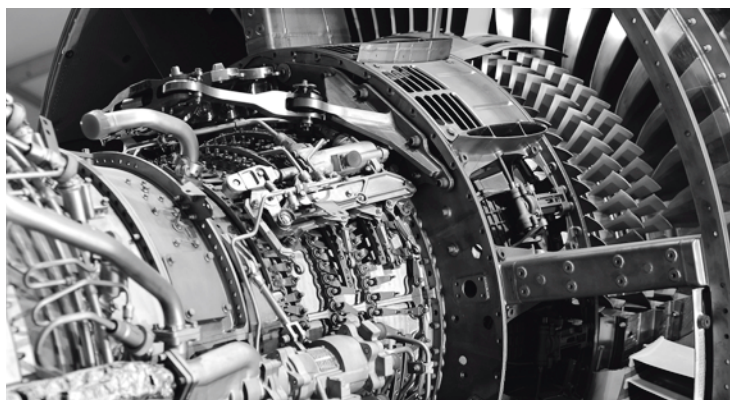
Senior plc
Annual Report & Accounts 2007

Senior plc Group at a glance

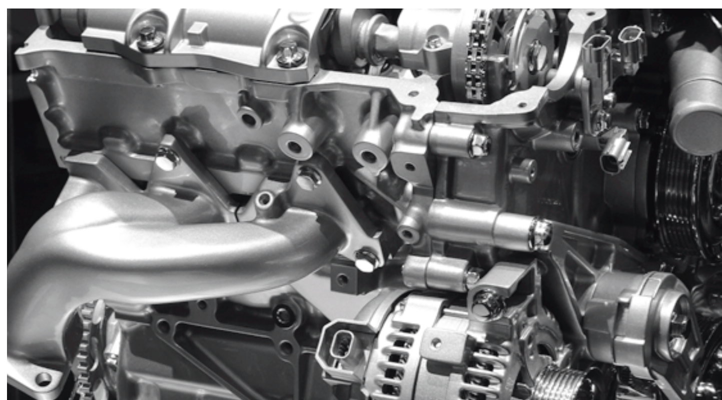
Senior is an international manufacturing group with operations in 11 countries.
Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, diesel engine, exhaust system and energy markets.



Aerospace
52% of Group revenue

Engine structures and mountings, metallic high-pressure ducting, air-frame and other structural parts, composite low-pressure ducting, and helicopter machined parts.

For many years, Senior Aerospace has provided engineered solutions for the rigorous challenges of bleed air duct systems, precision sheet metal fabrications, bellows, metal hose assemblies, and other pressure carrying components that are flying in virtually all military and commercial aircraft and numerous piston and jet engines. More recently the Division has added, through acquisition, the capabilities of machining air-frame structural parts and precision components for rotary applications.



Flexonics
48% of Group revenue

Flexible exhaust connectors, cooling and emission control components and diesel fuel distribution pipework. Metallic and fabric expansion joints, flexible metallic hoses, and ventilation ducting for industrial applications.

As one of the largest manufacturers of flexible automotive components in the world, with a major focus on diesel engines, Senior Flexonics has extensive global manufacturing and distribution facilities.

Senior's diesel technologies support a growing number of major North American and European automotive and heavy truck manufacturers in meeting stringent emissions standards.

Senior is a leading supplier of expansion joints, control bellows and hoses to the worldwide petrochemical, power generation and chemical processing industries. Increasingly, its products are being used in renewable energy sources such as solar and nuclear.

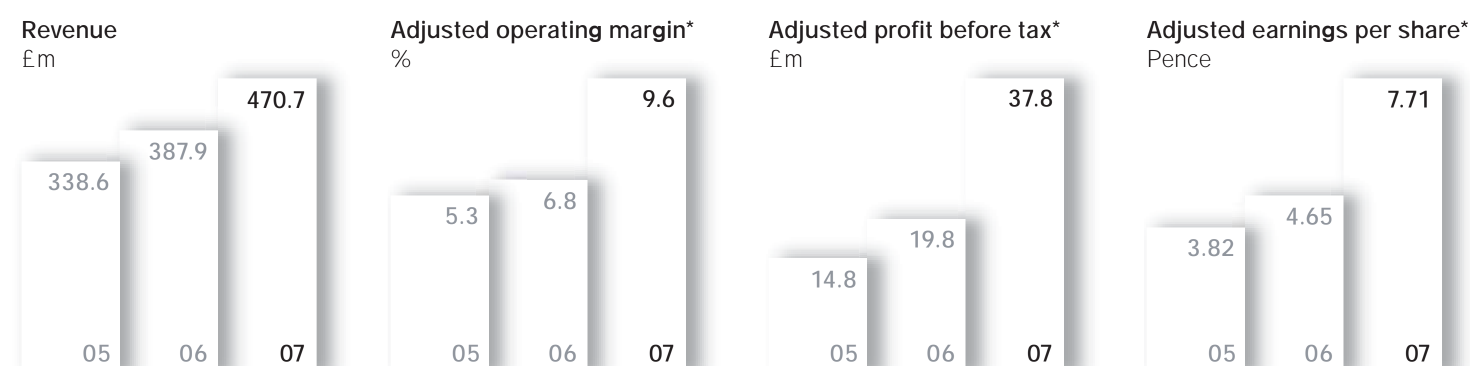
Financial highlights

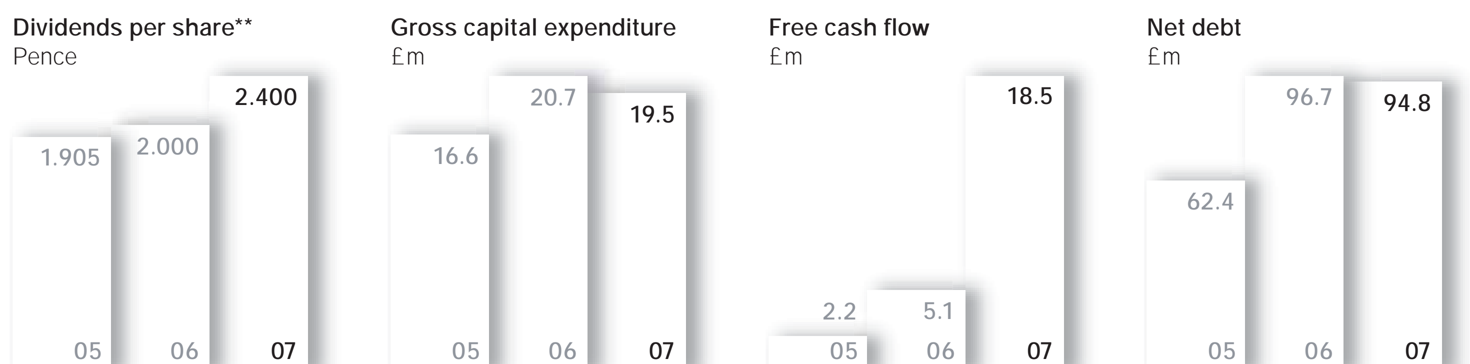
Revenue £470.7m
+21%

Basic earnings per share 7.17p
+65%

Operating profit £41.5m
+69%

Dividends per share** 2.4p
+20%





*Adjusted profit before tax and adjusted earnings per share arise before a £0.7m loss on sale of fixed assets (2006 – £0.4m; 2005 – £0.2m), a £3.3m charge for amortisation of intangible assets acquired on acquisitions (2006 – £1.3m; 2005 – £nil) and the release of a provision set up on a previous acquisition of £0.5m (2006 – £nil; 2005 – £nil). Adjusted earnings per share excludes the tax impact of these items.
**Paid and proposed.

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Chairman's statement

Martin Clark, Chairman

"The Group has delivered an outstanding set of results with adjusted profit before tax 91% ahead of the prior year."

The Group has delivered an outstanding set of results, with adjusted profit before tax 91% ahead of the prior year and free cash flow 263% better. AMT and Sterling Machine, the two North American aerospace businesses which were acquired during 2006, both delivered very strong performances in 2007. The new heavy duty diesel products for the North American market went into full production in the year and made an increasing contribution as the year progressed. Demand in the energy sector continued at an exceptional level. Two further aerospace companies, Absolute Manufacturing, Inc. ("Absolute") and Capo Industries, Inc. ("Capo") joined the Group in December 2007 and January 2008, respectively. This backdrop, together with the record order books of the civil aircraft manufacturers, means prospects for the Group are very encouraging and, consequently, the Board is pleased to recommend a 20% increase in the full year dividend.

Financial Results

Significant progress was made in almost all aspects of performance during 2007 with revenue, profit and cash flow all showing very healthy increases over 2006.

Group revenue increased by 21% to £470.7m (2006 – £387.9m) and operating profit increased by 69% to £41.5m (2006 – £24.5m), largely due to the increased build rates for civil aircraft, strong energy markets, the new heavy duty diesel products going into production, and full year contributions from AMT and Sterling Machine. Group revenue increased by 18% and adjusted operating profit increased by 57%, on a constant currency basis and before the benefit of acquisitions.

Adjusted profit before tax, the measure which the Board believes best reflects the true underlying performance of the business, increased by 91% to £37.8m (2006 – £19.8m). Adjusted profit before tax is before the loss on sale of fixed assets of £0.7m (2006 – £0.4m), a £3.3m (2006 – £1.3m) charge for the amortisation of intangible assets acquired on acquisitions and the benefit of the release of a provision of £0.5m (2006 – £nil) originally set up on a previous acquisition.

Adjusted earnings per share increased by 66% to 7.71p (2006 – 4.65p), after an increased underlying tax charge of 20.6% (2006 – 17.7%).

Year-end net debt reduced to £94.8m (2006 – £96.7m), despite the acquisition of Absolute, for £7.0m, and the ongoing investment in increased manufacturing capacity and capability across the Group.

Dividend

In 2006, the Board sanctioned the first dividend increase for seven years and signalled its intention to adopt a progressive dividend policy. Given the excellent results in 2007 and encouraging future prospects, the Board is recommending a further increase in the dividend. It is proposed that the final dividend for 2007 be 1.70 pence per share (2006 – 1.381p), an increase of 23%. When added to the 0.70p interim dividend, this will bring the full year dividend to 2.40p, an increase of 20% over the 2.00p for 2006. The final dividend, if approved, will be paid on 30 May 2008 to shareholders on the register at close of business on 2 May 2008.

Acquisitions

The key criteria considered by Senior for any acquisition are: compatible products in familiar markets, healthily profitable with good growth prospects, a strong management team and Group earnings enhancing prior to any synergistic benefits. In 2006, two companies, both meeting these criteria, joined the Group. Sterling Machine, a key supplier to Sikorsky, grew full year revenue by 20% in 2007. AMT was purchased towards the end of 2006 and grew full year revenue by 29% in 2007. AMT is a key supplier of machined parts for Boeing civil aircraft.

In early December 2007, Absolute was purchased for $14.4m from its private owners. Absolute specialises in high tolerance, high surface finish parts for aircraft tyre pressure monitoring systems, flap and door movement sensor housings, and laser guidance housings both for commercial applications and night vision defence industry equipment. The company is a machine shop working in aluminium, titanium and a variety of stainless steels and is located in Arlington, Washington State, USA. Absolute is a well invested and fast growing business and is managed by Andy Lubresky, one of its founders and former owners.

At the end of January 2008, Capo was purchased for $85.0m from its private owners, David and Karen Feltch. David continues to head the business now that it is part of Senior. The company's high performance components are used primarily in auxiliary power units for large civil airliners and for propulsion engines for business jets. Located near Los Angeles, California, USA, Capo is a well invested machine shop specialising in the 5-axis machining of titanium and steel alloys. Prospects for the business are very encouraging.

I welcome their respective managements and employees to the Group.

Trading

The Group is organised into two divisions – Aerospace, now with 14 operations, and Flexonics with 11. Both Divisions are focused on manufacturing components and systems for original equipment manufacturers. There is little aftermarket content and the Group's operations generally deliver to the required production schedules of its customers. Products are normally single sourced and engineered for specific applications.

Aerospace

The market for civil aircraft continues to be very strong both for large commercial airliners (43% of divisional sales) and business jets (9%). Regional jets (11%) also began to strengthen during 2007. 2007 was an outstanding year for order intake of large civil aircraft. Airbus and Boeing together booked net orders for 2,754 new aircraft (2006 – 1,834), delivered 894 (2006 – 832) and ended the year

with an order book of 6,848 aircraft (31 December 2006 – 4,988). At current build rates this equates to a seven-and-a-half year order book. Overall, the military aerospace market, representing 22% of divisional sales, was stable with increasing shipments to Sikorsky offset by a reduction in the level of US Government spares.

The Aerospace Division has exposure to a wide range of customers in the industry. It has substantial work on the Airbus A380 (now in service) and whilst demand in 2007 was low, due to its well documented production delays, schedules in 2008 are now increasing. The new Boeing 787 (the "Dreamliner") has also experienced delays. Whilst it is not due into service until 2009, the aircraft is very much in demand, with Boeing having booked 817 orders for the Dreamliner by the end of 2007. This aircraft represents the largest ever individual programme for Senior Aerospace, so substantial growth can be anticipated as its production rate gathers momentum during 2008 and beyond.

Demand from customers almost universally increased during 2007. Capital expenditure of £10.9m (2006 – £7.6m) was incurred to increase capacity and capability and to bring new products into production. Sterling Machine and AMT both made outstanding contributions in their first full year in the Group. Absolute made an inaugural contribution in the last month of the year and we expect it, and Capo, to contribute positively to the Division's performance throughout 2008.

The result of this strong activity was an increase of 25% in the Aerospace Division's sales to £246.2m (2006 – £197.0m) and an increase in adjusted operating profit of 74% to £33.4m (2006 – £19.2m). The divisional operating margin increased by nearly four full percentage points to 13.6% (2006 – 9.7%).

Flexonics

The markets serviced by this Division were generally healthy during 2007. The energy sector was particularly buoyant and the Group's world leading position in the design, manufacture and installation of expansion joints, as used in most process plant pipeline systems, proved to be highly beneficial. Currently at a modest level, sales into the renewable energy market increased markedly, particularly for solar farms.

The new heavy duty diesel products, developed over the previous three years, went into full production in 2007 as tighter emission legislation came into effect in the USA. Although the level of demand for heavy trucks was subdued, this new market is incremental business for Senior and proved to be an increasingly valuable contributor as the year progressed. Having put the new diesel products into production in late 2006, the Division's capital expenditure reduced to £8.5m (2006 – £13.0m) but remained above depreciation. The new diesel components provide a solid platform for further generations of products and market penetration in the future. The passenger car sector was slightly better than expected for Senior, despite flat markets in Europe and USA.

The Flexonics Division, without making any acquisitions during the year, increased annual sales by 17% to £225.0m (2006 – £191.5m) and increased adjusted operating profit by 47% to £17.4m (2006 – £11.8m). The operating margin for the Division increased to 7.7% (2006 – 6.2%). The contributing factors to this organic growth largely remain in place as we enter 2008.

Employees and the Board

As well as warmly welcoming all new employees to Senior, I would like to thank everyone for another year of unstinting effort, commitment, energy and initiative. Without the endeavours of its employees, the Group would not have made such a dramatic step forward in 2007.

It is important that Senior has the right people in the right roles, especially given the lean nature of its organisation and its semi-autonomous subsidiaries. This is particularly key in executive Board positions, so I am pleased to congratulate Mark Rollins on his appointment as the new Group Chief Executive, effective 17 March 2008. Mark has been an exceptional Executive Director for the past eight years and I look forward to working alongside him in the future. Recruitment of his replacement, as Group Finance Director, is making good progress.

Finally, I would like to extend sincere thanks to Graham Menzies, who retires from Senior at the forthcoming AGM after eight successful years as its Group Chief Executive. Throughout this period, Graham has provided determined, skilful and energetic leadership, transforming the Group into a much better business than the one he inherited. He leaves with the Group in terrific shape, and the Board and his colleagues wish him a long, healthy and happy retirement.

Outlook

The commercial aerospace market (63% of the Senior Aerospace Division's sales) goes from strength to strength with Boeing and Airbus increasing the rate of production of their aircraft, on the back of record order books. The military aerospace market remains healthy. Absolute and Capo are now making their first contributions to Group profitability.

The industrial markets of the Flexonics Division, such as power generation and oil and gas, have remained strong going into 2008 and prospects are good for another excellent year. The heavy duty diesel products continue to improve their contribution with our customers anticipating volume growth towards the end of the year.

2008 can, therefore, be expected to deliver further meaningful growth. Trading in the first two months of 2008 has been ahead of the Board's expectations.

Martin Clark

Board of Directors

Board of Directors, shown left to right

Martin Clark Non-Executive Chairman, Age 62. Joined the Board in 2001 and is also a non-executive director of Clarkson plc; he was previously non-executive director of BPB plc, Blick plc and ICM Computer Group PLC.

Graham Menzies Group Chief Executive, Age 60. Joined as Group Chief Executive in 2000, previously having been with Adwest Automotive plc for over 14 years, latterly as Chief Executive. He is a non-executive director of Heywood Williams Group PLC. He is Chairman of the Health, Safety & Environment Committee. Having reached his normal retirement date he intends to retire from the Board at the conclusion of the 2008 Annual General Meeting.

Mark Rollins Group Finance Director, Age 45. A graduate engineer and Chartered Accountant, he joined the Group in 1998 from Morgan Crucible plc, and became Group Finance Director in 2000, when he joined the Board. He is Chairman of the Group's Treasury Committee. He is a non-executive director of WSP Group plc. He is to become Group Chief Executive in March 2008.

Michael Sheppard Executive Director, Age 49. Joined the Board in September 2002. A US citizen, he has worked for Senior companies for more than twenty years, and is the Chief Executive of the Flexonics Division.

David Best Non-Executive Director, Age 57. Joined the Board on 1 May 2007. A Chartered Accountant, he is a non-executive director of St Ives plc and Plasmon plc. He is Chairman of the Audit Committee and of the Trustee Board of the Senior plc Pension Plan. The Board considers D G Best to be independent.

Ian Much Non-Executive Director, Age 63. Joined the Board in December 2005 and is also a non-executive director of Chemring Group plc and Simplyhealth Group. He was formerly Chief Executive of De La Rue plc. He is Chairman of the Remuneration Committee. The Board considers I F R Much to be independent.

Main Board
The main Board met a total of nine times during the period 1 January 2007 to 31 December 2007. There was full attendance at every Board Meeting during the year.

Audit Committee
David Best (Chairman) and Ian Much. Met three times during the year. Martin Clark retired as Chairman of the Committee in April 2007.

Remuneration Committee
Ian Much (Chairman), Martin Clark and David Best. Met three times during the year.

Nominations Committee
Martin Clark (Chairman), David Best and Ian Much. Met four times during the year.

Health, Safety & Environment Committee
Graham Menzies (Chairman), Mike Sheppard and Ron Case (CEO Aerospace Division). Met four times during the year.

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

Report of the Directors

The Directors present their report and supplementary reports, together with the audited financial statements for the year ended 31 December 2007.

Activities and Business Review

Senior plc is a holding company. Its Principal Group Undertakings are shown on page 71 and comments on each Division's results and activities in 2007 are included in the Operating and Financial Review ("OFR") on pages 8 to 18. The OFR includes details of the principal risks and uncertainties facing the Group, expected future developments in the Group's business, an indication of its activities in the field of research and development, and details of the key performance indicators that management uses.

Acquisitions and Disposals

There were no disposals during the year. Absolute Manufacturing, Inc. was acquired on 10 December 2007, and Capo Industries, Inc. on 25 January 2008. Details of the transactions are set out in Note 32 to the Financial Statements on pages 60 to 61.

Results and Dividends

The results for the year are shown in the Consolidated Income Statement on page 34.

An interim dividend of 0.700p per share (2006 – 0.619p) has already been paid and the Directors recommend a final dividend of 1.700p per share (2006 – 1.381p). The final dividend, if approved, will be payable on 30 May 2008 to shareholders on the register at the close of business on 2 May 2008. This would bring the total dividend for the year to 2.400p per share (2006 – 2.000p).

Share Capital

The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to vote at general meetings of the Company. Changes in the Company's share capital during 2007 were:

Shares in issue at 1 January 2007	389,939,582
Shares allotted in respect of Senior plc Savings Related Share Option Plan	866,018
Shares in issue at 31 December 2007	390,805,600

Further share capital details are given in Note 25 to the Financial Statements on page 58.

A further 196,098 shares were allotted under the Senior plc Savings Related Share Option Plan in January and February 2008. Details of employee share plans are set out on pages 64 to 65.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. Shares held by the Senior plc Employee Benefit Trust typically vote in favour of shareholder resolutions proposed by the Board.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Matters Reserved for the PLC Board, which may be found on the Company's website and in the Corporate Governance Report on page 20.

