balance sheet at the end of 2004 under IFRS.

(ii) Intangible assets

IFRS requires computer software to be recorded as an intangible asset and amortised over its useful life. Accordingly, £1.2m of net book value has been transferred from within plant and equipment to intangible assets.

(iii) Dividends

Under UK GAAP, any dividend proposed in respect of a year is recognised in the profit and loss account and provided for in the closing balance sheet. Under IFRS, a declared dividend does not constitute an adjusting post balance sheet event. Hence, the provision for the final dividend of £4.1m at the end of 2004 under UK GAAP has been reversed under IFRS.

(iv) Retirement benefit obligations

The Group implemented FRS 17 under UK GAAP. IFRS requires that invested assets be valued at bid price, rather than at mid-price as required under UK GAAP, by FRS 17. This revaluation causes the assets held by the funded plans to reduce in value by £0.2m, and consequently the net balance sheet pension deficit to increase by the same amount. Under FRS 17 the pension deficits were held on consolidation rather than being attributed to any specific company. IFRS requires that deficits are attributed and hence the UK plan deficit is recorded in the Company, which is the sponsoring employer to the plan. The £33.7m liability is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets.

(v) Deferred tax

IFRS changes the focus of deferred tax from the income statement to the balance sheet and to the differences between the book value and tax base of assets and liabilities. Under IFRS, deferred tax is provided on all temporary differences, albeit that deferred tax assets are only recognised to the extent that they may be regarded as recoverable. The Group has recognised a net increase in deferred tax liabilities of £0.5m relating to the taxation of deferred foreign exchange gains arising in overseas territories.

(vi) Liabilities

IFRS requires that the charge to the income statement for operating leases is adjusted to take account of fixed inflationary elements over the period of a lease instead of when the payment is made. An additional £0.1m charge has been made in 2004, resulting in an additional accrual of the same amount.

(vii) Share-based payments

Under IFRS, there is an aggregate provision of £nil in respect of cash-settled share option plans, and a provision of £0.2m in respect of equity-settled share option plans.

(viii) Share capital and reserves

As stated above in part a) of Note 39, the cumulative translation differences were set to zero at the transition date. An amount of £0.7m has arisen in the year. Also, as stated in part a) of Note 39 above, the existing UK GAAP value of property, plant and equipment was taken as the deemed cost for IFRS. Hence, the revaluation reserve has been reset to zero, with the previous balance of £0.7m having been transferred to the retained earnings reserve.

The Group and Company adjustment to retained earnings reserve is as shown below:

	Group £m	Company £m
Opening adjustments	3.9	(31.7)
Profit for the period	13.4	0.3
Goodwill on Hose disposal	(8.7)	–
Pension actuarial gain	–	1.6
Transfer from hedging and translation reserve	(0.4)	0.3
	8.2	(29.5)

Notes to the Financial Statements continued

39. Explanation of transition to IFRS continued

c) Reconciliation of income statement for the year ended 31 December 2004

	Notes	Group UK GAAP reformatted 2004 £m	Group adjustment 2004 £m	Group IFRS 2004 £m	Company UK GAAP reformatted 2004 £m	Company adjustment 2004 £m	Company IFRS 2004 £m
Continuing operations							
Revenue		306.8	–	306.8	–	–	–
Trading profit/(loss)	(i), (ii), (v)	16.9	(0.3)	16.6	(3.4)	1.3	(2.1)
Amortisation of goodwill	(iii)	(5.1)	5.1	–	–	–	–
Operating profit/(loss)		11.8	4.8	16.6	(3.4)	1.3	(2.1)
Dividends receivable		–	–	–	14.2	–	14.2
Interest receivable	(iv)	2.2	(0.1)	2.1	10.0	(0.1)	9.9
Interest payable and similar charges	(iv)	(5.1)	0.1	(5.0)	(6.2)	0.1	(6.1)
Finance cost of net pension liability	(v)	(1.2)	–	(1.2)	–	(1.0)	(1.0)
Profit before taxation		7.7	4.8	12.5	14.6	0.3	14.9
Taxation	(vi)	(1.7)	0.1	(1.6)	(0.2)	–	(0.2)
Profit for the period from continuing operations		6.0	4.9	10.9	14.4	0.3	14.7
Discontinued operations							
Profit from operations before taxation	(i)	0.4	0.1	0.5			
Taxation	(vi)	–	(0.1)	(0.1)			
Loss on disposal	(vii)	(13.3)	8.5	(4.8)			
Loss for the period from discontinued operations		(12.9)	8.5	(4.4)			
Profit for the period		(6.9)	13.4	6.5			

Notes to the reconciliation of income statement for the year ended 31 December 2004

(i) Trading profit

Trading profit of continuing businesses for the Group is reduced by £0.1m, which is offset by the equivalent improvement in discontinued businesses. This relates to £0.1m of central cost previously allocated to discontinued operations. Central costs will now be disclosed separately within the segmental analysis, rather than being allocated to segments as occurred previously under UK GAAP. Trading profit for the Group is further reduced by £0.1m by the additional operating lease charge, as stated in Note 39 b)(vi).

(ii) Share-based payments

Share-based payment arrangements exist in relation to share and share option schemes offered to senior management. Share options were issued in March 2003 and it is considered that these may ultimately vest. No cost was included in UK GAAP accounts as the intrinsic value was nil. A cost of £0.1m has been included in the IFRS financial statements for the Group and Company. This expense has been based on the fair value at the date of the award, as calculated according to the Black-Scholes pricing model.

(iii) Goodwill amortisation

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRS, goodwill is held at its carrying value (the UK GAAP net book value as at 31 December 2003) and subjected to annual impairment testing. Hence the goodwill amortisation charge of £5.1m for 2004 under UK GAAP has been reversed for IFRS purposes.

(iv) Interest receivable and interest payable

A benefit of £0.1m arising from interest rate swap agreements was previously shown as interest receivable. This has now been offset against the related interest payable amount.

(v) Retirement benefit obligations

Under FRS 17, as the Company did not record the deficit in its balance sheet, its profit and loss charge reflected only the cash contributions to the UK plan (£1.6m) and not the net finance cost. Under IFRS the operating cost includes only the service cost (£0.2m) and the net finance cost (£1.0m).

(vi) Tax charge

The tax charge has been analysed between that attributable to continuing operations and that attributable to discontinued operations.

39. Explanation of transition to IFRS continued

(vii) Loss on disposal of discontinued operations

Under UK GAAP, goodwill arising on acquisitions prior to 1 January 1998 was written off directly to equity. When such a company was subsequently disposed, the goodwill was "recycled" through the profit and loss account as part of the profit or loss on disposal. There is no such requirement under IFRS. Hence, the UK GAAP loss is reduced by £8.7m. Additionally, IFRS requires cumulative translation differences to be recognised in the disposal transaction. These amount to £0.2m, making the aggregate adjustment £8.5m.

d) Explanation of material adjustments to the cash flow statements for 2004

Income taxes received by the Group of £2.7m and interest payments of £5.4m are classified as part of operating cashflows under IFRS, but were included in separate categories under UK GAAP. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

40. Related party transactions

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

	Year ended 2005 £m	Year ended 2004 £m
Transactions in year		
Management charges	0.2	0.7
Dividends receivable	14.3	14.2
Interest receivable	8.3	9.6
Interest payable	(0.6)	(1.5)
Balances at year-end		
Investments in subsidiaries	92.0	30.3
Amounts due from subsidiaries	134.5	192.9
Amounts due to subsidiaries	29.1	46.2

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 10 to 15.