Each year, the Board seeks shareholder approval to renew the Board's authority to allot relevant securities. There are also a number of other agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid. G R Menzies' service agreement (the terms of which remained unchanged since his appointment) provides that in the event of a change of control of the Company, he has the option to resign within three months of such change of control without a duty to mitigate.

Financial Instruments

Note 21 to the Financial Statements on pages 54 to 55 contains disclosures on Financial Instruments.

Directors

Details on the Directors who served throughout the year can be found on page 4. The Directors' interests in the shares of the Company are included in the Remuneration Report on pages 24 to 29. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings.

J R Kerr-Muir retired from the Board on 1 May 2007. Upon J R Kerr-Muir's retirement, M Clark became non-executive Chairman and I F R Much was appointed the Senior Independent Director.

D G Best was appointed to the Board on 1 May 2007. He retires in accordance with Article 82 and, being eligible, offers himself for election. D G Best has no service agreement with the Company.

M Rollins and M Sheppard retire by rotation and, being eligible, offer themselves for re-election at the AGM; both Directors have service agreements subject to 12 months' notice by either party.

Research and Development
In 2007, the Group incurred £8.2m (2006 – £8.5m) on research and development, before recoveries from customers of £0.9m (2006 – £0.8m). The majority of the Group's efforts are focused on product development and improved manufacturing techniques.

Charitable and Political Donations
During the year, the Group made charitable donations amounting to £50,000 (2006 – £35,000), principally to local charities serving the communities in which the Group operates. No political donations were made.

Disabled Employees and Employee Consultation
The Group's policies in respect of disabled employees and job applicants, and employee consultation are set out in the Corporate Social Responsibility Report on pages 30 to 32.

Policy on Payment of Creditors
The Group's policy is to set the terms of payment with its suppliers when agreeing the terms of each transaction and to seek to adhere to those terms. Based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by suppliers, the number of days outstanding at the year-end was 30 days (2006 – 15 days). The typical payment terms adhered to are estimated to be on average about 30 days for the Company.

Major Shareholdings
At 15 February 2008, the Company had been notified that the following shareholders were interested in 3% or more of the issued share capital of the Company:

Legal & General Investment Management	30,175,367	7.72%
Aberforth Partners	26,311,927	6.73%
Henderson Global Investors	24,735,333	6.33%
Barclays Global Investors	20,191,864	5.17%
Scottish Widows	19,886,122	5.09%
Aegon Asset Management	18,763,236	4.80%
Rathbone Investment Management	18,497,815	4.73%
JP Morgan Asset Management	15,713,546	4.02%
Old Mutual Asset Managers	12,008,500	3.07%

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

Compliance with the Combined Code
The statements of compliance with the provisions of the June 2006 version of the Combined Code on Corporate Governance issued by the Financial Reporting Council are set out on page 20.

Remuneration Report
The Company's policy on executive Directors' remuneration is set out in the Remuneration Report on pages 24 to 29. The Remuneration Report is to be put to shareholder vote at the Annual General Meeting on 25 April 2008.

Annual General Meeting
The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held on Friday 25 April 2008 at the offices of ABN Amro, 250 Bishopsgate, London EC2M 4AA at 11.30 am.

Acquisition of the Company's Own Shares
The Company purchased none of its ordinary shares during the year. At the end of the year, the Directors had authority, under the shareholders' resolutions dated 27 April 2007, to make market purchases of the Company's shares up to an aggregate nominal amount of £3.90m, which represented almost 10% of the issued share capital of the Company.

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

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

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

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

By Order of the Board
Andrew Bodenham
Secretary
29 February 2008

Senior plc

Aerospace

Revenue	+33%
Adjusted operating profit	+85%

Flexonics

Revenue	+22%
Adjusted operating profit	+57%

Percentage changes calculated on a constant currency basis, with 2006 results translated at 2007 average rates

Senior supplies metallic receiver bellows for solar power generation

Operating and Financial Review

Graham Menzies, Group Chief Executive

> "AMT and Sterling Machine, the two aerospace businesses that joined the Group in 2006, have proved to be excellent acquisitions."

To the members of Senior plc

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

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

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

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

- Operations
- Long-term Strategy and Business Objectives
- Key Performance Indicators
- Acquisitions
- Financial Review
- Divisional Review
- Outlook
- Risks and Uncertainties
- Resources
- Corporate Responsibility

Operations

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

Aerospace

Following the recent acquisition of two aerospace businesses, Absolute Manufacturing, Inc. ("Absolute") in December 2007 and Capo Industries, Inc. ("Capo") at the end of January 2008, the Aerospace Division now consists of 14 operating companies, nine of which are located in the USA, two in the United Kingdom and three in continental Europe. In 2007, the Division's main products were engine structures and mounting systems (27% of divisional sales), metallic ducting systems (19%), airframe and other structural parts (16%), composite ducting systems (12%), helicopter machined parts (7%) and fluid control systems (5%). 14% of divisional sales were to non-aerospace, but related technology, markets. Sales of airframe and other structural parts increased significantly during 2007 (3% of divisional sales in 2006) as AMT had only been owned by Senior for the final two months of 2006. The Division's largest customers include Boeing, representing 12% of 2007 divisional sales, United Technologies, GE, Airbus, Rolls-Royce, Goodrich and Bombardier.

Flexonics

The Flexonics Division has 11 operations. These are located in North America (three), the United Kingdom (two), continental Europe (three), South Africa, India and Brazil. In 2007, the Division's sales comprised of flexible mechanisms for vehicle exhaust systems (29% of divisional sales), cooling and emission control components (15%), diesel fuel distribution pipework (14%) and expansion joints and ducting for the heating and ventilation market (11%). Expansion joints, control bellows and hoses for the power and boiler market accounted for 12% of divisional sales, for the oil and gas and chemical processing industries (5%) and for other industrial markets (14%). In 2007, an increased percentage of sales came from diesel fuel distribution pipework and cooling and emission control component sectors as production of the Group's new heavy duty diesel products ramped up. Whilst the Division's three largest end users remain automotive customers (General Motors, PSA and Ford), the percentage of divisional sales coming from the automotive market fell to 47% (2006 – 55%) with sales to the heavy duty diesel engine market (e.g. Cummins, Caterpillar, and Siemens) growing to 11% of divisional sales (2006 – 2%).

Key Performance Indicator

Organic revenue

+18%

Key Performance Indicator

Adjusted earnings per share

+66%

Long-term Strategy and Business Objectives

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

There are four key elements to Senior's strategy for accelerating growth and creating real shareholder value. These remain unchanged from those reported last year:

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

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

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

These financial objectives are supported by two non-financial objectives which are:

- to reduce the Group's carbon dioxide emissions to revenue ratio by 15% over the period from 2006 to 2010; and
- to reduce the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work by 5% per annum.

During 2007, the Group made progress in most of its strategic objectives. The aerospace businesses acquired in 2006 both performed very well in their first full year with the Group. Two further aerospace businesses were acquired in December 2007 and January 2008. Production of the new heavy duty diesel engine products ramped up and their contribution improved, as the year progressed. Operational improvements, including reductions in recordable injuries, were made at many of the Group's operations. On-time delivery performance for the Group improved to 90% (2006 – 88%) when measured as a rolling six month average.

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

Key Performance Indicators

	2007 £m	2006 £m
Organic revenue growth(1)	**+18%**	+10%
Adjusted earnings per share(2)	**7.71p**	4.65p
– growth	**+66%**	+22%
Return on revenue margin(3)	**9.6%**	6.8%
Return on capital employed(4)	**19.2%**	13.8%
CO_2 emissions/£m revenue(5)	**110.3 tonnes**	113.7 tonnes
Lost time injury frequency rate(6)	**2.55**	2.77

(1) Organic revenue growth is the rate of growth of Group revenue, at constant exchange rates, excluding the effect of acquisitions and disposals.
(2) Adjusted earnings per share is the profit after taxation (adjusted for the profit or loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and the release of a provision originally set up on a previous acquisition) divided by the average number of shares in issue in the period.
(3) Return on revenue margin is the Group's adjusted operating profit divided by its revenue.
(4) Return on capital employed is the Group's adjusted operating profit divided by the average of the capital employed at the start and end of the period. Capital employed being total assets less total liabilities, except for those of an interest bearing nature.
(5) CO_2 emissions/£m revenue is an estimate of the Group's carbon dioxide emissions in tonnes divided by the Group's revenue in £ millions.
(6) Lost time injury frequency rate is the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees.

The table of Key Performance Indicators above shows that the Group comfortably exceeded all four of its financial goals during the year. The CO_2 emissions/£m revenue fell by 3% during 2007 with the Group on target to achieve its stated goal of reducing the ratio by 15% by 2010 (compared with 2006). Lost time injury frequency rate fell by 8% in the year, in excess of the targeted 5% per annum reduction.

Acquisitions

Since the Group last reported, two acquisitions have been completed.

Absolute was acquired on 10 December 2007 for $14.4m (£7.0m). Absolute specialises in the machining of high tolerance and high surface finish parts in aluminium, titanium and a variety of stainless steels. Activities include machining parts for aircraft tyre pressure monitoring systems, flap and door movement sensor housings and laser guidance housings for both commercial applications and night vision defence industry equipment.

Key Performance Indicator

Return on revenue margin

9.6%

Key Performance Indicator

Return on capital employed

19.2%

The business had sales of $14m in 2007 and continues to be managed by one of its former owners. It is located in Arlington, north of Seattle in Washington State, USA. The purchase consideration was funded through the utilisation of the Group's existing borrowing facilities.

Capo was acquired after the year-end, on 25 January 2008. Capo is located in Chino, close to Los Angeles, California, USA. In 2007 it had sales of $36m. Capo specialises in the 5-axis machining of titanium and steel alloys primarily for auxiliary power units on large commercial aircraft and for propulsion engines on business jets. Capo was acquired for $85m (£42.9m) plus costs, potential deferred consideration of $5m (£2.5m) contingent upon the operating profit achieved in 2008, and the assumption of certain acquisition-related tax liabilities. The total amount payable in respect of the acquisition, estimated at a maximum of £47.1m, is to be funded through the utilisation of the Group's existing borrowing facilities. In order to maintain a satisfactory level of headroom, a short-term £20m loan facility was entered into during January 2008. The company continues to be run by the same management team that was in place prior to its acquisition by Senior.

The two aerospace businesses acquired in 2006, Sterling Machine and AMT, both had excellent performances in 2007.

Financial Review

Summary

A summary of the Group's operating results are set out in the table below. Further detail on the performance of each Division is included in the section titled "Divisional Review".

	Revenue		Adjusted operating profit[1]		Margin	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 %**	2006 %
Aerospace	**246.2**	197.0	**33.4**	19.2	**13.6**	9.7
Flexonics	**225.0**	191.5	**17.4**	11.8	**7.7**	6.2
Inter-segment sales	**(0.5)**	(0.6)	**–**	–	**–**	–
Central costs	**–**	–	**(5.8)**	(4.8)	**–**	–
Group total	**470.7**	387.9	**45.0**	26.2	**9.6**	6.8

(1) Adjusted operating profit is the profit before interest and tax and before the loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and the release of a provision set up on a previous acquisition.

The adjusted operating profit may be reconciled to the operating profit shown in the Consolidated Income Statement as follows:

	2007 £m	2006 £m
Operating profit per financial statements	**41.5**	24.5
Loss on sale of fixed assets	**0.7**	0.4
Release of provision set up on acquisition	**(0.5)**	–
Amortisation of acquisition intangible assets	**3.3**	1.3
Adjusted operating profit	**45.0**	26.2

With the commercial aerospace and energy markets particularly strong, Group revenue grew by 21%, aided by full year contributions from the two businesses acquired in 2006. 2007 revenue also benefited from the ramp up of the heavy duty diesel products which went into production at the end of 2006. Adjusted operating profit rose by 72% principally due to the gearing benefit of increased sales, strong performances from the newly acquired businesses and a significantly increased contribution from one of the Flexonics' operations, Pathway. Operating margins consequently increased significantly to 9.6%, nearly three percentage points higher than in the prior year (6.8%).

The Group's free cash flow and net debt for 2007 and the prior year were:

	2007 £m	2006 £m
Free cash flow	**18.5**	5.1
Net debt	**94.8**	96.7

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

	2007 £m	2006 £m
Net cash from operating activities	**35.3**	22.3
Interest received	**0.8**	1.3
Proceeds on disposal of tangible fixed assets	**1.9**	2.2
Purchases of tangible fixed assets	**(19.0)**	(20.1)
Purchases of intangible assets	**(0.5)**	(0.6)
Free cash flow	**18.5**	5.1

Key Performance Indicator

CO_2 emissions/£m revenue

Reduced by 3%

Key Performance Indicator

Lost time injury frequency rate

Reduced by 8%

Lost time injury frequency rate is the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees.

The reduction in net debt to £94.8m (£96.7m) was achieved after having funded the acquisition of Absolute (£7.0m).

Revenue

Group revenue increased by £82.8m (21%) to £470.7m (2006 – £387.9m) with the full year contribution from AMT, which was acquired on 27 October 2006, responsible for £33.1m of the increase. If the effect of acquisitions (an increase in reported revenue of £35.4m) and the adverse year-on-year exchange effect (£19.0m) are excluded then underlying revenue grew by 18% on a constant currency basis. In 2007, 60% of Group sales originated from North America, 19% from the rest of Europe, 12% from the United Kingdom and 9% from the rest of the world.

Operating profit

Group operating profit increased by 69% to £41.5m (2006 – £24.5m). Adjusted operating profit increased by £18.8m (72%) to £45.0m (2006 – £26.2m). Adjusted operating profit is that before loss on disposal of fixed assets of £0.7m (2006 – £0.4m), amortisation of intangible assets arising on acquisitions of £3.3m (2006 – £1.3m) and the release of a provision originally set up on a previous acquisition. If the effects of the acquisitions (an increase in reported operating profit of £8.2m) and foreign currency effects (£1.8m adverse) are excluded then underlying adjusted operating profit increased by 57% on a constant currency basis.

Finance costs

Finance costs, net of investment income of £1.0m (2006 – £0.9m), increased to £7.2m (2006 – £6.4m) mainly due to the average level of the Group's debt increasing, principally as a result of the acquisition of AMT in October 2006.

Profit before tax

Adjusted profit before tax increased by 91% to £37.8m (2006 – £19.8m). Reported profit before tax increased to £34.3m (2006 – £18.1m).

Tax charge

The total tax charge increased to £6.4m (2006 – £2.9m) as the taxable profits of the Group increased. The net tax benefits, arising on the loss on sale of fixed assets, amortisation of intangible assets from acquisitions and release of the provision originally set up on a previous acquisition, totalled £1.4m (2006 – £0.6m). If these are added back then the underlying tax charge of £7.8m (2006 – £3.5m) represented an underlying rate of 20.6% (2006 – 17.7%) on the adjusted profit before tax of £37.8m (2006 – £19.8m). The increase in the underlying tax rate was mainly due to the increased proportion of the Group's profits being generated in the USA, where the Group's tax rate is approximately 38%. The Group's underlying tax rate is expected to increase further in 2008 as this trend continues.

Earnings per share

Largely due to the rights issue undertaken in the autumn of 2006, in connection with the acquisition of AMT, the weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 389.0 million (2006 – 349.8 million). Taking this into account, adjusted earnings per share increased by 66% to 7.71p (2006 – 4.65p). Basic earnings per share increased by 65% to 7.17p (2006 – 4.35p).

Dividends

A final dividend of 1.700p per share is proposed for 2007 (2006 final dividend – 1.381p) which would cost £6.6m (2006 final dividend cost £5.4m). This would bring the full year dividend to 2.400p per share, a 20% increase over the prior year's 2.000p per share. The cash outflow incurred in 2007, in respect of the final dividend for 2006 and the interim dividend for 2007, was £8.1m (2006 – £6.5m).

Research and development

Following the start of production of the heavy duty diesel products in late 2006, the Group's expenditure on research and development slightly reduced to £8.2m during 2007 (2006 – £8.5m). Expenditure is mainly incurred in designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production.

Capital expenditure

£19.5m was invested in capital expenditure in 2007 (2006 – £20.7m) to increase capacity and capability in both the Aerospace and Flexonics Divisions. £1.9m (2006 – £2.2m) was raised through the disposal of assets no longer required. A higher level of capital expenditure is anticipated for 2008 as the Group invests in additional capacity to meet the demands of the growing aerospace market.

Capital structure

The Group's Consolidated Balance Sheet at 31 December 2007 may be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	93.6	–	93.6
Goodwill and intangible assets	126.2	–	126.2
Current assets and liabilities	160.5	(98.8)	61.7
Other non-current assets and liabilities	3.6	(4.1)	(0.5)
Post-retirement obligations	–	(36.3)	(36.3)
Total before net debt	383.9	(139.2)	244.7
Net debt	9.2	(104.0)	(94.8)
Total at 31 December 2007	**393.1**	**(243.2)**	**149.9**
Total at 31 December 2006	365.5	(238.4)	127.1

Net assets increased by 18% in the year to £149.9m (2006 – £127.1m) and net assets per share also increased by 18% to 38.4p (2006 – 32.6p). There were 390.8 million ordinary shares in issue at the end of 2007 (2006 – 389.9 million). Post-retirement obligations decreased to £36.3m (2006 – £37.5m) because of the net effect of the benefit of a higher rate of 5.9% being used to discount the UK Scheme liabilities (2006 – 5.3%) and the inclusion of an additional £7.0m of UK Scheme liabilities in respect of prior years. The additional liabilities, (which only came to light during 2007) relate to the equalisation of pension ages for men and women which took place in the early 1990s.

Cash flow

The Group's free cash flow, whose derivation is set out in the table below, increased by 263% to £18.5m (2006 – £5.1m) largely because of the increased operating profits. An investment of £9.6m (2006 – £4.5m) was made in working capital, as revenue increased, whilst net capital expenditure of £17.6m (2006 – £18.5m) remained ahead of the depreciation level of £14.6m (2006 – £12.6m), excluding £3.3m (2006 – £1.3m) of amortisation of intangible assets acquired on acquisition.

	2007 £m	2006 £m
Operating profit	**41.5**	24.5
Depreciation and amortisation	**17.9**	13.9
Working capital movement	**(9.6)**	(4.5)
Pension payments above service cost	**(3.0)**	(3.4)
Other items	**1.7**	1.0
Operating cash flow	**48.5**	31.5
Interest paid (net)	**(6.2)**	(5.3)
Tax paid	**(6.2)**	(2.6)
Capital expenditure	**(19.5)**	(20.7)
Sale of fixed assets	**1.9**	2.2
Free cash flow	**18.5**	5.1
Dividends	**(8.1)**	(6.5)
Acquisitions and disposals	**(8.1)**	(79.7)
Share issues	**0.2**	34.8
Foreign exchange variations	**(0.8)**	11.7
Non-cash movements	**0.2**	0.3
Opening net debt	**(96.7)**	(62.4)
Closing net debt	**(94.8)**	(96.7)

Net debt

Net debt decreased by £1.9m in the year to £94.8m (2006 – £96.7m). The decrease was achieved after having paid a net £8.1m in respect of acquisitions and disposals, with the acquisition of Absolute at £7.0m being the main element. At the year end, around 75% of the Group's gross borrowings (31 December 2006 – 95%) were in US$. Unlike 2006, when the US$ weakened significantly against the £ causing an £11.7m reduction in net debt, the US$ ended the year close to the level it started at, such that the effect of all exchange rate movements on net debt in 2007 was minimal.

Liquidity

As at 31 December 2007, the Group's gross borrowings, excluding finance leases, were £99.8m (2006 – £103.3m). The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows:

	Gross borrowings[(1)] £m	Committed facilities £m
Within one year	41.5	37.7
In the second year	–	–
In years three to five	25.0	91.5
After five years	33.3	32.7
	99.8	161.9

(1) Gross borrowings include the use of bank overdrafts, other loans and committed facilities.

Upon the acquisition of Capo in January 2008, the Group entered into a new £20m 364-day bilateral facility, with one year term out, in order to provide additional headroom under its borrowing facilities. $75m (£37.7m) of loan notes mature in October 2008 and it is anticipated that these will be partially refinanced at their maturity.

Going concern basis

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

Changes in accounting policies

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

Mark Rollins, Group Finance Director

> **"Trading in the first two months of 2008 has been ahead of the Board's expectations and the Board expects 2008 to deliver further meaningful growth."**

Divisional Review

The Group consists of two divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that, in order to make appropriate comparisons, the results for 2006 have been translated at constant currency using 2007 average exchange rates.

Aerospace Division

	2007 £m	2006 £m	Change
Revenue	**246.2**	185.8[1]	+33%
Adjusted operating profit	**33.4**	18.1[1]	+85%
Operating margin	**13.6%**	9.7%	–

(1) 2006 results translated using 2007 average exchange rates.

The revenue of the Aerospace Division grew by £60.4m (33%) to £246.2m (2006 – £185.8m at constant currency). The year-on-year effect of acquisitions was £36.9m at constant currency, with Sterling Machine acquired January 2006, AMT acquired October 2006 and Absolute acquired December 2007. Elsewhere, the continuing aerospace businesses increased revenue by 14% over 2006.

63% of the Division's sales are to the commercial aerospace markets, with 43% to the wide-bodied sector (namely Boeing, Airbus and the associated engine builders). The results for 2007 consequently benefited from the ongoing strong growth in the build rates of aircraft for these markets. Boeing and Airbus together delivered 7% more aircraft in 2007 (894) than in 2006 (832). More importantly, in 2007 their order intakes were at record levels (2,754 aircraft combined), such that the combined order book increased by 37% to 6,848 aircraft (31 December 2006 – 4,988) during the year. The seven-and-a-half year order book, at current delivery rates, represents a very healthy picture for the future with both Airbus and Boeing forecasting to increase build rates further in the coming years.

In the regional jet market, Embraer had higher deliveries for the first time in three years (169 aircraft against 130 in 2006) whilst Bombardier received orders (a net 250 aircraft) at twice the level of deliveries (125 aircraft). Elsewhere, the business jet market was very strong at 1,138 deliveries, some 29% higher than in 2006 (885 deliveries) whilst, overall, the military market was stable with increased volumes of helicopter parts to Sikorsky being largely offset by reduced demand for aircraft spares from the US Government.

Adjusted operating profit (that before profit/loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions) increased by £15.3m (85%) to £33.4m (2006 – £18.1m at constant currency) with acquisitions accounting for £8.5m of the increase (at constant currency). Excluding acquisitions, divisional adjusted operating profit improved by 47% compared to 2006. The divisional operating margin increased by nearly four full percentage points to 13.6% (2006 – 9.7%). This was mainly due to widespread operational improvements, the gearing benefit of having increased production in existing facilities and the fact that the acquired businesses had a higher than average operating margin.

In 2007, capital expenditure for the Aerospace Division increased to £10.9m (2006 – £7.6m), as production capacity and capability was added to meet the demands of the growing industry. This represented 1.6x (2006 – 1.4x) the depreciation level.

Flexonics Division

	2007 £m	2006 £m	Change
Revenue	**225.0**	183.7[1]	+22%
Adjusted operating profit	**17.4**	11.1[1]	+57%
Operating margin	**7.7%**	6.0%	–

(1) 2006 results translated using 2007 average exchange rates.

Revenue for the Flexonics Division grew by £41.3m (22%) to £225.0m (2006 – £183.7m at constant currency) mainly due to the ramping up of the heavy duty diesel products in North America, that had gone into production in late 2006, the strong global energy and power markets and a growing presence in the truck exhaust market in Europe. Light vehicle markets in North America and Europe were subdued, being down 2.5% and up 0.5% respectively. Whilst sales of heavy/medium trucks in North America were very weak (371,000 against 545,000 in 2006), this market was new for Senior and hence sales of the new heavy duty diesel products were mostly incremental to the Group. Senior should benefit in the future when volumes in the heavy/medium truck markets get closer to historic levels.

The additional volumes, an improving contribution from the heavy duty diesel products, improved factory performances and capacity versus demand constraints in a number of markets resulted in adjusted operating profit for the Division increasing by 57% to £17.4m (2006 – £11.1m at constant currency). All the growth was organic, as no acquisitions have been undertaken in this Division in recent years. As a result, the operating margin of the Flexonics Division for 2007 increased by 1.7 percentage points to 7.7% (2006 – 6.0%).

2005 and 2006 had seen significant levels of capital expenditure being incurred to put the heavy duty diesel products into production. With the start of production occurring in late 2006, capital expenditure for the Division decreased to £8.5m or 1.1x depreciation in 2007 (2006 – £13.0m or 1.9x depreciation).

Outlook

The commercial aerospace market (63% of the Aerospace Division's sales) goes from strength to strength. Boeing and Airbus both received record orders in 2007 and, with their order books now representing over seven times current deliveries, they are each seeking to increase the rate of production of a number of their aircraft in future years. In addition, the Airbus A380, on which the Group has a sales value of around £170k per plane, started to be delivered to customers during 2007 after a period of delay. Production is now ramping up and the Group's sales to this programme are expected to recommence in earnest around the middle of 2008. Whilst the first flight of the Boeing 787 (the "Dreamliner") has been delayed for a few months, and is now scheduled for the middle of 2008, the programme represents substantial future revenue growth for Senior. The Group has an average of £410k of revenue on each aircraft, a record for Senior, and with 817 orders already having been booked by Boeing by the end of 2007 the programme can be expected to ramp up to over 100 aircraft per year in a few years time.

Prospects for the remaining aerospace sectors are generally healthy. Production of business jets is expected to continue at least at current levels for the immediate future, the combined order book for the regional jet manufacturers is strengthening and the military market is anticipated to remain stable in the near future, with production of a number of programmes such as the Airbus A400M and Lockheed's Joint Strike Fighter (Senior has around £125k per aircraft) starting up. These are all expected to boost growth in the coming years. In addition, the Aerospace Division will benefit from the inclusion of the results of Absolute (acquired December 2007) and Capo (acquired January 2008).

The industrial markets of the Flexonics Division, such as power generation, oil and gas, chemical processing, steel processing plants, and alternative energy (such as nuclear, solar and wind) have each remained strong going into 2008 and prospects are good for another excellent year. The markets for light vehicles are generally stable, albeit well below historic highs. Whilst sales of heavy/medium trucks in North America were at low levels during 2007, this was the first full year of production of the Group's new heavy duty diesel products which consequently all represented incremental business for the Division. Our customers are expecting volumes to increase towards the later part of 2008. Increasing vehicle volumes combined with ever tighter vehicle emission legislation offer significant opportunity for the Group. In addition, a small but increasing market is developing for the Group's products in alternative energy where the Flexonics Division already supplies to the nuclear industry in North America and Europe and to the solar and wind generation industries in Europe.

The Group has many growth opportunities ahead of it, the more immediate of which are the contributions from Absolute and Capo, the general strength of the commercial aerospace market, the production ramp up of the A380 and B787 programmes, a continual improvement in the contribution from the heavy duty diesel products and the continuing strength of the general global industrial markets.

Trading in the first two months of 2008 has been ahead of the Board's expectations and the Board expects 2008 to deliver further meaningful growth. Prospects remain encouraging for subsequent periods.

Risks and Uncertainties

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

Competitors

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

In the Flexonics Division, the industrial markets in which the Group operates (42% of 2007 divisional sales) are diverse both geographically and in nature with engineering skills, technical qualifications and service levels the key to success for most of them. Again the markets are competitive but no single competitor represents a material threat to the Group. In the automotive markets, products like the new North American heavy duty diesel engine products are similar in nature to those of aerospace in that engineering support and process engineering are very important to the customers' choice of supplier. However, there are other automotive products where competition is fiercer and price more the defining factor. Where this is the case, the Group is increasingly manufacturing the product in its lower cost operations in the Czech Republic, South Africa, Brazil and India, rather than in its North American and European operations.

Markets and customers

Over half of the Group's sales are derived from the aerospace market with the majority to the commercial aircraft sector where Boeing and Airbus aircraft accounted for 22% of 2007 Group sales. Whilst the commercial aerospace market is expected to remain buoyant for a number of years, should this not be the case the Group's financial performance would be adversely affected, as was the case in 2001 following the events of "9/11". The Group has a relatively balanced portfolio of aerospace customers, nearly all of whom are financially strong, with the largest representing some 6% of 2007 Group sales. The immediate and total loss of such a customer is considered to be highly improbable given that many parts are typically supplied from a number of Senior's operations to a range of customer locations, with many products on long-term agreements.

The industrial markets are diverse, fragmented and generally healthy with the largest single customer representing around 1% of 2007 Group sales. The failure of any industrial customer is, therefore, unlikely to have a material effect on the Group. Whilst the North American automotive industry is gradually improving its financial condition not all manufacturers and suppliers to the market are yet financially secure. In the event that one of the larger automotive manufacturers were to seek protection from its creditors (known as going into Chapter 11 in the USA) then the Group may not recover all of the amounts owed to it. However, production of the vehicles, and hence sales of the Group's products, would probably continue, albeit at a lower level, so rendering the impact to be of a one-off rather than ongoing nature. The largest manufacturer accounted for around 6% of 2007 Group sales, both to the manufacturer directly and/or to its supplier base.

Manufacturing

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

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

Environmental

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

Defined benefit pension plans

The Group operates a number of defined benefit pension plans, with the largest being a UK scheme, as well as a number of geographically based defined contribution and government sponsored arrangements. The primary liability for funding the UK defined benefit pension scheme rests with the participating employer. By virtue of legislation, there may be risks for the Group in relation to this pension scheme. These are largely generic risks associated with the operation of UK defined benefit pension schemes (including the imposition of more onerous employer contribution/funding requirements by the Pensions Regulator, the requirement to fund the winding-up of pension schemes by trustees on a "buy-out basis" and the provision of funding guarantees where required by the Pensions Regulator). Should the Pensions Regulator impose any of these requirements, they could have an adverse effect on the results of the Group's operations. In order to mitigate some of these risks the Group has chosen to close the UK defined benefit scheme to new employees from April 2008.

Capital risk management

The Group manages its capital structure to safeguard its ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

In considering the appropriate level of net debt the Group pays close attention to its level as compared to the cash generation potential of the Group, measured by adjusted profit before interest, tax, depreciation and amortisation ("EBITDA"). The Group also monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total of bank and other loans, obligations under finance leases, forward exchange contract losses less cash and cash equivalents and forward exchange contract gains (as shown in Note 33c to the Financial Statements). Total capital is the equity shown in the Consolidated Balance Sheet.

All of the Group's external borrowing facilities have a requirement for the ratio of net debt to EBITDA to be less than 3.0x. Internally the Group aims for this ratio not to exceed 2.5x. As at 31 December 2007 the net debt was 1.6 times EBITDA (31 December 2006 – 2.1x).

During 2007, the Group's strategy, which was unchanged from 2006, was to target a long-term gearing ratio for the Group of less than 60%. The gearing ratio for the Group at the end of 2007 was 63% (2006 – 76%). Following a recent review by the Treasury Committee, the Group's future strategy is to maintain the long-term gearing ratio within the range 60% to 80%. However, ratios outside this range might still be considered to be acceptable, in certain circumstances e.g. following an acquisition.

In addition to the internal gearing targets, one of the Group's borrowing facilities requires consolidated net worth to exceed £175m and the ratio of net debt to consolidated net worth to be less than 100%. Consolidated net worth ("CNW") is calculated as total capital (as defined above) excluding own shares held, less other intangible assets, adding back retirement benefit obligations and goodwill previously written off. The Group comfortably met these targets throughout the periods reported, with CNW being £254m at the end of 2007 and net debt to CNW being 37%.

Financial risk management

The Group's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposures limits is reviewed by the Treasury Committee on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Foreign exchange risk management

The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on the operations' trading activities in foreign currencies and on the Group's net investments outside the UK.
The following sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and left unchanged throughout the reporting period with all other variables held constant (such as interest rates).

Translation risk

The Group derived approximately 88% of its revenue from businesses outside the United Kingdom, of which 60% related to operations in North America. Fluctuations in the value of the US dollar and other currencies in relation to the Pound Sterling have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pound Sterling. The Group has decided not to hedge this translation risk. A 5% appreciation of the US dollar against Pound Sterling would have increased 2007 Group operating profit by £1.5m.

The majority of shareholder funds are denominated in foreign currency, particularly in US dollars. The Group matches net exposures through a combination of borrowings in the same currencies and foreign exchange forward contracts. At the end of 2007, the achieved cover of the net assets, including goodwill, denominated in currencies other than Pound Sterling were: US dollar at 76% (2006 – 71%), Euro at 94% (2006 – 89%), Czech Crown at 110% (2006 – 95%) and Canadian Dollar at 57% (2006 – 100%). Net assets denominated in Indian Rupees, South African Rand, and Brazilian Real were not hedged in 2006 and 2007. A 5% appreciation of all other currencies against Pound Sterling would have increased net equity by £3.1m, £2.2m of which would have been due to the US dollar movement.

Transaction risk
The Group has a number of transaction-related foreign currency exposures; particularly the Euro with the South African Rand and the US dollar with Pound Sterling. The Group seeks to hedge between 80% and 100% of transaction related exposures for 15 months forward by applying hedge accounting where the forwards can be designated in a qualifying cash flow hedge relationship. Based on the net of the annual sales and purchase related exposures after hedging, a 5% appreciation of the Euro against the Rand would have increased operating profit by £0.2m and a 5% appreciation of the US dollar against Pound Sterling would have increased operating profit by £0.3m, offset by a increase in US dollar denominated interest payables of £0.3m. All other transaction-related foreign currency exposures after hedging are immaterial. Any impact on profit would be spread over the following 12 months and on cash flow over the following 15 months.

The impact on net equity is determined by the unrecognised portion of open forward contracts at the year end. A 5% appreciation of the Euro against the Rand and of the US dollar against Pound Sterling would have decreased net equity by £0.3m and £0.7m, respectively.

The Group's sensitivity to foreign currency has increased mainly due to the purchase of four US companies between January 2006 and January 2008.

Interest rate risk management
The Group enters into interest rate swaps to mitigate the risk of rising interest rates and to balance the structure between fixed and variable debt. The following sensitivity analysis of the Group, and Company's exposure to interest rate risk, at the reporting date has been determined based on the exposure to interest rates at the beginning of the financial year and held constant throughout the reporting period with all other variables held constant (such as foreign exchange rates).

The Group has a policy of maintaining approximately 60% of its borrowing costs at fixed rates. The Group generally borrows long-term in fixed rates, but may occasionally borrow at floating rates and swap into fixed. The Group has a policy of applying cash flow hedging in this instance. Occasionally a portion of the fixed debt interest is swapped into floating rates, when the Group would apply fair value hedging.

The Group is exposed to interest rate movements, particularly on US dollar denominated debt. If variable interest rates had been 0.5% lower, the Group and Company's net profit would have increased by £0.2m. Any fixed interest debt is held up to maturity and not fair value adjusted through profit and loss. An increase of 0.5% in the US dollar market interest rate for the fixed rate debt held up to maturity would have decreased the fair value of the Group's borrowings by £2.3m.

The Group and Company's sensitivity to interest rates has decreased during the current period mainly due to the increased proportion of fixed debt.

Credit risk management
The Group's credit risk is primarily attributable to its trade receivables. The credit quality of customers is assessed taking into their account financial position, past experience and other factors. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are financial institutions with high credit-ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group and Company's maximum exposure to credit risk.

Liquidity risk management
The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Resources
Employees
The key resource of the Group is its employees who have extensive knowledge of the Group's key markets, customers, product technology and manufacturing processes. The average number of employees employed in the Group during 2007 was 5,684 (2006 – 5,202). Of these 4,903 were in production related roles, 61 in distribution, 287 in sales and 433 in administration. Senior is a global group operating in 11 countries. At the end of 2007 the Group employed a total of 5,824 people with 51% located in North America, 15% in the United Kingdom, 21% in the rest of Europe and 13% in the rest of the world.

Manufacturing technology

A key strength of the Group is in its manufacturing technology and production processes which help maximise production efficiency and product quality. This in turn maintains and enhances the Group's reputation for delivering quality added-value products to its customers on time and at a competitive price. During 2007 the Group spent £19.5m (2006 – £20.7m) on capital expenditure to add to the Group's manufacturing capability, as well as its production capacity. This was 1.3x the depreciation level (2006 – 1.6x).

Financial

The Group funds its activities through a mixture of equity and debt financing. It obtains its equity financing from a wide range of non-related institutional investors who trade the Company's shares on the London Stock Exchange. The largest holder has an interest in around 7% of the shares of the Company. As at 31 December 2007, the Company's share price was 117.75p, giving it a market capitalisation of around £460m (31 December 2006 – £250m). In respect to the debt financing, at the end of 2007, the Group had committed borrowing facilities totalling £161.9m of which £98.4m was being utilised. The committed facilities at this time consisted of $75m (£37.7m) of loan notes due in October 2008, $35m (£17.6m) of loan notes due in 2014, $30m (£15.1m) of loan notes due in 2017, an £80.0m multi-currency revolving credit facility maturing in 2012 and a $23m (£11.5m) bi-lateral facility maturing in 2010. In addition, during January the Group entered into a £20m 364 day bi-lateral facility, with an option to extend by one year, in order to provide additional headroom following the acquisition of Capo.

Corporate Responsibility

The policy of the Board is to seek to enhance shareholder value in an ethical and socially responsible manner, taking into account the wishes of all stakeholders, and with a particular focus on health and safety and preserving the environment. Two of the Group's six KPIs, namely reductions in carbon dioxide emissions and lost time injuries, are targeted at this area. Extensive details of the Group's corporate and social responsibility principles and performance indices are set out in a separate "Corporate Social and Responsibility Report" later in this Annual Report.

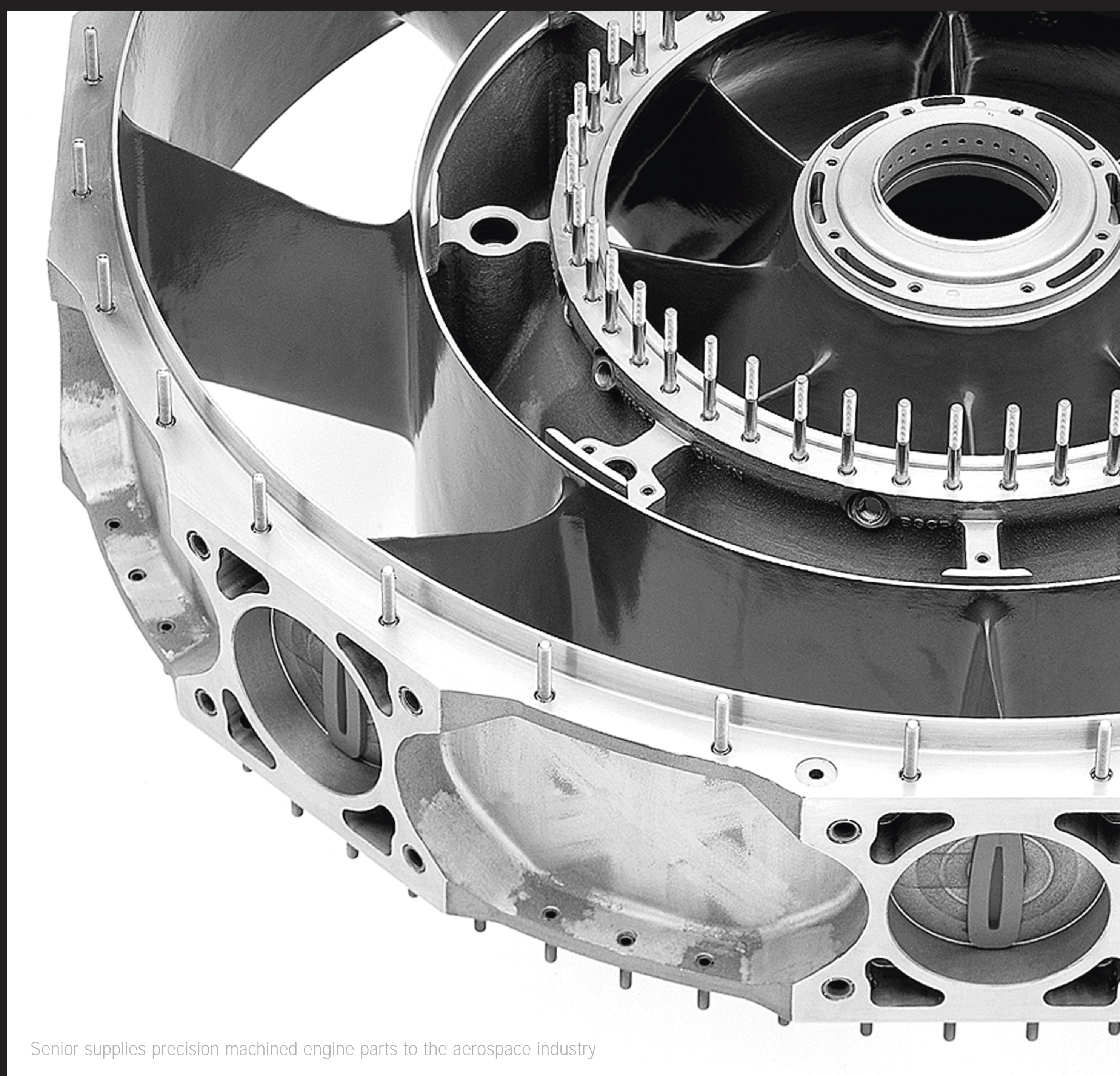
Acquisitions

Capo Industries

is based in Chino, near Los Angeles, California, USA, and was acquired in January 2008. Capo specialises in the 5-axis machining of titanium and steel alloys primarily for auxiliary power units on large commercial aircraft and for propulsion engines on business jets.

Absolute Manufacturing

is based in Arlington, Washington State, USA, and was acquired in December 2007. It specialises in the machining and assembly of critical high precision components for the jet engine, commercial aerospace, defence and industrial laser markets.



Senior supplies precision machined engine parts to the aerospace industry

Corporate Governance Report

This Corporate Governance Report describes the manner in which the Company has applied the Principles of Good Governance set out in Section 1 of the Combined Code on Corporate Governance and whether or not it has complied with the Code provisions. In July 2003, the Financial Reporting Council ("FRC") issued the "Combined Code on Corporate Governance" ("the FRC Code"), in response to the Higgs Review on Non-executive Directors and the Smith Review on Audit Committees. The FRC Code was then revised in 2006.

Statement of Compliance with the Combined Code

The Company has been in compliance with the provisions set out in Section 1 of the FRC Code throughout the year.

Application of the Principles of the FRC Code

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

a) Directors

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

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

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

The Board meets formally on a regular basis (nine times in 2007); and in addition there were three meetings of the Audit Committee in 2007, together with three meetings of the Remuneration Committee, four meetings of the Nominations Committee and four meetings of the HSE Committee. There was full attendance at every Board meeting and Committee of the Board during the year. Other Committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from the Committee Meetings are available to the Board.

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

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

Nominations Committee

The Nominations Committee leads the process for Board appointments, and supervises management development and succession plans. It also makes recommendations to the Board on all new Board appointments. The Committee, which consists entirely of non-executive Directors, was chaired by J R Kerr-Muir until his retirement from the Board on 1 May 2007, and subsequently by M Clark, and its composition is shown on page 4. Its Terms of Reference may be found on the Company's website.

The appointment of new non-executive Directors to the Board is controlled by the Committee, assisted by appropriate external recruitment consultants. In conjunction with the external consultant, consideration is given to the role and the capabilities required for a particular appointment. Based on agreed criteria, the consultant then produces a shortlist of candidates. The Committee members interview these candidates, then present their recommendation to the Board. Consideration is also given to the number of other posts held by the candidates, and their ability to devote sufficient time to discharge their duty as a non-executive Director. J R Kerr-Muir retired from the Board on 1 May 2007. M Clark was appointed non-executive Chairman and I F R Much was appointed the Senior Independent Director, upon J R Kerr-Muir's retirement. D G Best was also appointed a non-executive Director on 1 May 2007.

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

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

b) Directors' Remuneration

The Remuneration Report on pages 24 to 29 describes how the Board has applied itself to remuneration matters.

c) Accountability and Audit

The Audit Committee Report on pages 22 and 23 describes the role and activities of the Audit Committee and its relationship with the internal and external auditors.

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

d) Relations with Shareholders

The Company maintains regular contact with its institutional shareholders. Twice a year, the Group Chief Executive and Group Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the full year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2007, the Company's non-executive Chairman, also attended the full year and interim results announcements to

shareholders and analysts, in March and August respectively. No other non-executive Director formally met with shareholders during the year. The Senior Independent Director is available to attend shareholder meetings, if this is requested by shareholders, so providing an alternative channel of communication between the Company and its shareholders. The Company's largest shareholders were invited to meet D G Best following his appointment as a non-executive Director on 1 May 2007.

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

All resolutions at the 2007 AGM were passed unanimously on a show of hands. Details of the proxy voting received by the Company for the AGM 2007 are set out in the table below.

The issued share capital as at 28 February 2007 (the date of the notice of the AGM 2007), was 389.99 million shares of 10p each.

A large majority of the abstentions to Resolution 2 (the Remuneration Report) came from a single shareholder.

The total number of proxy votes received for the AGM 2007 represented approximately 68.1% (2006 – 68.1%) of the issued share capital of the Company. The Company is supportive of initiatives to promote greater shareholder participation and offers CREST members the facility to appoint a proxy or proxies through the CREST electronic proxy appointment service. Further details of this service may be found in the enclosed Notice of the Annual General Meeting.

Proxy voting for the AGM 2007

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	265,080,439	210,000	129,880	0	265,420,319
2. To approve Remuneration Report	262,070,184	1,147,395	137,867	2,064,873	265,420,319
3. To declare a final dividend	265,292,135	0	126,580	1,604	265,420,319
4. To re-elect Martin Clark as a Director	265,005,820	222,218	188,427	3,854	265,420,319
5. To re-elect Graham Menzies as a Director	264,965,263	264,379	188,427	2,250	265,420,319
6. To re-elect Deloitte & Touche LLP as auditors	263,978,389	1,262,438	176,341	3,151	265,420,319
7. Authority to allot shares	265,135,053	87,742	193,474	4,050	265,420,319
8. Disapplication of pre-emption rights	265,075,910	144,370	192,085	7,954	265,420,319
9. Authority to buy back shares	265,137,343	103,760	175,731	3,485	265,420,319

Audit Committee Report

Summary of the Role of the Audit Committee

The members of the Audit Committee are appointed by the Board from the non-executive Directors. The main role and responsibilities of the Committee include:

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

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

The Audit Committee's Terms of Reference were reviewed and updated during the year, and may be found on the Company's website.

Composition of the Audit Committee

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

	Date of appointment	Qualification
D G Best	1 May 2007	D G Best is a Chartered Accountant and has previously acted as Group Finance Director for a number of major businesses.
I F R Much	21 December 2005	I F R Much has significant commercial and financial experience at a senior management level and sits on the Audit Committee of another quoted public company.

M Clark retired from the Audit Committee on 1 May 2007, when he became non-executive Chairman of the Company.

Two members constitute a quorum for the Committee.

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

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

Meetings

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

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

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

During the year, the Audit Committee:

- reviewed the financial statements in the 2006 Annual Report, and the Interim Report issued in August 2007, as well as other formal announcements relating to the Group's financial position. As part of this review, the Committee received a report from the external auditors on their audit of the Annual Report and the work carried out on the Interim Report;
- reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report;
- reviewed and agreed the scope of the audit work to be undertaken by the external auditors;
- agreed the fees to be paid to the external auditors for their audit of the 2007 Accounts and review of the Interim Report;
- reviewed its own effectiveness;
- agreed a programme of work for the Group Internal Auditor;
- carried out an evaluation of the performance of the external auditors; and
- received reports from the Group Internal Auditor on the work he has undertaken and the management responses to the proposals made in his audit reports during the year.

External Auditors

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

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

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

The Audit Committee reviews the scope, cost and timing of the work of the external auditors, and acts to ensure their findings are appropriately implemented. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditors. In 2007, £0.2m (2006 – £0.7m) was paid in fees to the external auditors for non-audit work, relating to tax compliance and tax advice. The Committee considered it was beneficial for the Company to retain Deloitte & Touche LLP for this work, because of their expertise in this area and knowledge of the Group. However, the Committee will continue to keep the nature and extent of such services under review, in order to balance the maintenance of objectivity and value for money.

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

- the changes in key external audit staff: the Audit Partner last rotated at the end of 2005; there were no changes in 2007;
- a report from the external auditors describing their arrangements to identify, report and manage any conflicts of interest and to maintain their independence; and
- the overall extent of non-audit services provided by the external auditors.

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

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

Internal Control

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

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed for completeness and accuracy by the Group's management committees. This information is presented to the Board, for it to assess the effectiveness of the system of internal control. Whilst the Board acknowledges its overall responsibility for internal control, it believes strongly that senior management within the Group's operating businesses should contribute in a substantial way, and this has been built into the process.

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

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

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

Overview

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

Approval

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

D G Best
Chairman of the Audit Committee
29 February 2008

Remuneration Report

The Directors present their Remuneration Report for the year ended 31 December 2007 in accordance with Schedule 7A of the Companies Act 1985 and the relevant provisions of the Listing Rules of the Financial Services Authority. The report also describes how the Board has applied the Principles of Good Governance relating to Directors' Remuneration.

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

Unaudited Information

Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors. I F R Much (Chairman) and M Clark were members of the Committee throughout the year. J R Kerr-Muir retired from the Remuneration Committee on 1 May 2007 and D G Best was appointed on that date.

Role of the Remuneration Committee

The primary role of the Committee is to consider and make recommendations to the Board concerning the remuneration packages and conditions of service of the executive Directors and approximately 100 other senior managers. The terms of reference of the Remuneration Committee may be found on the Company's website. During the financial year, the Committee met three times. Details of Directors' attendance at these meetings are disclosed on page 4.

Advisers to the Remuneration Committee

All advisers to the Remuneration Committee are appointed and instructed by the Committee. During the year, the Committee was advised by New Bridge Street Consultants and Slaughter & May in relation to the Executive Share Plans.

Remuneration Policy

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

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

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

a) Service agreements

Each executive Director has a service agreement providing for a rolling period of notice of one year. There are no provisions in those agreements or otherwise for additional termination payments. The service agreements for G R Menzies and M Sheppard are dated 27 April 2000 and 4 February 2004, respectively. G R Menzies is to retire from the Board on 25 April 2008. M Rollins has a new service agreement dated 9 November 2007. The agreements contain provisions requiring the relevant Director to mitigate his loss in the event of termination. G R Menzies' agreement (the terms of which remain unchanged since his appointment) provides that in the event of a change of control of the Company, he has the option to resign within three months of such change of control without a duty to mitigate his loss.

The non-executive Directors do not have service agreements with the Company. J R Kerr-Muir was appointed Chairman with effect from 11 May 2001; he retired from the Board on 1 May 2007. M Clark was appointed Chairman with effect from 1 May 2007 for an initial three year term. I F R Much was appointed with effect from 21 December 2005 for an initial three year term. D G Best was appointed with effect from 1 May 2007 for an initial three year term.

With prior approval of the Board, executive Directors may hold external non-executive directorships and retain any fees paid for these appointments. At the year-end, G R Menzies and M Rollins held one such position each. In 2007, G R Menzies and M Rollins received and retained non-executive directorship fees of £36,000 and £30,000 respectively.

b) Base salaries

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

The Committee is also responsible for ratifying the salaries of approximately 100 senior managers and therefore is fully cognisant of pay levels in the Group when determining the pay of the executive Directors.

The base salaries in 2007 for the executive Directors for the year were as follows: G R Menzies – £340,000 (2006 – £323,000), M Rollins – £210,000 (2006 – £190,000), and M Sheppard – $325,000 (2006 – $305,000).

As a result of the review of the executive Directors' remuneration, the Remuneration Committee recommended that the base salaries for the executive Directors for 2008 should be as follows: G R Menzies – £355,000, M Rollins – £218,000, and M Sheppard – $342,500. M Rollins' salary will increase to £320,000 with effect from 17 March 2008 upon taking up the role of Group Chief Executive. G R Menzies is to retire from the Board on 25 April 2008. M Rollins has a new service agreement dated 9 November 2007.

D G Best's fee was £33,000 p.a. with effect from 1 May 2007. The fee received by J R Kerr-Muir during 2007 was £78,000 p.a. M Clark's fee increased from £40,000 p.a. to £97,000 p.a. on 1 May 2007, upon his appointment as Chairman. I F R Much's fee for 2007 was £33,000.

M Clark's fee for 2008 reduced to £90,000 p.a. following his resignation as Chairman of the Trustee Board of the Senior plc Pension Plan. D G Best's 2008 fee increased to £45,000 p.a as he took up the role of Chairman of the Pension Trustee Board and I F R Much's fee to £38,000.

c) Annual performance bonus scheme

Under the performance bonus scheme, bonuses up to 60% (2006 – up to 60%) of basic salary could be earned by the executive Directors depending on the Group's actual performance compared to the prior year and to internal targets in respect of underlying earnings per share and cash flow. The table below provides details of the maximum possible awards for 2007, together with details of the bonuses paid to G R Menzies and M Rollins as a percentage of their respective salaries:

	Cash flow target		Earnings per share target		
	Interim %	Full year %	Internal target %	Year-on-year growth %	Total %
Maximum possible award for 2007 and 2006	6.0	9.0	20.0	25.0	60.0
2006 bonus paid	4.9	9.0	14.2	21.7	49.8
2007 bonus paid	4.8	9.0	20.0	25.0	58.8

The 2007 bonus awards would have been maximised by achieving the following targets: Cash flow targets – Interim : £8.2m (up £10.5m on 2006), Full year : £17.2m (up £10.7m on 2006); Earnings per share target – Year-on-year growth : 5.81p (up 25% on 2006), Internal target : 6.46p (up 39% on 2006).

As M Sheppard serves as a Director of the Company, in addition to his role as Chief Executive of the Flexonics Division, his bonus for the year was 80% dependent on the operating profits and cash flow performance of the Flexonics Division and 20% on Group performance. In 2007, he earned a bonus of 55.9% of salary (2006 – 38.6%) consisting of 44.1% for Divisional performance and 11.8% for Group performance.

The scheme in place for 2008 is broadly unchanged from the 2007 scheme.

d) Share plans

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

The Company complies with the dilution guidelines contained within "Executive Remuneration – ABI Guidelines on Policies and Practices". At 31 December 2007, awards outstanding and shares issued in the previous 10 years under all share plans (the 1999 Plan, the 2005 LTIP, and the Sharesave Plan) amounted to 3.99% of the issued ordinary share capital of the Company. At 31 December 2007, awards outstanding and shares issued in the previous 10 years under executive (discretionary) plans (the 1999 Plan and the 2005 LTIP) amounted to 2.51% of the issued ordinary share capital of the Company.

The Remuneration Committee monitors the flow-rates of the Company's share plans, and in particular before new share awards are made, to ensure the flow-rates remain within the ABI dilution guidelines.

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

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

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

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

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

a. 100% of the Director's basic salary at the time of the award;

b. 125% of the Director's basic salary taking into account the combined notional current value of all awards under the 1996 Long Term Share Incentive Plan (this plan has now lapsed) and awards under the 1999 Plan in any year; and

c. the £30,000 statutory limit for the Approved Option element of the 1999 Plan.

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

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

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

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

The 2005 LTIP, a long term share incentive plan, was introduced to replace the existing 1999 Plan, and the lapsed Long Term Share Incentive Plan.

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

Each year, an individual can receive an award worth up to 100% of annual salary (or 200% of salary in the case of recruitment). The awards made in 2007 under the 2005 LTIP were limited to 50% of salary, except for the award to G R Menzies which was 100% of salary. The increased award to G R Menzies was made in recognition that he had not received an award in respect of the 2005 LTIP since May 2005. The awards are conditional allocations, where the executives will receive free ordinary shares in the Company automatically on the vesting of their award. Awards will normally vest on, or shortly following, the third anniversary of grant once the Committee has determined the extent to which the applicable performance conditions (see below) have been satisfied, and provided that the participant is still employed within the Company's group.

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

Following the Company's promotion to the FTSE250 Index in February 2008, the Remuneration Committee is to evaluate the most appropriate comparator group for assessing the Company's TSR performance for future LTIP awards.

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

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

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

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

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

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

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

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

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

e) Retirement benefits

G R Menzies' and M Rollins' pension arrangements are provided by the Group's UK pension plan and are based upon their pensionable salaries up to the HMRC's "cap". G R Menzies and M Rollins contribute 7.5% of salary to cap. From 6 April 2006 (A-Day), the Group's UK pension plan adopted its own earnings cap, which has been calculated on the same basis as the HMRC's pre-A-Day "cap". M Sheppard participates in a defined benefit plan that has now closed to new entrants and a defined contribution plan that remains available to the Group's US employees. His base salary is pensionable up to a "cap" of $225,000 p.a.

f) Other benefits

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

Audited Information

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

Directors' Emoluments

Directors' emoluments

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2007 Total £000's	2006 Total £000's
Executive					
G R Menzies	**340**	**200**	**37**	**577**	510
M Rollins	**210**	**124**	**14**	**348**	299
M Sheppard	**162**	**91**	**12**	**265**	245
Non-executive					
M Clark	**78**	**–**	**–**	**78**	40
D G Best (from 1 May 2007)	**22**	**–**	**–**	**22**	–
I F R Much	**33**	**–**	**–**	**33**	33
J R Kerr-Muir (to 1 May 2007)	**26**	**–**	**–**	**26**	78
	871	**415**	**63**	**1,349**	1,205

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

Aggregate remuneration

	2007 £000's	2006 £000's
Emoluments	**1,349**	1,205
Gains on exercise of share options and incentives (see Options and other share incentives table below)	**–**	10
Money purchase pension contributions	**7**	7
Total	**1,356**	1,222

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

Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2007 Total £000's	2006 Total £000's
579	**341**	**53**	**973**	867

Directors' Interests

At 31 December 2007 the Directors who had interests (which are all beneficial), including family interests, in the 10p ordinary shares of the Company were as follows:

Shares

	Shares 2007	Shares 2006
G R Menzies	**840,000**	840,000
M Rollins	**120,000**	120,000
M Sheppard	**–**	–
M Clark	**60,000**	60,000
D G Best (from 1 May 2007)	**20,000**	–
I F R Much	**20,000**	–

There were no changes to the Directors' shareholdings between the end of the year and the date of this report.

Options and other share incentives

Date of grant/award	At 31.12.06	Granted 2007	Exercised 2007	Gains on exercise/ vesting 2007	Market price on exercise/ vesting 2007	Forfeited 2007	Lapsed 2007	At 31.12.07	Option price	Exercise period/ maturity date
G R Menzies										
1999 Executive Share Option Plan										
12.03.03	1,070,643	–	–	–	–	–	–	1,070,643	21.97p	3 years to 11.03.09
2005 Long Term Incentive Plan										
20.05.05	650,810	–	–	–	–	–	–	650,810	–	March 08
09.08.07	–	310,502	–	–	–	–	–	310,502	–	March 10
M Rollins										
1999 Executive Share Option Plan										
12.03.03	547,122	–	–	–	–	–	–	547,122	21.97p	3 years to 11.03.09
Long Term Share Incentive Award Plan – Performance Awards										
2005 Long Term Incentive Plan										
20.05.05	394,115	–	–	–	–	–	–	394,115	–	March 08
15.03.06	146,706	–	–	–	–	–	–	146,706	–	March 09
08.03.07	–	130,435	–	–	–	–	–	130,435	–	March 10
M Sheppard										
1999 Executive Share Option Plan										
12.03.03	524,789	–	–	–	–	–	–	524,789	21.97p	3 years to 11.03.09
2005 Long Term Incentive Plan										
20.05.05	332,563	–	–	–	–	–	–	332,563	–	March 08
15.03.06	134,572	–	–	–	–	–	–	134,572	–	March 09
08.03.07	–	104,571	–	–	–	–	–	104,571	–	March 10

The market price (adjusted where applicable, for the effect of the rights issue) of the Company's shares on the dates of the awards made under the 2005 LTIP are as follows:

Date of grant	20.05.05	15.03.06	08.03.07	09.08.07
Market price of Company's shares (on date of award)	38.28p	65.86p	80.75p	104.00p

Details of the share schemes referred to in the above table may be found on pages 25 and 26.

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

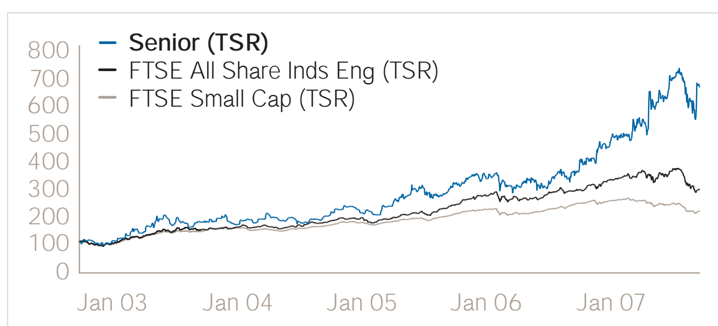
Date of grant	12.03.03	20.05.05	15.03.06	08.03.07	09.08.07
Base underlying EPS (adjusted for the effect of the rights issue)	4.26p	3.42p	3.82p	4.65p	4.65p

The total net value of the Directors' unexercised options at 31 December 2007 (excluding awards under the 2005 LTIP), all of which were unexercisable, was £2,052,138 (2006 – 900,515) representing options held by G R Menzies (£1,025,462), M Rollins (£524,033) and M Sheppard (£502,643). The net value of unexercised options is the positive difference between the closing middle market price of the Company's shares at the year-end (117.75p per share) and the exercise price of the options. It does not take into account the likelihood of the performance targets being met.

At 31 December 2007, 1,044,859 ordinary shares (2006 – 1,044,859 ordinary shares) were held by the Senior plc Employee Benefit Trust, a discretionary trust resident in Jersey. The market value of these shares at 31 December 2007 was £1,230,321 (2006 – £668,710). The Trust has materially waived its rights to dividends on these shares. The executive Directors are not collectively interested in these shares.

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

The closing middle market price of the shares at 31 December 2007 was 117.75p (2006 – 64.00p). During 2007, the shares traded in the range of 64.75p to 130.25p.



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

Directors' Pension Entitlements

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

	Gross increase in accrued pension (A) £000's	Increase in accrued pension net of inflation (B) £000's	Total accrued pension at 31.12.07 (C) £000's	Value of net increase in accrual over period (D) £000's	Change in transfer value during period (E) £000's	Transfer value of accrued pension at 31.12.07 (F) £000's	Transfer value of accrued pension at 31.12.06 (G) £000's
G R Menzies	5	4	29	66	111	625	505
M Rollins	4	3	27	26	47	306	251
M Sheppard	2	1	33	2	10	80	70
Total	11	8	89	94	168	1,011	826

1. The pension entitlement shown is that which would be paid annually on retirement based on service to, and final pensionable salary at, 31 December 2007.

2. The gross increase in accrued pension during the year (A) includes an increase for inflation; the net increase in accrued pension (B) excludes any such increase.

3. The transfer values have been calculated in accordance with version 9.2 of Guidance Note GN11 issued by the actuarial profession.

4. Any Additional Voluntary Contributions paid by the Directors and the resulting benefits are not shown.

5. The figures quoted above for M Sheppard are in respect of the defined benefit element of his pension only. In addition, he participated in the defined contribution plan to which he paid $11,250 and the Company paid $13,548 during the year.

6. The transfer value of net increase (D) represents the incremental value to the Director of his service during the year, calculated assuming service terminated at the year-end. It is based on the accrued pension increase (B) and is quoted after deducting the Director's contribution.

7. The change in the transfer value (E) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is quoted after deducting the Director's contribution.

Shareholder Approval for the Remuneration Report

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

This report was approved by the Board on 29 February 2008 and signed on its behalf by:

I F R Much
Chairman of the Remuneration Committee

Corporate Social Responsibility Report

Principles

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

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

Goals

a) Ethical operations

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

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

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

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

b) Socially aware operations

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

c) Health, safety & environment

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

The HSE Committee met four times during the year and is responsible for formulating the Group's HSE strategy and objectives, for reviewing the Group's HSE performance against the objectives, and for ensuring that key HSE risks and issues are effectively identified and managed.

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

Over the past 12 months the Group has achieved a number of improvements in the management of its health, safety and environmental exposures:

- management systems have been improved, with an additional seven operations having achieved certification to ISO 14001 and a further two being in the final stages of implementation. This will leave only seven of the Group's 25 operations left to be certified;
- resourcing has been enhanced with local HSE Coordinators in place, and with the larger facilities providing resourcing on a dedicated basis;
- technical improvements have been made at a number of operations including improved ventilation and solvent elimination, along with improved safety controls such as machine guarding and process control; and
- improvements have been made to the Group's energy and environmental performance, with waste, solvent and water usage and the CO_2 to sales ratio being reduced.

Although good progress has been made during the year, the Board and operational management teams remain committed to implementing further improvements.

d) Environment

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

Performance Indices

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

i. Waste

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

Whilst the overall level of Group waste increased, due to acquisitions and organic growth, the proportion recycled increased significantly such that the total volume of waste generated and recycled by the continuing business (excluding acquisitions), increased in 2007 by 5% which, given the 18% organic growth of the business, represents a marked improvement in the Group's Waste Generated to Revenue performance.

With 16 of the operations having now certificated to ISO14001, and two to follow shortly, the Group has achieved notable improvements in environmental performance. These include increased recycling and waste reduction, such as the re-use of plaster at one of Senior's composite businesses, this had previously been disposed to landfill. General recycling has also improved considerably over the past year, with over 130 tonnes of paper and cardboard being redirected from landfill to being recycled.

ii. Water and solvent usage

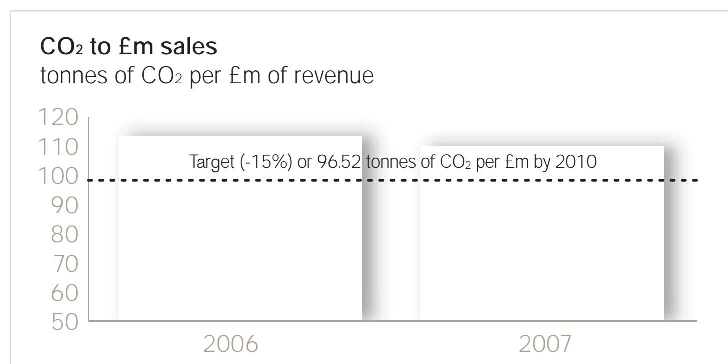
The Group's total water use for 2007, despite the inclusion of the newly acquired companies for a full year, of 410 megalitres represented an 18% reduction compared to the prior year (2006 – 500 megalitres).

The majority of the Group's total solvent usage for 2007 (92 tonnes), relates to solvents inherent within the production processes. The Group invested over £440,000 in 2007 to reduce usage of solvents and meet the new European limits for Volatile Organic Compounds ("VOC") emissions. These investments will build upon the 26 tonnes of VOC the Group has already managed to eliminate through the replacement of material cleaning processes.

iii. Energy

The Group has targeted the reduction of the 2006 CO_2 emissions to revenue ratio by 15% by 2010. With sales of £470.7m and carbon emissions at 51,939 tonnes (2006 – £387.9m and 44,116 tonnes), the 3% improvement to 110.3 tonnes of CO_2 per £m of revenue (2006 – 113.7 tonnes) provides a solid start upon which to achieve the target within the four year timescale.

The Group's main sources of CO_2 emissions during the year were due to electricity consumption (39,379 tonnes) and natural gas usage (11,270 tonnes).



Occupational Health and Safety

The Group uses a series of performance indicators for measuring its safety performance, including the OSHA Days Away Case Rate ("DACR") and the Accident Severity rate. The DACR measures the number of OSHA recordable injury and illness cases involving days away from work per 100 employees. The 5% annual DACR reduction target, set in 2006, was achieved in 2007, falling 8% from 2.77 to 2.55. The second of the metrics, the Accident Severity Rate, which measures the number of lost workdays resulting from occupational injuries and illnesses per 100 employees, remained unchanged at 70.1, having been inhibited by the more protracted nature of returning employees to work and the need for effective rehabilitation.

Having improved the local health and safety resources during the year and instigated better management systems, the Group's safety programme will now increase the focus on:

- identifying and assessing hazards through the use of risk assessment;
- improving the formalisation of business processes, and improving the enforcement of operational controls;
- improving Organisation Learning by enhancing the sharing of information amongst the operations on issues such as accidents and technical best practices; and
- developing and defining technical best practice for a range of hazards and processes through the development of corporate standards.

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

Organisation and Responsibilities

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

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

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

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

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

Customers and Suppliers

The Group's operations rely on forming close and long-term relationships with their customers and suppliers. Generally, these relationships are managed at a local level, with Divisional support.

Statement of Directors' Responsibilities

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

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

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

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

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

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

Independent Auditors' Report to the Members of Senior plc

We have audited the Group and parent company Financial Statements (the "Financial Statements") of Senior plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Group and Company Statements of Recognised Income and Expense, the Group and Company Balance Sheets, the Group and Company cash flow statements and the related notes 1 to 38. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective Responsibilities of Directors and Auditors

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

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

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

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company Financial Statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Financial Statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Nottingham
29 February 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	Year ended 2007 £m	Year ended 2006 £m
Continuing operations			
Revenue	3	**470.7**	387.9
Trading profit	5	**42.2**	24.9
Loss on sale of fixed assets		**(0.7)**	(0.4)
Operating profit (1)		**41.5**	24.5
Investment income	7	**1.0**	0.9
Finance costs	8	**(8.2)**	(7.3)
Profit before tax (2)		**34.3**	18.1
Tax	10	**(6.4)**	(2.9)
Profit for the period	5	**27.9**	15.2
Attributable to:			
Equity holders of the parent		**27.9**	15.2
Earnings per share			
Basic	12	**7.17p**	4.35p
Diluted	12	**7.00p**	4.25p
(1) Adjusted operating profit	9	**45.0**	26.2
(2) Adjusted profit before tax	9	**37.8**	19.8

Statements of Recognised Income and Expense

For the year ended 31 December 2007

	Group Year ended 2007 £m	Group Year ended 2006 £m	Company Year ended 2007 £m	Company Year ended 2006 £m
Gains/(losses) on cash flow hedges	**0.5**	(0.4)	**0.3**	–
(Losses)/gains on revaluation of financial instruments	**(2.6)**	3.5	**0.2**	0.3
Exchange differences on translation of foreign operations	**3.2**	(10.5)	**(0.5)**	–
Actuarial losses on defined benefit pension schemes	**(0.8)**	(1.0)	**(1.7)**	(1.7)
Tax on items taken directly to equity	**2.1**	(0.7)	**–**	–
Net income/(loss) recognised directly in equity	**2.4**	(9.1)	**(1.7)**	(1.4)
Amounts transferred to profit or loss on cash flow hedges	**(0.4)**	–	**–**	–
Profit/(loss) for the period	**27.9**	15.2	**1.1**	(1.7)
Total recognised income and expense for the period	**29.9**	6.1	**(0.6)**	(3.1)
Attributable to:				
Equity holders of the parent	**29.9**	6.1	**(0.6)**	(3.1)

Amounts transferred to profit or loss on cash flow hedges are included within trading profit in the Income Statement.

Balance Sheets

As at 31 December 2007

	Notes	Group Year ended 2007 £m	Group Year ended 2006 £m	Company Year ended 2007 £m	Company Year ended 2006 £m
Non-current assets					
Goodwill	13	**114.3**	111.0	**–**	–
Other intangible assets	14	**11.9**	15.1	**–**	–
Investments in subsidiaries	16	**–**	–	**179.0**	111.8
Property, plant and equipment	15	**93.6**	87.6	**0.2**	0.2
Deferred tax assets	22	**0.1**	0.1	**–**	–
Trade and other receivables	19	**3.5**	3.7	**75.0**	166.5
Total non-current assets		**223.4**	217.5	**254.2**	278.5
Current assets					
Inventories	17	**79.4**	69.8	**–**	–
Construction contracts	18	**2.9**	3.5	**–**	–
Trade and other receivables	19	**78.7**	67.5	**5.0**	3.8
Cash and cash equivalents	33a	**8.7**	7.2	**1.0**	10.0
Total current assets		**169.7**	148.0	**6.0**	13.8
Total assets		**393.1**	365.5	**260.2**	292.3
Current liabilities					
Trade and other payables	24	**92.5**	82.1	**3.4**	2.4
Tax liabilities		**9.0**	10.2	**–**	–
Obligations under finance leases	23	**0.2**	0.2	**–**	–
Bank overdrafts and loans	20	**41.5**	13.1	**39.0**	14.1
Total current liabilities		**143.2**	105.6	**42.4**	16.5
Non-current liabilities					
Trade and other payables	24	**–**	–	**3.5**	21.5
Bank and other loans	20	**58.3**	90.2	**57.7**	89.7
Retirement benefit obligations	36	**36.3**	37.5	**30.5**	30.8
Deferred tax liabilities	22	**3.3**	3.3	**–**	–
Obligations under finance leases	23	**1.3**	1.4	**–**	–
Others		**0.8**	0.4	**–**	–
Total non-current liabilities		**100.0**	132.8	**91.7**	142.0
Total liabilities		**243.2**	238.4	**134.1**	158.5
Net assets		**149.9**	127.1	**126.1**	133.8
Equity					
Issued share capital	25	**39.1**	39.0	**39.1**	39.0
Share premium account	26	**11.3**	11.2	**11.3**	11.2
Equity reserve	27	**1.6**	0.8	**1.6**	0.8
Distributable reserve	28	**19.4**	19.4	**19.4**	19.4
Hedging and translation reserve	29	**(4.4)**	(5.9)	**(0.6)**	(0.6)
Retained earnings	30	**84.3**	64.0	**56.7**	65.4
Own shares	31	**(1.4)**	(1.4)	**(1.4)**	(1.4)
Equity attributable to equity holders of the parent		**149.9**	127.1	**126.1**	133.8
Total equity		**149.9**	127.1	**126.1**	133.8

The Financial Statements were approved by the Board of Directors and authorised for issue on 29 February 2008.
They were signed on its behalf by:

M Clark, Director
M Rollins, Director

Cash Flow Statements

For the year ended 31 December 2007

	Notes	**Group Year ended 2007 £m**	Group Year ended 2006 £m	**Company Year ended 2007 £m**	Company Year ended 2006 £m
Net cash from/(used in) operating activities	33a	**35.3**	22.3	**(11.3)**	(10.5)
Investing activities					
Interest received		**0.8**	1.3	**9.7**	5.4
Dividends received from subsidiaries		**–**	–	**21.5**	0.3
Disposal of subsidiary		**0.1**	0.1	**–**	–
Proceeds on disposal of property, plant and equipment		**1.9**	2.2	**–**	–
Purchases of property, plant and equipment		**(19.0)**	(20.1)	**(0.1)**	(0.1)
Purchases of intangible assets		**(0.5)**	(0.6)	**–**	–
Acquisition of Sterling Machine		**–**	(21.5)	**–**	–
Acquisition of AMT, net of cash acquired		**(1.2)**	(58.3)	**–**	–
Acquisition of Absolute	32	**(7.0)**	–	**–**	–
Net cash (used in)/from investing activities		**(24.9)**	(96.9)	**31.1**	5.6
Financing activities					
Dividends paid		**(8.1)**	(6.5)	**(8.1)**	(6.5)
Repayment of borrowings		**(61.0)**	(7.1)	**(61.0)**	(7.1)
Repayments of obligations under finance leases		**(0.2)**	(0.2)	**–**	–
Share issues		**0.2**	34.8	**0.2**	34.8
New loans raised		**55.9**	53.1	**55.7**	53.1
Net loans advanced to subsidiaries		**–**	–	**(15.6)**	(68.1)
Net cash inflow/(outflow) on forward contracts		**0.4**	(0.2)	**–**	–
Net cash (used in)/from financing activities		**(12.8)**	73.9	**(28.8)**	6.2
Net (decrease)/increase in cash and cash equivalents		**(2.4)**	(0.7)	**(9.0)**	1.3
Cash and cash equivalents at beginning of period		**7.0**	8.5	**8.7**	7.4
Effect of foreign exchange rate changes		**0.3**	(0.8)	**–**	–
Cash and cash equivalents at end of period		**4.9**	7.0	**(0.3)**	8.7

Notes to the Financial Statements

1. General information

Senior plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 4 and in the Operating and Financial Review on pages 8 to 18.

2. Significant accounting policies

Basis of accounting

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

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures; and the related amendment to IAS 1 Presentation of Financial Statements on capital disclosures. The impact of these has been to expand the disclosures on financial instruments and management of capital. Four Interpretations are effective for the current period. These are: IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. As none of the Group entities has a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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

IFRS 2 (Amendment) Share-based Payment Vesting Conditions and Cancellations. Effective for periods commencing on or after 1 January 2009.

IFRS 3 (Revised) Business Combinations. Effective for periods commencing on or after 1 July 2009.

IFRS 8 Operating Segments. Effective for periods commencing on or after 1 January 2009.

IAS 23 (Revised) Borrowing Costs. Effective for periods commencing on or after 1 January 2009.

IAS 1 (Revised) Presentation of Financial Statements. Effective for periods commencing on or after 1 January 2009.

IAS 27 (Amendment) Consolidated and Separate Financial Statements. Effective for periods commencing on or after 1 July 2009.

IAS 32 (Amendment) Financial Instruments: Presentation and IAS 1 (Amendment) Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation. Effective for periods commencing on or after 1 January 2009.

IFRIC 12 Service Concession Arrangements. Effective for periods commencing on or after 1 January 2008.

IFRIC 13 Customer Loyalty Programmes. Effective for periods commencing on or after 1 July 2008.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. Effective for periods commencing on or after 1 January 2008.

The Directors anticipate that the adoption of these standards and interpretations in future periods will not have a material impact on these Financial Statements, except for additional disclosures, when the relevant standards come into effect. At the date of authorisation of these Financial Statements, all of the above standards and interpretations, with the exception of IFRS 8, had not been endorsed by the EU.

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

The principal accounting policies under IFRS are set out below.

Basis of consolidation

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

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

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

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

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

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

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.

2. Significant accounting policies continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

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

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

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

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

Construction contracts

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

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

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

Leasing

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

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

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

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

Foreign currencies

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

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

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

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

Government grants

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

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

Operating profit

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

Borrowing costs

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

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.

2. Significant accounting policies continued

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

Taxation

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

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

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

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

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

Property, plant and equipment

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

The Group does not intend to conduct annual revaluations.

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset at disposal and is recognised in income.

Other intangible assets

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

Internally generated intangible assets – research and development expenditure

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

i) An asset is created that can be separately identified;

ii) It is probable that the asset created will generate future economic benefits; and

iii) The development cost of the asset can be measured reliably.

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

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value less the costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

2. Significant accounting policies continued

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.

Financial instruments are classified as cash and cash equivalents, bank overdrafts and loans, obligations under finance leases, trade receivables, trade payables, deferred consideration receivable, other receivables and other payables.

Non-derivative financial assets are categorised as "loans and receivables" and non-derivative financial liabilities are categorised as "other financial liabilities". The classification depends on the nature and purpose of the financial assets and liabilities and is determined at the time of initial recognition.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. These are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the asset is impaired. The carrying amount of the asset is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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.

The Group designates certain hedging instruments in respect of foreign currency risk as either cash flow hedges or hedges of net investments in foreign operations. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are recognised in the income statement on disposal of the foreign operation.

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.

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 and Flexonics. 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.

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, fair value of intangible assets acquired on acquisition, derivative financial instruments, share-based payments and retirement benefit schemes.

Notes to the Financial Statements continued

3. Revenue

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

	Year ended 2007 £m	Year ended 2006 £m
Sale of goods	**459.3**	378.2
Revenue from construction contracts	**11.4**	9.7
Total	**470.7**	387.9

4. Business and geographical segments

Business segments

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

	Aerospace Year ended 2007 £m	**Flexonics Year ended 2007 £m**	**Eliminations/ Central costs Year ended 2007 £m**	**Total Year ended 2007 £m**	Aerospace Year ended 2006 £m	Flexonics Year ended 2006 £m	Eliminations/ Central costs Year ended 2006 £m	Total Year ended 2006 £m
External revenue	**245.9**	**224.8**	**–**	**470.7**	196.6	191.3	–	387.9
Inter-segment revenue	**0.3**	**0.2**	**(0.5)**	**–**	0.4	0.2	(0.6)	–
Total revenue	**246.2**	**225.0**	**(0.5)**	**470.7**	197.0	191.5	(0.6)	387.9
Adjusted operating profit (see Note 9)	**33.4**	**17.4**	**(5.8)**	**45.0**	19.2	11.8	(4.8)	26.2
(Loss)/profit on sale of fixed assets	**(0.3)**	**(0.4)**	**–**	**(0.7)**	0.5	(0.9)	–	(0.4)
Release of provision from previous acquisition	**–**	**0.5**	**–**	**0.5**	–	–	–	–
Amortisation of intangible assets from acquisitions	**(3.3)**	**–**	**–**	**(3.3)**	(1.3)	–	–	(1.3)
Operating profit	**29.8**	**17.5**	**(5.8)**	**41.5**	18.4	10.9	(4.8)	24.5
Investment income				**1.0**				0.9
Finance costs				**(8.2)**				(7.3)
Profit before tax				**34.3**				18.1
Tax				**(6.4)**				(2.9)
Profit after tax				**27.9**				15.2

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

	Assets Year ended 2007 £m	**Liabilities Year ended 2007 £m**	**Additions to PPE and intangibles Year ended 2007 £m**	**Depreciation and amortisation Year ended 2007 £m**	Assets Year ended 2006 £m	Liabilities Year ended 2006 £m	Additions to PPE and intangibles Year ended 2006 £m	Depreciation and amortisation Year ended 2006 £m
Aerospace	**237.4**	**35.4**	**10.9**	**10.1**	227.8	35.1	7.6	6.8
Flexonics	**140.5**	**47.7**	**8.5**	**7.7**	124.5	37.8	13.0	7.0
Sub total continuing operations	**377.9**	**83.1**	**19.4**	**17.8**	352.3	72.9	20.6	13.8
Unallocated corporate amounts	**15.2**	**160.1**	**0.1**	**0.1**	13.2	165.5	0.1	0.1
Total	**393.1**	**243.2**	**19.5**	**17.9**	365.5	238.4	20.7	13.9

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 2007 £m	Segment assets Year ended 2007 £m	Additions to PPE and intangibles Year ended 2007 £m	Sales revenue Year ended 2006 £m	Segment assets Year ended 2006 £m	Additions to PPE and intangibles Year ended 2006 £m
North America	**267.3**	**235.8**	**13.1**	210.7	219.7	15.2
UK	**50.3**	**61.4**	**1.7**	41.3	62.5	1.2
Rest of Europe	**115.5**	**58.7**	**3.4**	104.0	52.4	3.2
Rest of World	**37.6**	**22.0**	**1.2**	31.9	17.7	1.0
Sub total continuing operations	**470.7**	**377.9**	**19.4**	387.9	352.3	20.6
Unallocated corporate amounts	**–**	**15.2**	**0.1**	–	13.2	0.1
Total	**470.7**	**393.1**	**19.5**	387.9	365.5	20.7

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

5. Trading profit and profit for the period

Trading profit for continuing operations can be analysed as follows:

	Year ended 2007 £m	Year ended 2006 £m
Revenue	**470.7**	387.9
Cost of sales	**(369.0)**	(305.8)
Gross profit	**101.7**	82.1
Distribution costs	**(3.7)**	(4.4)
Administrative expenses	**(55.8)**	(52.8)
Trading profit	**42.2**	24.9

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

	Year ended 2007 £m	Year ended 2006 £m
Net foreign exchange gains	**(0.6)**	(0.5)
Research and development costs	**8.2**	8.5
Depreciation of property, plant and equipment	**14.1**	12.1
Amortisation of intangible assets included in administration expenses	**3.8**	1.8
Cost of inventories recognised as expense	**369.0**	305.8
Net change in carrying amount of allowance for doubtful receivables	**(0.1)**	0.6
Staff costs (see Note 6)	**139.5**	133.1
Auditors' remuneration for audit services (see below)	**0.6**	0.5

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 (2006 – £0.7m).

Auditors' remuneration for audit services to the Company was £0.1m (2006 – £0.1m).

5. Trading profit and profit for the period continued

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

	£m	2007 %	£m	2006 %
Audit services				
– statutory audit	**0.6**	**75**	0.5	42
	0.6	**75**	0.5	42
Non-audit services				
– tax compliance services	**0.1**	**12**	0.1	8
– tax advisory services	**0.1**	**13**	0.1	8
– other services	**–**	**–**	0.5	42
	0.2	**25**	0.7	58
	0.8	**100**	1.2	100

The other services relate to corporate finance services on acquisitions and the 2006 rights issue, and have been treated as acquisition and rights issue costs and not charged to the Income Statement.

A description of the work of the Audit Committee is set out on pages 22 and 23 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 2007 Number	Group Year ended 2006 Number	Company Year ended 2007 Number	Company Year ended 2006 Number
Production	**4,903**	4,444	**–**	–
Distribution	**61**	53	**–**	–
Sales	**287**	291	**–**	–
Administration	**433**	414	**18**	18
	5,684	5,202	**18**	18

	Year ended 2007 £m	Year ended 2006 £m	Year ended 2007 £m	Year ended 2006 £m
Their aggregate remuneration comprised:				
Wages and salaries	**118.6**	114.0	**1.9**	1.8
Social security costs	**14.4**	14.1	**0.2**	0.2
Other pension costs – defined contribution (see Note 36a)	**2.8**	2.4	**–**	–
Other pension costs – defined benefit (see Note 36e)	**2.2**	2.0	**0.2**	0.1
Share-based payments	**1.5**	0.6	**0.5**	–
	139.5	133.1	**2.8**	2.1

7. Investment income

	Year ended 2007 £m	Year ended 2006 £m
Interest on bank deposits	**0.3**	0.2
Foreign currency derivatives	**0.6**	0.5
Others	**0.1**	0.2
Total income	**1.0**	0.9

The Company earned investment income of £9.6m (2006 – £6.2m) on financial assets all of which relate to loans and receivables category.

8. Finance costs

	Year ended 2007 £m	Year ended 2006 £m
Interest on bank overdrafts and loans	**3.0**	2.1
Interest on other loans	**4.3**	4.3
Interest on obligations under finance leases	**0.1**	0.1
Cost on interest rate swaps	**–**	–
Net finance cost of retirement benefit obligations (Note 36e)	**0.8**	0.8
Total finance costs	**8.2**	7.3

The Company incurred finance costs of £7.3m (2006 – £5.8m) on financial liabilities all of which relate to other financial liabilities category.

9. Adjusted operating profit and adjusted profit before tax

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

	Year ended 2007 £m	Year ended 2006 £m
Operating profit	**41.5**	24.5
Loss on sale of fixed assets	**0.7**	0.4
Release of provision from previous acquisition	**(0.5)**	–
Amortisation of intangible assets from acquisitions	**3.3**	1.3
Adjustments to operating profit	**3.5**	1.7
Adjusted operating profit	**45.0**	26.2
Profit before tax	**34.3**	18.1
Adjustments to profit as above before tax	**3.5**	1.7
Adjusted profit before tax	**37.8**	19.8

10. Tax charge

	Year ended 2007 £m	Year ended 2006 £m
Current tax:		
UK corporation tax	–	–
Foreign tax	5.6	3.6
Adjustments in respect of prior periods	(0.1)	(0.7)
	5.5	2.9
Deferred tax (Note 22):		
Current year	1.9	0.8
Adjustments in respect of prior periods	(1.0)	(0.8)
	0.9	–
	6.4	2.9
Attributable to:		
Continuing operations	6.4	2.9

UK corporation tax is calculated at 30% (2006 – 30%) of the estimated assessable profit for the year.

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

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

	Year ended 2007 £m	Year ended 2007 %	Year ended 2006 £m	Year ended 2006 %
Profit before tax from continuing operations	34.3		18.1	
Tax at the UK corporation tax rate of 30% (2006 – 30%)	10.3		5.4	
Tax effect of income/expenses that are non taxable/deductible in determining taxable profit	(0.7)		0.4	
Tax effect of unrelieved tax losses	–		1.3	
Tax effect of movements in temporary differences not previously recognised	(0.9)		(1.2)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1.2)		(1.4)	
Adjustments to tax charge in respect of prior periods	(1.1)		(1.6)	
Tax expense and effective tax rate for the year	6.4	18.7	2.9	16.0

In addition to the amount charged to the Income Statement, tax relating to unrealised foreign exchange gains/losses amounting to £0.8m (2006 – £0.9m charged) has been credited directly to equity via hedging and translation reserves (see Note 29), and tax relating to deductible temporary differences amounting to £1.3m (2006 – £0.2m) has been credited directly to equity via retained earnings (see Note 30).

11. Dividends

	Year ended 2007 £m	Year ended 2006 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2006 of 1.381p (2005 – 1.286p) per share	**5.4**	4.4
Interim dividend for the year ended 31 December 2007 of 0.700p (2006 – 0.619p) per share	**2.7**	2.1
	8.1	6.5
Proposed final dividend for the year ended 31 December 2007 of 1.700p (2006 – 1.381p) per share	**6.6**	5.4

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.

12. Earnings per share

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

Number of shares	Year ended 2007 m	Year ended 2006 m
Weighted average number of ordinary shares for the purposes of basic earnings per share	**389.0**	349.8
Effect of dilutive potential shares:		
Share options	**9.5**	7.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**398.5**	357.7

Earnings and earnings per share	Year ended 2007 Earnings £m	Year ended 2007 EPS pence	Year ended 2006 Earnings £m	Year ended 2006 EPS pence
Profit for the period	**27.9**	**7.17**	15.2	4.35
Adjust:				
Loss on sale of fixed assets net of tax of £0.3m (2006 – £0.1m)	**0.4**	**0.10**	0.3	0.07
Release of provision from acquisition net of tax of £0.2m (2006 – £nil)	**(0.3)**	**(0.08)**	–	–
Amortisation of intangible assets from acquisitions net of tax of £1.3m (2006 – £0.5m)	**2.0**	**0.52**	0.8	0.23
Adjusted earnings after tax	**30.0**	**7.71**	16.3	4.65
Earnings per share				
– basic		**7.17p**		4.35p
– diluted		**7.00p**		4.25p
– adjusted		**7.71p**		4.65p
– adjusted and diluted		**7.53p**		4.56p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2006 – £nil).

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

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

– gains or losses arising from the sale of fixed assets
– release of provision from previous acquisition
– amortisation of intangible assets acquired on acquisitions.

13. Goodwill

	Group Year ended 2007 £m	Group Year ended 2006 £m
Cost		
At 1 January	**111.0**	77.1
Exchange differences	**(0.4)**	(6.7)
Recognised on acquisition of subsidiaries	**4.1**	40.6
Other changes	**(0.4)**	–
At 31 December	**114.3**	111.0
Accumulated impairment losses		
At 1 January and at 31 December	**–**	–
Carrying amount at 31 December	**114.3**	111.0

The amount shown for other changes represents a reduction in the deferred consideration payable in respect of Sterling Machine, upon expiry of the warranty period in January 2008.

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 2007 £m	Group Year ended 2006 £m
Aerospace		
– Senior UK Limited	**36.4**	36.4
– Jet Products	**13.0**	13.2
– Aerospace Manufacturing Technologies	**27.1**	27.5
– Sterling Machine	**10.5**	11.0
– Other	**5.5**	1.3
	92.5	89.4
Flexonics		
– Pathway	**13.5**	13.7
– Other	**8.3**	7.9
	21.8	21.6
Total	**114.3**	111.0

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 2.5% 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 8.7%.

14. Other intangible assets

	Group Year ended 2007 Customer relationships £m	Group Year ended 2007 Computer software £m	Group Year ended 2007 Total £m	Group Year ended 2006 Customer relationships £m	Group Year ended 2006 Computer software £m	Group Year ended 2006 Total £m	Company Year ended 2007 Computer software £m	Company Year ended 2006 Computer software £m
Cost								
At 1 January	15.2	4.9	20.1	–	4.8	4.8	0.1	0.1
Additions	–	0.5	0.5	–	0.6	0.6	–	–
Acquired on acquisition of subsidiaries	0.2	–	0.2	15.9	–	15.9	–	–
Disposals	–	–	–	–	–	–	–	–
Exchange differences	(0.2)	0.1	(0.1)	(0.7)	(0.5)	(1.2)	–	–
At 31 December	15.2	5.5	20.7	15.2	4.9	20.1	0.1	0.1
Amortisation								
At 1 January	1.2	3.8	5.0	–	3.7	3.7	0.1	0.1
Charge for the year	3.3	0.5	3.8	1.3	0.5	1.8	–	–
Disposals	–	–	–	–	–	–	–	–
Exchange differences	–	–	–	(0.1)	(0.4)	(0.5)	–	–
At 31 December	4.5	4.3	8.8	1.2	3.8	5.0	0.1	0.1
Carrying amount at 31 December	10.7	1.2	11.9	14.0	1.1	15.1	–	–

The carrying amount of the Group's customer relationships includes an amount of £9.6m (2006 – £12.3m) in respect of customer contracts acquired as part of the acquisition of Aerospace Manufacturing Technologies in 2006. This is to be amortised over the next 3.8 years (2006 – 4.8 years).

15. Property, plant and equipment

a) Group

	Year ended 2007 Freehold land and buildings £m	Year ended 2007 Leasehold land and buildings £m	Year ended 2007 Plant and equipment £m	Year ended 2007 Total £m	Year ended 2006 Freehold land and buildings £m	Year ended 2006 Leasehold land and buildings £m	Year ended 2006 Plant and equipment £m	Year ended 2006 Total £m
Cost or valuation								
At 1 January	43.2	1.4	179.9	224.5	40.8	1.4	176.4	218.6
Additions	2.2	–	16.8	19.0	2.3	0.1	17.7	20.1
Acquired on acquisition	–	–	2.0	2.0	3.4	–	9.5	12.9
Exchange differences	1.2	–	3.5	4.7	(3.0)	(0.1)	(15.7)	(18.8)
Disposals	–	–	(8.8)	(8.8)	(0.3)	–	(8.0)	(8.3)
At 31 December	46.6	1.4	193.4	241.4	43.2	1.4	179.9	224.5
Accumulated depreciation and impairment								
At 1 January	9.4	0.9	126.6	136.9	9.2	0.9	132.4	142.5
Charge for the year	1.0	–	13.1	14.1	1.0	–	11.1	12.1
Exchange differences	0.3	–	2.7	3.0	(0.7)	–	(11.3)	(12.0)
Eliminated on disposals	–	–	(6.2)	(6.2)	(0.1)	–	(5.6)	(5.7)
At 31 December	10.7	0.9	136.2	147.8	9.4	0.9	126.6	136.9
Carrying amount at 31 December	35.9	0.5	57.2	93.6	33.8	0.5	53.3	87.6

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £2.0m (2006 – £1.9m) in respect of assets held under finance leases.

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

At 31 December 2007, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.7m (2006 – £6.0m).

15. Property, plant and equipment continued

b) Company

	Year ended 2007 Plant and equipment £m	Year ended 2006 Plant and equipment £m
Cost		
At 1 January	**0.5**	0.4
Additions	**0.1**	0.1
Disposals	**(0.1)**	–
At 31 December	**0.5**	0.5
Accumulated depreciation		
At 1 January	**0.3**	0.3
Charge for the year	**0.1**	–
Eliminated on disposals	**(0.1)**	–
At 31 December	**0.3**	0.3
Carrying amount at 31 December	**0.2**	0.2

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 71.

	Company Year ended 2007 £m	Company Year ended 2006 £m
At 1 January	**111.8**	92.0
Additional investment in subsidiaries	**87.0**	19.8
Impairment of investment in subsidiaries	**(19.8)**	–
At 31 December	**179.0**	111.8

Additional investment in subsidiaries includes £87.0m (2006 – £nil) recapitalisation of subsidiary by means of the capitalisation of part of an interest bearing loan due from the subsidiary, £nil (2006 – £19.4m) from transfer of shares from a subsidiary, and £nil (2006 – £0.4m) in relation to equity-settled share-based payments to employees of subsidiaries.

17. Inventories

	Group Year ended 2007 £m	Group Year ended 2006 £m
Raw materials	**28.1**	26.8
Work-in-progress	**37.2**	30.7
Finished goods	**14.1**	12.3
	79.4	69.8

An amount of £0.9m (2006 – £1.0m) has been charged in respect of inventory write-downs.

18. Construction contracts

	Group Year ended 2007 £m	Group Year ended 2006 £m
Contracts in progress at 31 December:		
Amounts due from contract customers included in current assets	**2.9**	3.5
Amounts due to contract customers included in trade and other payables	**–**	–
	2.9	3.5
Current costs incurred plus recognised profits less recognised losses to date	**11.4**	9.7
Less: progress billings	**(8.5)**	(6.2)
	2.9	3.5

At 31 December 2007, retentions held by customers for contract work amounted to £0.4m (2006 – £0.5m). Advances received from customers for contract work amounted to £nil (2006 – £nil).

At 31 December 2007, amounts of £0.2m (2006 – £0.2m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

19. Trade and other receivables

Trade and other receivables at 31 December comprise the following:

	Group Year ended 2007 £m	Group Year ended 2006 £m	Company Year ended 2007 £m	Company Year ended 2006 £m
Non-current assets				
Deferred consideration on disposal of Hose operations	**2.5**	2.6	**–**	–
Trade receivables	**0.2**	0.2	**–**	–
Other receivables	**0.8**	0.9	**–**	–
Due from subsidiaries	**–**	–	**75.0**	166.5
	3.5	3.7	**75.0**	166.5
Current assets				
Trade receivables	**70.8**	60.1	**–**	–
Current tax recoverable	**0.8**	0.2	**1.0**	1.5
Value added tax	**0.8**	1.0	**0.1**	0.1
Currency derivatives	**0.8**	1.9	**0.3**	–
Prepayments and accrued income	**4.5**	3.7	**0.8**	0.8
Other receivables	**0.9**	0.5	**0.7**	0.5
Deferred consideration on disposal of Hose operations	**0.1**	0.1	**–**	–
Due from subsidiaries	**–**	–	**2.1**	0.9
	78.7	67.5	**5.0**	3.8
Total trade and other receivables	**82.2**	71.2	**80.0**	170.3

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

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. There are no other credit or impairment losses for other classes of financial assets.

19. Trade and other receivables continued

The average credit period taken on sales of goods is 63 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £2.0m (2006 – £2.1m). In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Accordingly, the Directors believe that there is no further credit provision risk required in excess of the allowance for doubtful receivables.

	Group Year ended 2007 £m	Group Year ended 2006 £
Movements in allowance for doubtful receivables:		
At 1 January	**2.1**	1.5
Provision for impairment	**0.5**	1.6
Amounts written off as uncollectible	**(0.3)**	(0.2)
Amounts recovered	**(0.3)**	(0.7)
Exchange differences	**–**	(0.1)
At 31 December	**2.0**	2.1
Ageing analysis of trade receivables:		
Up to 30 days past due	**9.9**	8.4
31 to 60 days past due	**2.0**	1.5
61 to 90 days past due	**0.6**	0.3
91 to 180 days past due	**0.4**	0.2
Total past due but not impaired	**12.9**	10.4
Not past due	**58.1**	49.9
Total trade receivables	**71.0**	60.3
Less: non current trade receivables	**(0.2)**	(0.2)
Current trade receivables	**70.8**	60.1

There are no items past due in any other class of financial assets except for trade receivables.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Group does not hold any collateral as security.

For the Company, the carrying amount of amounts due from subsidiaries approximates their fair value. There are no past due or impaired receivable balances (2006 – £nil).

20. Bank overdrafts and loans

	Group Year ended 2007 £m	Group Year ended 2006 £m	Company Year ended 2007 £m	Company Year ended 2006 £m
Bank overdrafts	**3.8**	0.2	**1.3**	1.3
Bank loans	**25.0**	51.3	**25.0**	51.3
Other loans	**71.0**	51.8	**70.4**	51.2
	99.8	103.3	**96.7**	103.8
The borrowings are repayable as follows:				
On demand or within one year	**41.5**	13.1	**39.0**	14.1
In the second year	**–**	38.4	**–**	38.4
In the third to fifth years inclusive	**25.0**	51.3	**25.0**	51.3
After five years	**33.3**	0.5	**32.7**	–
	99.8	103.3	**96.7**	103.8
Less: amount due for settlement within 12 months (shown under current liabilities)	**(41.5)**	(13.1)	**(39.0)**	(14.1)
Amount due for settlement after 12 months	**58.3**	90.2	**57.7**	89.7

20. Bank overdrafts and loans continued

Analysis of borrowings by currency:

31 December 2007

	Total £m	Sterling £m	Euros £m	US Dollars £m	Others £m
Bank overdrafts	**3.8**	–	0.6	3.0	0.2
Bank loans	**25.0**	21.0	4.0	–	–
Other loans	**71.0**	–	0.6	70.4	–
	99.8	21.0	5.2	73.4	0.2

An analysis of the Company's borrowings is as follows: Bank overdrafts Sterling £1.3m, Bank loans Euros £4.0m and Sterling £21.0m and Other loans US Dollars £70.4m.

31 December 2006

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

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

The weighted average interest rates paid were as follows:

	Year ended 2007 %	Year ended 2006 %
Bank overdrafts	**6.03**	5.55
Bank loans	**6.15**	5.31
Other loans	**6.23**	7.28

Bank loans and overdrafts of £28.8m (2006 – £51.5m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk. Interest rate swaps of £10.2m had been taken out at the end of 2006 to convert interest from floating rates to fixed rates with an effective start date of April 2007. This swap was cancelled in October 2007. No interest rate swaps had been taken out at the end of 2007.

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

	Group Year ended 2007 £m	Group Year ended 2006 £m	**Company Year ended 2007 £m**	Company Year ended 2006 £m
Bank overdrafts	**3.8**	0.2	**1.3**	1.3
Bank loans	**25.0**	51.3	**25.0**	51.3
Other loans	**71.1**	52.2	**70.5**	51.6
	99.9	103.7	**96.8**	104.2

The fair value of Other loans has been determined by applying a make-whole calculation using the prevailing treasury bill yields plus the applicable credit spread for the Group.

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

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

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

a) Loan notes of $75m, 2007 £37.7m (2006 – £38.2m) 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 $30m, 2007 £15.1m (2006 – £nil) were taken out in January 2007 and are due for repayment in January 2017. The loan notes carry interest at the rate of 5.85% per annum.

20. Bank overdrafts and loans continued

c) Loan notes of $35m, 2007 £17.6m (2006 – £nil) were taken out in October 2007 and are due for repayment in October 2014. The loan notes carry interest at the rate of 5.93% per annum.

The Group also has two revolving credit facilities: a committed £80m syndicated multi-currency facility maturing in July 2012 and a committed single bank $23m (£11.5m) facility maturing in August 2010. As at 31 December 2007, £25.0m was drawn by the Company under the first facility, comprising £21m and €5.5m (£4.0m). At 31 December 2006, £51.3m was drawn by the Company under this facility, comprising $98m (£50.0m) and €2.0m (£1.3m).

The $23m (£11.5m) facility existed at 31 December 2006, and the maturity has been extended from August 2008 to August 2010. As at 31 December 2007 $6m (£3.0m) was drawn under this facility. There were no amounts drawn under this facility as at 31 December 2006. The Company is not a guarantor under this facility.

In January 2008, a new £20m bilateral 364 day facility, with an option to extend by one year, was established with the Group's principal UK clearing bankers. This facility is to provide increased headroom following the acquisition of Capo Industries, Inc.

As at 31 December 2007, the Group had available £63.5m (2006 – £40.4m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

21. Financial instruments

Disclosures on capital and financial risk management and related sensitivity analyses are included in the Operating and Financial Review on pages 8 to 18.

Categories of financial instruments

	Group Year ended 2007 £m	Group Year ended 2006 £m	**Company Year ended 2007 £m**	Company Year ended 2006 £m
Carrying value of financial assets:				
Cash and cash equivalents	**8.7**	7.2	**1.0**	10.0
Deferred consideration receivable	**2.6**	2.7	**–**	–
Trade receivables	**71.0**	60.3	**–**	–
Other receivables	**1.7**	1.4	**0.7**	0.5
Due from subsidiaries	**–**	–	**77.1**	167.4
Loans and receivables at amortised cost	**84.0**	71.6	**78.8**	177.9
Currency derivatives used for hedging	**0.8**	1.9	**0.3**	–
Total financial assets	**84.8**	73.5	**79.1**	177.9
Carrying value of financial liabilities:				
Bank overdrafts and loans	**99.8**	103.3	**96.7**	103.8
Obligations under finance leases	**1.5**	1.6	**–**	–
Trade payables	**47.8**	45.3	**0.4**	0.3
Other payables	**36.1**	31.0	**2.9**	2.0
Due to subsidiaries	**–**	–	**3.5**	21.5
Other financial liabilities at amortised cost	**185.2**	181.2	**103.5**	127.6
Currency derivatives used for hedging	**2.5**	0.8	**–**	–
Total financial liabilities	**187.7**	182.0	**103.5**	127.6
Undiscounted contractual maturity of other financial liabilities:				
Amounts payable:				
On demand or within one year	**155.4**	144.4	**75.5**	92.6
In the second to fifth years inclusive	**9.5**	41.9	**7.7**	40.8
After five years	**39.2**	1.3	**38.7**	–
	204.1	187.6	**121.9**	133.4
Less: future finance charges	**(18.9)**	(6.4)	**(18.4)**	(5.8)
Other financial liabilities at amortised cost	**185.2**	181.2	**103.5**	127.6

Amounts drawn under the committed syndicated multi-currency facility are shown as payable within one year in the above contractual maturity analysis. However, the facility matures in 2012. The carrying amount is a reasonable approximation of fair value for the financial assets and liabilities noted above except for bank overdrafts and loans, disclosure of which are included within Note 20.

An ageing analysis of trade, deferred consideration and other receivables is as disclosed within Note 19.

21. Financial instruments continued

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on the operation's trading activities in foreign currencies and on the Group's net investments outside the UK. At the balance sheet date, total notional amounts and fair values of outstanding forward foreign exchange contracts that the Group and the Company have committed are below:

	Group Year ended 2007 £m	Group Year ended 2006 £m	**Company Year ended 2007 £m**	Company Year ended 2006 £m
Notional amounts:				
Foreign exchange cash flow hedges	**61.6**	37.8	**21.0**	–
Foreign exchange net investment hedges	**118.9**	49.7	**–**	–
Total	**180.5**	87.5	**21.0**	–
Less: amounts maturing within 12 months	**(175.0)**	(82.0)	**(21.0)**	–
Amounts maturing after 12 months	**5.5**	5.5	**–**	–
Contractual maturity:				
Cash flow hedges balances due within 1 year:				
Outflow	**54.4**	31.6	**20.7**	–
Inflow	**55.3**	31.5	**21.0**	–
Cash flow hedges balances due between 1 and 2 years:				
Outflow	**5.1**	5.4	**–**	–
Inflow	**5.0**	5.8	**–**	–
Net investment hedges balances due within 1 year:				
Outflow	**118.9**	49.7	**–**	–
Inflow	**117.4**	51.1	**–**	–
Fair values:				
Foreign exchange cash flow hedges	**0.5**	–	**0.3**	–
Foreign exchange net investment hedges	**(1.9)**	1.1	**–**	–
Total (liability)/asset	**(1.4)**	1.1	**0.3**	–

These fair values are based on market values of equivalent instruments at the balance sheet date, comprising £0.8m (2006 – £1.9m) assets included in the trade and other receivables and £2.2m (2006 – £0.8m) included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £0.2m (2006 – £nil) has been deferred in equity.

An amount of £0.4m gain (2006 – £nil) has been transferred to the Income Statement in respect of contracts which matured during the period. There was no ineffectiveness to be recorded from foreign exchange cash flow hedges and net investment hedges.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 15 months. Amounts deferred in equity are recognised in the Income Statement in the same period in which the hedged item effect net profit or loss, which is generally within 12 months from the balance sheet date.

Interest rate swap contracts

The Group and Company use interest rate swaps to mitigate the risk of rising interest rates and balance the structure between fixed and variable debt. The interest rate swap entered into in 2006 was closed-out as of 22 October 2007. The fair value at 31 December 2006 was £nil and was based on market values of equivalent instruments at the balance sheet date. The interest rate swap was settled on a quarterly basis and the difference between fixed and floating interest was settled on a net basis. The interest rate swap was designated and effective as a cash flow hedge. The interest swaps and interest on the loan occurred simultaneously and the amount deferred in equity was recognised in profit and loss over the period. An amount of £nil including close-out costs (2006 – £nil) has been charged against hedged interest payments made in the period.

22. Deferred tax liabilities and assets

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

	Accelerated tax depreciation £m	Unrealised FX gains £m	Goodwill amortisation £m	Retirement benefit obligations £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 January 2006	7.4	2.0	2.4	(0.6)	(4.7)	(4.5)	2.0
(Credit)/charge to income	(0.6)	–	0.6	0.1	(1.2)	1.1	–
Charge/(credit) to equity	–	0.6	–	–	(0.2)	–	0.4
Acquisition of subsidiaries	0.8	–	–	–	–	–	0.8
Exchange differences	(0.6)	–	(0.3)	–	0.7	0.2	–
At 1 January 2007	**7.0**	**2.6**	**2.7**	**(0.5)**	**(5.4)**	**(3.2)**	**3.2**
Charge/(credit) to income	**0.6**	**–**	**0.5**	**–**	**(0.9)**	**0.7**	**0.9**
Credit to equity	**–**	**–**	**–**	**–**	**(1.3)**	**–**	**(1.3)**
Exchange differences	**0.3**	**0.2**	**(0.1)**	**(0.1)**	**0.3**	**(0.2)**	**0.4**
As 31 December 2007	**7.9**	**2.8**	**3.1**	**(0.6)**	**(7.3)**	**(2.7)**	**3.2**

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

	Group Year ended 2007 £m	Group Year ended 2006 £m
Deferred tax liabilities	**3.3**	3.3
Deferred tax assets	**(0.1)**	(0.1)
	3.2	3.2

At the balance sheet date, the Group has unused tax losses of £23.1m (2006 – £35.0m) available for offset against future profits. A deferred tax asset has been recognised in respect of £9.3m (2006 – £10.2m) of such losses. No deferred tax asset has been recognised in respect of the remaining £13.8m (2006 – £24.8m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £2.0m (2006 – £1.4m) that will expire within 7 years (2006 – 7 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 £175.3m (2006 – £214.1m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

In addition, at the balance sheet date, the Group has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £32.9m (2006 – £34.4m), share-based payments of £4.2m (2006 – £1.7m), accelerated book depreciation of £3.7m (2006 – £2.4m) and other temporary differences of £0.8m (2006 – £nil). The Company has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £30.5m (2006 – £30.8m), share-based payments of £2.8m (2006 – £0.5m), accelerated book depreciation of £0.5m (2006 – £0.5m) and other temporary differences of £1.0m (2006 – £0.5m). Deferred tax assets have not been recognised in respect of these differences due to the unpredictability of both the timing of the reversal of these temporary differences and of the future profit streams in the entities concerned.

At the balance sheet date, the Group and Company have £5.0m (2006 – £5.0m) of surplus ACT previously written off, for which no deferred tax asset has been recognised as it is unlikely to be recovered in the foreseeable future due to the anticipated ongoing level of dividend payments and UK earnings. The Group also has £14.4m (2006 – £14.4m) of unused capital losses available for offset against future capital gains for which no deferred tax asset has been recognised as no such capital gains are anticipated to arise in the foreseeable future. The Company has £15.6m (2006 – £15.6m) of such unused capital losses.

23. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2007 £m	Group Year ended 2006 £m	**Group Year ended 2007 £m**	Group Year ended 2006 £m
Amounts payable under finance leases:				
Within one year	**0.3**	0.3	**0.2**	0.2
In the second to fifth years inclusive	**1.1**	1.0	**0.8**	0.7
After five years	**0.5**	0.7	**0.5**	0.7
	1.9	2.0	**1.5**	1.6
Less: future finance charges	**(0.4)**	(0.4)	**–**	–
Present value of lease obligations	**1.5**	1.6	**1.5**	1.6
Less: amount due for settlement within 12 months (shown under current liabilities)			**(0.2)**	(0.2)
Amount due for settlement after 12 months			**1.3**	1.4

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 78% (2006 – 77%) of the Group's obligations, expires in 2014. For the year ended 31 December 2007, the average effective borrowing rate was 6.2% (2006 – 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.

An analysis of the present value of lease obligations by currency is as follows: Euros £1.2m (2006 – £1.2m) and US Dollars £0.3m (2006 – £0.4m).

24. Trade and other payables

Trade and other payables at 31 December comprise the following:

	Group Year ended 2007 £m	Group Year ended 2006 £m	**Company Year ended 2007 £m**	Company Year ended 2006 £m
Non-current liabilities				
Due to subsidiaries	**–**	–	**3.5**	21.5
	–	–	**3.5**	21.5
Current liabilities				
Trade payables	**47.8**	45.3	**0.4**	0.3
Social security and PAYE	**5.4**	4.6	**0.1**	0.1
Value added tax	**0.7**	0.4	**–**	–
Foreign currency derivatives	**2.5**	0.8	**–**	–
Other payables and accruals	**36.1**	31.0	**2.9**	2.0
	92.5	82.1	**3.4**	2.4
	92.5	82.1	**6.9**	23.9

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

The average credit period taken for trade purchases is 60 days.

25. Issued share capital

	Group and Company Year ended 2007 £m	Year ended 2006 £m
Authorised:		
500 million ordinary shares of 10p each	**50.0**	50.0
Issued and fully paid		
390.8 million ordinary shares of 10p each	**39.1**	39.0

At 31 December 2006, the issued and fully paid up share capital was 389.9 million ordinary shares of 10p each.

866,018 shares were issued during 2007 at an average price of 24.97p per share under share option plans raising £0.2m.

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

26. Share premium account

	Group and Company Year ended 2007 £m	Year ended 2006 £m
Balance at 1 January	**11.2**	3.8
Movement in year	**0.1**	7.4
Balance at 31 December	**11.3**	11.2

27. Equity reserve

	Group and Company Year ended 2007 £m	Year ended 2006 £m
Balance at 1 January	**0.8**	0.4
Movement in year	**0.8**	0.4
Balance at 31 December	**1.6**	0.8

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

28. Distributable reserve

	Group and Company Year ended 2007 £m	Year ended 2006 £m
Balance at 1 January	**19.4**	–
Movement in year	**–**	19.4
Balance at 31 December	**19.4**	19.4

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

29. Hedging and translation reserves

a) Group

	Hedging reserve Year ended 2007 £m	Translation reserve Year ended 2007 £m	Total Year ended 2007 £m	Hedging reserve Year ended 2006 £m	Translation reserve Year ended 2006 £m	Total Year ended 2006 £m
Balance at 1 January	1.3	(7.2)	(5.9)	(1.8)	4.2	2.4
Exchange differences on translation of overseas operations	–	3.2	3.2	–	(10.5)	(10.5)
Change in fair value of hedging derivatives	(2.5)	–	(2.5)	3.1	–	3.1
Tax on items taken directly to equity	–	0.8	0.8	–	(0.9)	(0.9)
Balance at 31 December	(1.2)	(3.2)	(4.4)	1.3	(7.2)	(5.9)

b) Company

	Hedging reserve Year ended 2007 £m	Translation reserve Year ended 2007 £m	Total Year ended 2007 £m	Hedging reserve Year ended 2006 £m	Translation reserve Year ended 2006 £m	Total Year ended 2006 £m
Balance at 1 January	(0.2)	(0.4)	(0.6)	(0.5)	(0.4)	(0.9)
Exchange differences on translation	–	(0.5)	(0.5)	–	–	–
Increase in fair value of hedging derivatives	0.5	–	0.5	0.3	–	0.3
Balance at 31 December	0.3	(0.9)	(0.6)	(0.2)	(0.4)	(0.6)

30. Retained earnings

	Group Year ended 2007 £m	Group Year ended 2006 £m	Company Year ended 2007 £m	Company Year ended 2006 £m
Balance at 1 January	64.0	56.1	65.4	75.3
Dividends paid	(8.1)	(6.5)	(8.1)	(6.5)
Net profit/(loss) for the year	27.9	15.2	1.1	(1.7)
Pension actuarial loss	(0.8)	(1.0)	(1.7)	(1.7)
Tax credit on deductible temporary differences	1.3	0.2	–	–
Balance at 31 December	84.3	64.0	56.7	65.4

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 2007 £m	Year ended 2006 £m
Balance at 1 January	**1.4**	1.3
Movement in the year	**–**	0.1
Balance at 31 December	**1.4**	1.4

The own shares reserve represents the cost of shares purchased in the market and held by the Senior plc Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 35).

32. Acquisitions

Absolute Manufacturing, Inc.

On 10 December 2007, the Group acquired 100% of the issued share capital of Absolute Manufacturing, Inc. ("Absolute"), a manufacturer of precision machined parts principally for the aerospace industry, based in Arlington, Washington State, USA. The cash consideration was £7.0m, including costs. The acquisition was funded by the Group's existing debt facilities.

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

	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible assets	0.6	0.2
Property, plant and equipment	1.4	2.0
Inventories	0.9	1.0
Trade and other receivables	0.3	0.3
Trade and other payables	(0.2)	(0.6)
Net assets acquired	3.0	2.9
Goodwill		4.1
Total consideration		7.0
Consideration satisfied by:		
Cash paid		6.9
Directly attributable costs		0.1
Net cash outflow arising on acquisition		7.0

The fair value adjustments contain some provisional amounts which will be finalised in the Financial Statements for the year ending 31 December 2008.

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

Absolute contributed £0.3m revenue and £0.1m to the Group's operating profit from the date of acquisition to 31 December 2007.

If the above acquisition had been completed on 1 January 2007, Group revenue for the year ended 2007 would have been £476.9m and Group operating profit would have been £42.7m.

There are no changes to the fair values reported in the Financial Statements for the year ending 31 December 2006 in respect of the acquisition of Aerospace Manufacturing Technologies, Inc.

32. Acquisitions continued

Capo Industries, Inc.

On 25 January 2008, the Group acquired 100% of the issued share capital of Capo Industries, Inc. ("Capo"), a manufacturer of highly engineered, complex super-alloy components primarily for the aero-engine market, based in Chino near Los Angeles, California, USA. The cash consideration was £44.6m, including costs, of which £1.5m is payable later in 2008. The acquisition was funded by the Group's existing debt facilities and a new £20.0m short-term facility.

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

	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible assets	–	5.1
Property, plant and equipment	5.4	6.2
Inventories	3.8	4.0
Trade and other receivables	1.9	1.9
Trade and other payables	(2.2)	(2.2)
Net assets acquired	8.9	15.0
Goodwill		29.6
Total consideration		44.6
Consideration satisfied by:		
Cash (including £1.5m deferred consideration)		44.4
Directly attributable costs		0.2
Total consideration		44.6

The fair value adjustments contain some provisional amounts which will be finalised in the Financial Statements for the year ending 31 December 2008.

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

In addition to the deferred consideration of £1.5m, a further £2.5m may be payable contingent upon Capo's 2008 performance. This amount has not been included in the above calculation as the targets are very stretching and their achievement is not thought probable.

33. Notes to the cash flow statement

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

	Group Year ended 2007 £m	Group Year ended 2006 £m	Company Year ended 2007 £m	Company Year ended 2006 £m
Operating profit/(loss) from continuing operations	**41.5**	24.5	**(3.7)**	(3.3)
Adjustments for:				
Depreciation of property, plant and equipment	**14.1**	12.1	**0.1**	–
Amortisation of intangible assets	**3.8**	1.8	**–**	–
Share options	**1.5**	0.6	**0.5**	–
Loss on disposal of property, plant and equipment	**0.7**	0.4	**–**	–
Release of provision from previous acquisition	**(0.5)**	–	**–**	–
Pension payments in excess of service cost	**(3.0)**	(3.4)	**(2.8)**	(2.9)
Operating cash flows before movements in working capital	**58.1**	36.0	**(5.9)**	(6.2)
Increase in inventories	**(8.7)**	(11.5)	**–**	–
(Increase)/decrease in receivables	**(10.0)**	3.6	**(0.2)**	(0.2)
Increase in payables	**8.4**	8.8	**0.2**	0.1
Increase in receivables from subsidiaries	**–**	–	**(0.3)**	–
Working capital currency movements	**0.7**	(5.4)	**–**	–
Cash generated by operations	**48.5**	31.5	**(6.2)**	(6.3)
Income taxes(paid)/received	**(6.2)**	(2.6)	**1.7**	1.6
Interest paid	**(7.0)**	(6.6)	**(6.8)**	(5.8)
Net cash from/(used in) operating activities	**35.3**	22.3	**(11.3)**	(10.5)
Cash and cash equivalents comprise:				
Cash	**8.7**	7.2	**1.0**	10.0
Bank overdrafts	**(3.8)**	(0.2)	**(1.3)**	(1.3)
Total	**4.9**	7.0	**(0.3)**	8.7

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

b) Free cash flow

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

	Group Year ended 2007 £m	Group Year ended 2006 £m
Net cash from operating activities	**35.3**	22.3
Interest received	**0.8**	1.3
Proceeds on disposal of property, plant and equipment	**1.9**	2.2
Purchases of property, plant and equipment – cash	**(19.0)**	(20.1)
Purchase of intangible assets	**(0.5)**	(0.6)
Free cash flow	**18.5**	5.1

33. Notes to the cash flow statement continued

c) Analysis of net debt

Group

	At 1 January 2007 £m	Cash flow £m	Non-cash items £m	Exchange movement £m	At 31 December 2007 £m
Cash	7.2	1.1	–	0.4	8.7
Overdrafts	(0.2)	(3.5)	–	(0.1)	(3.8)
Cash and cash equivalents	7.0	(2.4)	–	0.3	4.9
Debt due within one year	(12.9)	12.5	(37.6)	0.3	(37.7)
Debt due after one year	(90.2)	(7.4)	37.8	1.5	(58.3)
Finance leases	(1.6)	0.2	–	(0.1)	(1.5)
Forward exchange contract losses	1.0	(0.4)	–	(2.8)	(2.2)
Total	(96.7)	2.5	0.2	(0.8)	(94.8)

The forward exchange contract losses shown above are reported as £2.7m (2006 – £nil) in current liabilities within trade and other payables and £0.5m (2006 – £1.0m) in current assets within trade and other receivables.

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

34. Operating lease arrangements

The Group and the Company as lessee

	Group Year ended 2007 £m	Group Year ended 2006 £m	**Company Year ended 2007 £m**	Company Year ended 2006 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	**4.4**	4.3	**0.2**	0.2

At 31 December, 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 2007 £m	Group Year ended 2006 £m	**Company Year ended 2007 £m**	Company Year ended 2006 £m
Within one year	**3.9**	3.5	**0.2**	0.2
In the second to fifth years inclusive	**11.0**	10.8	**0.6**	0.6
After five years	**9.8**	11.6	**–**	0.2
	24.7	25.9	**0.8**	1.0

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 53% (2006 – 56%) of the Group's commitment, respectively expire in 2018 (with rentals fixed for 0.5 years) and in 2026 (with rentals currently under review).

The Company has guaranteed £1.4m (2006 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

35. Share-based payments

The Group recognised total expenses of £1.5m (2006 – £0.6m) related to share-based payments, of which £0.8m (2006 – £0.4m) related to equity-settled share-based payments, and £0.5m (2006 – £0.2m) related to social security costs on share-based payments. At 31 December 2007, the Group had a liability of £0.9m (2006 – £0.3m) arising from share-based payments of which £0.7m (2006 – £0.2m) related to social security costs. The Company recognised total expenses of £0.5m (2006 – £nil) related to equity-settled share-based payments. At 31 December 2007 the Company had a liability of £0.4m (2006 – £0.1m) related to social security costs.

The disclosures below are in respect of both Group and Company.

i) 1999 Executive Share Option Plan

Equity-settled share option plans

Under the 1999 Executive Share Option Plan, options will normally only become exercisable if the Group's Adjusted Earnings per Share grows by not less than 4% per annum compound above the growth in the UK Retail Price Index (RPI) over a period of three or more financial years commencing in January of the year of grant. They will lapse if not exercised within six years of the date of grant. Options are exercisable at a price equal to the average of the closing mid-market price of the Company's shares in the three days prior to the date of grant. No options were granted or exercised under the 1999 Executive Share Option Plan during the year. The following options were outstanding as at 31 December 2007 and 2006:

	Year ended 2007		Year ended 2006	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**6,578,113**	**23.10p**	9,817,929	32.49p
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Forfeited	**(138,201)**	**21.97p**	(218,962)	21.97p
Expired	**(609,059)**	**34.12p**	(3,020,854)	53.71p
Outstanding at 31 December	**5,830,853**	**21.97p**	6,578,113	23.10p
Exercisable at 31 December	**5,830,853**	**21.97p**	–	n/a

The options outstanding at 31 December 2007 had an exercise price of 21.97p per share, and a weighted average remaining contractual life of 1.2 years. The options outstanding at 31 December 2006 had exercise prices ranging from 21.97p to 50.07p per share, and a weighted average remaining contractual life of 2.0 years.

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 outstanding at 31 December 2007 of 249,864 shares had an exercise price of 21.97p, and a weighted average remaining contractual life of 1.2 years. Shadow share options outstanding at 31 December 2006 of 307,620 shares had exercise prices ranging from 21.97p to 28.56p per share, and a weighted average remaining contractual life of 1.9 years.

ii) 2005 Long Term Incentive Plan

890,047 and 310,502 shares were awarded under the 2005 Long Term Incentive Plan on 8 March 2007 and 9 August 2007 respectively. Awards under this plan have a three year vesting period, subject to earnings per share (EPS) and total shareholder return (TSR) performance conditions being met. Half the awards have an attaching performance target for EPS growth over the three year performance period of at least 5% per annum above the RPI. The other half of the awards begin to vest if the Company's TSR falls in the top half of a comparator group at the end of the three year performance period. Vesting levels increase with higher performance. The awards are settled by delivering shares to the participants.

The estimated fair values for the awards granted in the year with EPS conditions are 74.60p and 102.70p per share, which are essentially the share prices at the date of grant of 80.50p and 109.50p per share less an allowance for dividends foregone over the three year vesting period. The estimated fair values for the awards granted in the year with TSR conditions are 45.20p and 62.20p per share, reflecting an adjustment of 60% to the fair value of the awards with EPS conditions due to the stringent TSR condition.

35. Share-based payments continued

These fair values were calculated by applying a binomial option pricing model. This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition. The model inputs at the date of grant were the share prices of 80.50p and 109.50p respectively, a risk-free interest rate of 5.2% per annum, expected volatility of 31.0% per annum, net dividend yield of 2.5% 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.

The following share awards were outstanding as at 31 December 2007 and 2006:

	Year ended 2007 Number of shares	Year ended 2006 Number of shares
Outstanding at 1 January	**2,926,698**	1,676,231
Granted	**1,200,549**	1,323,820
Exercised	**–**	–
Forfeited	**(82,199)**	(73,353)
Outstanding at 31 December	**4,045,048**	2,926,698

iii) Savings-Related Share Option Plan

The Company operates a Savings-Related Share Option Plan for eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs rules for such savings plans. Savings-Related Share Options were last awarded on 2 April 2007.

The estimated fair value for the award granted during the year was 18.06p per share. This fair value was calculated by applying a Black-Scholes option pricing model. The model inputs at the date of the grant were the share price of 79.50p, a risk-free interest rate of 5.25% per annum, expected volatility of 31.0% per annum and a net dividend yield of 2.52%. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years.

The following options were outstanding as at 31 December 2007 and 2006:

	Year ended 2007		Year ended 2006	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**1,151,484**	**24.87p**	2,005,797	26.95p
Granted	**2,116,900**	**79.50p**	–	–
Exercised	**(866,018)**	**24.97p**	(718,891)	29.33p
Forfeited	**(185,393)**	**71.83p**	(75,099)	29.60p
Expired	**(9,280)**	**39.99p**	(60,323)	35.07p
Outstanding at 31 December	**2,207,693**	**73.21p**	1,151,484	24.87p
Exercisable at 31 December	**250,530**	**24.04p**	59,906	39.99p

The weighted average share price at the date of exercise for share options exercised during the period was 104.71p (2006 – 61.35p). The options outstanding at 31 December 2007 had exercise prices ranging from 24.04p to 79.50p per share, and a weighted average remaining contractual life of 2.2 years. The options outstanding at 31 December 2006 had exercise prices ranging from 24.04p to 39.99p per share, and a weighted average remaining contractual life of 1.3 years.

36. Retirement benefit schemes

The Group operates a number of pension plans in the UK, North America and Europe. These include both defined contribution arrangements and defined benefit arrangements. The largest defined benefit arrangement for the Group and Company, the Senior plc Pension Plan, is a funded scheme in the UK, providing benefits based on final pensionable emoluments for the employees of the Group and Company. The latest full actuarial valuation was carried out as at 6 April 2007 and, for the purposes of accounting under IAS 19, this valuation has been rolled forward to 31 December 2007.

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 trustees are required to act in the best interests of the plans' beneficiaries. For the Senior plc Pension Plan in the UK, the trustee is Senior Trustee Limited. The appointment of the Directors to the Board is determined by the plan's trust documentation. There is a policy that at least one-third of all Directors should be nominated by members of the plan. Currently there are two member nominated Directors and four Directors that have been nominated by the Company, of which the chairman and one other Director are viewed as independent. The investment strategy for the plan is decided locally by the trustees. The primary investment objective is for the plan to be able to meet benefit payments as they fall due. This objective is implemented by setting strategic asset allocations using a "horizon based" approach. Under this approach, all benefit cash flows expected to fall in the next 11 years (the horizon period) are met by investment in low risk assets such as fixed interest and index-linked bonds. Cash flows after the horizon

36. Retirement benefit schemes continued

period are met by investment in more volatile assets which are expected to deliver a higher return (than bonds) in the longer term. In setting this strategy, the trustees consider a wide range of asset classes, the risk and rewards of a number of possible asset allocation options, the sustainability of each asset class within each strategy, and the need for appropriate diversification between different asset classes. The trustees continue to review their investment strategy and have also implemented a switching mechanism to secure any outperformance of equities relative to bonds, by selling equities to buy bonds.

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.

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 £2.8m (2006 – £2.4m).

b) Defined Benefit Schemes
The amount included in the Balance Sheet arising from the Group's obligations in respect of its defined benefit schemes is set out below. The Company's defined benefit scheme obligations are set out in the "UK plans funded" column below.

	31 December 2007				31 December 2006			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Present value of defined benefit obligations	(172.8)	(21.3)	(3.8)	(197.9)	(172.1)	(21.8)	(3.5)	(197.4)
Fair value of plan assets	142.3	19.3	–	161.6	141.3	18.6	–	159.9
Plan deficit per Balance Sheet	(30.5)	(2.0)	(3.8)	(36.3)	(30.8)	(3.2)	(3.5)	(37.5)

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

	31 December 2007				31 December 2006			
	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	172.1	21.8	3.5	197.4	165.7	23.2	3.7	192.6
Current service costs	1.4	0.5	0.3	2.2	1.3	0.5	0.2	2.0
Interest cost	9.0	1.2	0.2	10.4	8.2	1.3	0.1	9.6
Contributions by plan participants	0.7	–	–	0.7	0.7	–	–	0.7
Actuarial (gains)/losses	(3.5)	(1.1)	(0.2)	(4.8)	2.4	0.8	(0.1)	3.1
Benefits paid	(6.9)	(0.8)	(0.3)	(8.0)	(6.2)	(1.0)	(0.3)	(7.5)
Exchange differences	–	(0.3)	0.3	–	–	(3.0)	(0.1)	(3.1)
At 31 December	172.8	21.3	3.8	197.9	172.1	21.8	3.5	197.4

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

	31 December 2007				31 December 2006			
	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	141.3	18.6	–	159.9	134.4	18.3	–	152.7
Expected return on plan assets	8.2	1.4	–	9.6	7.5	1.3	–	8.8
Actuarial (losses)/gains	(5.2)	(0.4)	–	(5.6)	0.7	1.4	–	2.1
Contributions from employer	4.2	0.7	–	4.9	4.2	1.0	–	5.2
Contributions by plan participants	0.7	–	–	0.7	0.7	–	–	0.7
Benefits paid	(6.9)	(0.8)	–	(7.7)	(6.2)	(1.0)	–	(7.2)
Exchange differences	–	(0.2)	–	(0.2)	–	(2.4)	–	(2.4)
At 31 December	142.3	19.3	–	161.6	141.3	18.6	–	159.9

36. Retirement benefit schemes continued

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

	31 December 2007				31 December 2006			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost included within operating profit	**1.4**	**0.5**	**0.3**	**2.2**	1.3	0.5	0.2	2.0
Interest cost	**9.0**	**1.2**	**0.2**	**10.4**	8.2	1.3	0.1	9.6
Expected return on plan assets	**(8.2)**	**(1.4)**	**–**	**(9.6)**	(7.5)	(1.3)	–	(8.8)
Included within finance costs	**0.8**	**(0.2)**	**0.2**	**0.8**	0.7	–	0.1	0.8
	2.2	**0.3**	**0.5**	**3.0**	2.0	0.5	0.3	2.8

Of the current service cost for the year, £1.3m (2006 – £1.2m) has been included in cost of sales, and £0.9m (2006 – £0.8m) has been included in administrative expenses.

Actuarial losses of £0.8m (2006 – £1.0m) 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 2007 is £1.9m (2006 – £1.1m).

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Fair value of plan assets				
Equities and active currency	**75.7**	79.9	**13.5**	12.3
Bonds	**13.7**	11.2	**5.5**	5.1
Gilts	**52.8**	49.7	**–**	–
Properties and other	**0.1**	0.5	**0.3**	1.2
Total	**142.3**	141.3	**19.3**	18.6
Actual return on plan assets	**3.0**	8.2	**1.0**	2.7
Major Assumptions (per annum %)				
Inflation	**3.2%**	2.9%	**3.0%**	3.0%
Increase in salaries	**4.2%**	3.9%	**4.0%**	4.0%
Increase in pensions	**3.1%**	2.9%	**0.0%**	0.0%
Increase in deferred pensions	**3.2%**	2.9%	**0.0%**	0.0%
Rate used to discount plan liabilities	**5.9%**	5.3%	**6.2%**	5.9%
Expected return on assets	**5.8%**	5.8%	**8.0%**	8.0%
Life expectancy of a male aged 65 in 2007	**20.8**	18.6	**17.7**	17.7
Life expectancy of a male aged 65 in 2027	**21.9**	18.6	**17.7**	17.7

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.

36. Retirement benefit schemes continued

For the UK plan, the expected return on each asset class is as follows:

	2007 %	2006 %
Equities and active currency	**7.4**	7.3
Bonds	**4.5**	4.3
Gilts	**3.9**	3.8
Total	**5.8**	5.8

For the UK plan, the estimated impact on the plan deficit at 31 December 2007 for changes in assumptions is as follows:

	Increase in plan deficit £m
0.5% decrease in the discount rate	**14.0**
1 year increase in life expectancy	**4.5**
0.5% increase in inflation	**9.0**

For the UK plan, the Group has agreed with the trustees to fund the plan deficit over a ten year period. The estimated amounts of contributions expected to be paid during 2008 to the UK plan is £6.4m (£4.9m of which is additional to normal contributions to fund the past service deficit) and to the USA funded plans is £0.5m (all of which is discretionary).

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £2.4m (2006 – £2.3m), unfunded closed pension and post-retirement healthcare plans in the USA £0.4m (2006 – £0.4m) and provision for post-retirement payments in France of £1.0m (2006 – £0.8m).

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 6.2%, 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 5.0%, 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.

36. Retirement benefit schemes continued

h) History of experience gains and losses

UK plan funded	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	**(172.8)**	(172.1)	(165.7)	(150.9)
Fair value of plan assets	**142.3**	141.3	134.4	117.2
Plan deficit	**(30.5)**	(30.8)	(31.3)	(33.7)
Experience gain/(loss) on plan liabilities	**12.8**	(2.2)	0.3	6.1
Experience (loss)/gain on plan assets	**(5.2)**	0.7	11.1	1.8

US plan funded	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	**(21.3)**	(21.8)	(23.2)	(19.8)
Fair value of plan assets	**19.3**	18.6	18.3	15.6
Plan deficit	**(2.0)**	(3.2)	(4.9)	(4.2)
Experience gain/(loss) on plan liabilities	**0.3**	0.1	(0.1)	(0.8)
Experience (loss)/gain on plan assets	**(0.4)**	1.4	(0.1)	(0.3)

Unfunded plans	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	**(3.8)**	(3.5)	(3.7)	(3.5)
Fair value of plan assets	**–**	–	–	–
Plan deficit	**(3.8)**	(3.5)	(3.7)	(3.5)
Experience gain/(loss) on plan liabilities	**–**	–	–	–

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

37. Related party transactions

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

	Year ended 2007 £m	Year ended 2006 £m
Transactions in year		
Management charges	**0.3**	0.3
Pension recharges	**0.3**	–
Dividends receivable	**21.5**	0.3
Interest receivable	**9.5**	6.1
Interest payable	**(0.2)**	(0.1)
Balances at year-end		
Investments in subsidiaries	**179.0**	111.8
Amounts due from subsidiaries	**77.2**	167.4
Amounts due to subsidiaries	**3.5**	21.5

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 24 to 29.

38. Events after the balance sheet date

On 25 January 2008, the Group acquired 100% of the issued share capital of Capo Industries, Inc. Further details of the acquisition are provided in Note 32.

Five Year Summary

Group income statement	IFRS 2007 £m	2006 £m	2005 £m	2004 £m	UK GAAP 2003 £m*
Revenue					
Continuing operations	**470.7**	387.9	338.6	306.8	322.9
Discontinued operations	**–**	–	–	19.1	32.0
	470.7	387.9	338.6	325.9	354.9
Operating profit before impairment and amortisation of goodwill					
Continuing operations	**41.5**	24.5	19.6	16.6	17.8
Discontinued operations	**–**	–	–	0.5	1.1
	41.5	24.5	19.6	17.1	18.9
Amortisation of goodwill	**–**	–	–	–	(5.4)
Operating profit	**41.5**	24.5	19.6	17.1	13.5
Loss on disposal of discontinued operations	**–**	–	–	(4.8)	–
Investment income/finance costs, net	**(6.4)**	(5.6)	(3.9)	(2.9)	(4.9)
Net finance cost of retirement benefit obligations	**(0.8)**	(0.8)	(1.1)	(1.2)	(2.2)
Profit before tax	**34.3**	18.1	14.6	8.2	6.4
Tax	**(6.4)**	(2.9)	(2.5)	(1.7)	(1.8)
Profit for the year	**27.9**	15.2	12.1	6.5	4.6
Depreciation and amortisation of intangibles	**17.9**	13.9	12.0	13.3	16.1
Gross capital expenditure (including finance lease assets)	**19.5**	20.7	16.6	10.4	8.0
Basic earnings per share	**7.17p**	4.35p	3.75p	2.02p	1.43p
Diluted earnings per share	**7.00p**	4.25p	3.69p	1.99p	1.42p
Adjusted earnings per share	**7.71p**	4.65p	3.82p	3.42p	2.98p
Dividends in respect of year – per share	**2.400p**	2.000p	1.905p	1.905p	1.905p
– value	**9.3**	7.5	6.4	6.1	6.1
Group balance sheets					
Non-current assets	**223.4**	217.5	158.2	147.0	155.8
Net current assets	**26.5**	42.4	44.4	33.8	41.8
Non-current liabilities	**(100.0)**	(132.8)	(110.3)	(97.1)	(118.1)
Net assets	**149.9**	127.1	92.3	83.7	79.5
Net borrowings	**(94.8)**	(96.7)	(62.4)	(50.6)	(64.2)
Gearing, net	**63.2%**	76.1%	67.6%	60.5%	80.8%
Group cash flow					
Net cash from operating activities	**35.3**	22.3	16.5	17.7	25.9
Interest received	**0.8**	1.3	1.4	2.5	1.2
Proceeds from disposal of property, plant and equipment	**1.9**	2.2	0.9	0.7	1.1
Purchase of property, plant and equipment – cash	**(19.0)**	(20.1)	(16.3)	(9.8)	(8.0)
– finance leases	**–**	–	–	(0.4)	–
Purchase of intangible assets	**(0.5)**	(0.6)	(0.3)	(0.2)	–
Free cash flow	**18.5**	5.1	2.2	10.5	20.2
Dividends paid	**(8.1)**	(6.5)	(6.1)	(6.1)	(6.1)
Acquisitions less disposals	**(8.1)**	(79.7)	(0.1)	4.5	0.4
Share issues	**0.2**	34.8	0.5	–	–
(Decrease)/increase in loans	**(5.1)**	46.0	6.1	(18.9)	(14.8)
(Decrease)/increase in finance leases	**(0.2)**	(0.2)	(0.3)	0.1	(0.3)
Cash inflow/(outflow) on forward contracts	**0.4**	(0.2)	(0.2)	4.5	4.5
(Decrease)/increase in cash and cash equivalents	**(2.4)**	(0.7)	2.1	(5.4)	3.9

*The amounts disclosed for 2003 are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS.

Principal Group Undertakings

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

*Absolute Manufacturing, Inc. was acquired on 10 December 2007, and was merged into Senior Operations Inc. on 31 December 2007.
**Capo Industries, Inc. was acquired on 25 January 2008, and was merged into Senior Operations Inc. on 29 February 2008.

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

Additional Shareholder Information

Analysis of Shareholders at 31 December 2007

	Shareholders number	Shareholders %	Shareholdings millions	Shareholdings %
By Category				
Corporate bodies	761	20.98	375.15	95.99
Other shareholders	2,867	79.02	15.66	4.01
	3,628	100.00	390.81	100.00
By Range of Holdings				
1 – 24,999	3,209	88.45	13.64	3.49
25,000 – 49,999	126	3.47	4.42	1.13
50,000 – 249,999	141	3.89	15.02	3.84
250,000 – 499,999	34	0.94	11.93	3.05
500,000 – 999,999	37	1.02	27.56	7.05
1,000,000 – and over	81	2.23	318.24	81.44
	3,628	100.00	390.81	100.00

The number of shares in issue at 31 December 2007 was 390,805,600.

Share Registrars

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

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

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

Crest Proxy Voting

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 25 April 2008 and any adjournment(s) thereof by using the procedures described in the CREST Manual. Further details relating to voting via CREST may be found on the Notice of Meeting/Proxy Card inserted within the Annual Report.

2008 Financial Calendar

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

3 March
Preliminary announcement of 2007 annual results.

14 March
Publication of Annual Report 2007.

25 April
Annual General Meeting and Interim Management Statement.

30 April
Shares ex-dividend for 2007 final dividend.

2 May
Record date for shareholders on the register to receive the 2007 final dividend.

30 May
Payment of 2007 final dividend.

4 August
Preliminary announcement of 2008 interim results.

8 August
Publication of Interim Report 2008.

29 October
Shares ex-dividend for 2008 interim dividend.

31 October
Record date for shareholders on the register to receive the 2008 interim dividend.

13 November
Interim Management Statement.

28 November
Payment of 2008 interim dividend.

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Printed on Hello Silk paper, 300gsm cover, 170gsm inners.
Fibre Source: Virgin wood fibre mainly from Austria, but also from Brazil, Canada, Portugal, Spain and Sweden.
Bleaching: Pulp is bleached using mainly a Totally Chlorine Free (TCF) process, but some is bleached using an Elemental Chlorine Free (ECF) process.
Disposal: This material can be disposed of by recycling, incineration for energy recovery or is biodegradable.
Accreditation: Produced at a mill that is certified to the ISO14001 environmental management standard. Produced at a mill that is certified to the EMAS environmental management standard. FSC Mixed Sources product group from well managed forests and other controlled sources

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