Senior plc

ANNUAL REPORT & ACCOUNTS 2008

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GROUP AT A GLANCE

AEROSPACE – 56% OF GROUP REVENUE

ENGINE STRUCTURES AND MOUNTINGS, METALLIC HIGH-PRESSURE DUCTING, AIRFRAME 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.

The Senior Aerospace operations are located in the USA and Europe and produce precision machined components and mechanical assemblies for airframe and engine applications in civil and military rotary and fixed wing aircraft. The products manufactured include metallic and composite pneumatic ducting, bellows-sealed flexible joints, sheet metal components, hydraulic tubing components and assemblies.

More recently the Division has added, through acquisition, the capabilities of machining airframe structural parts and precision components for rotary applications.

AEROSPACE DIVISION:
1. AMT
2. Absolute Manufacturing
3. SSP
4. Capo Industries
5. Ketema
6. Jet Products
7. Ketema (Saltillo)
8. Composites
9. Sterling Machine
10. Metal Bellows
11. Bird Bellows
12. BWT
13. Calorstat
14. Ermeto
15. Bosman

2008 HIGHLIGHTS

Healthy markets, improved operational efficiencies, acquisitions, new programme wins and currency benefits resulted in a 27% increase in the Aerospace Division's sales to £312.9m (2007 – £246.2m) and an increase in adjusted operating profit of 33% to £44.3m (2007 – £33.4m).

Divisional operating margin increased for the fifth consecutive year to 14.1% (2007 – 13.6%).

Combined order book of Boeing and Airbus represents eight times current deliveries.

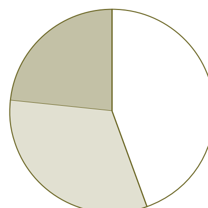
Military and defence sectors (23% of divisional sales) are anticipated to remain strong throughout 2009.

SENIOR IS AN INTERNATION GROUP WITH OPERATIONS

SENIOR DESIGNS, MANUFACTURES AND MARKETS HIGH FOR THE PRINCIPAL ORIGINAL EQUIPMENT PRODUCERS LAND VEHICLE AND ENERGY MARKETS.

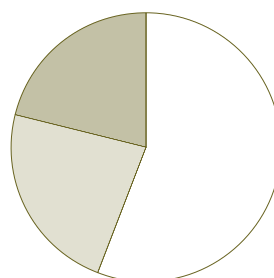
SENIOR: 2003–2008 – DELIVE

2003 Sales*



- 45% Aerospace and defence
- 32% Land vehicles
- 23% Industrial

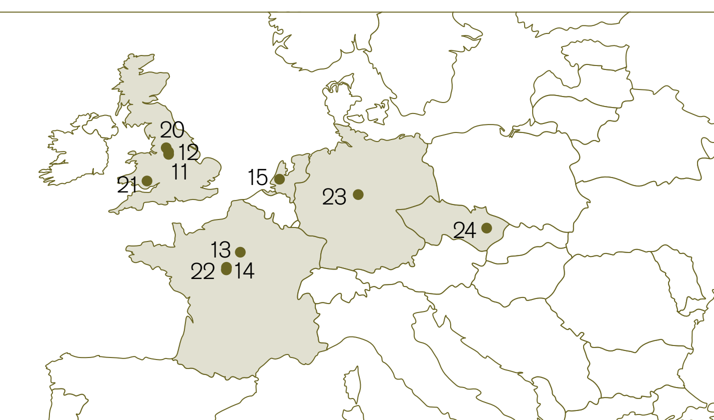
2008 Sales*

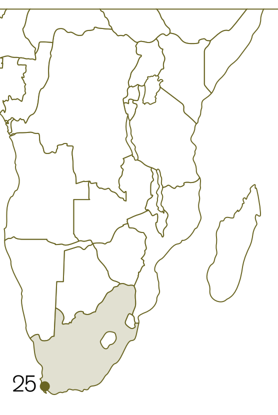


- 56% Aerospace and defence
- 23% Land vehicles
- 21% Industrial

AL MANUFACTURING
S IN 11 COUNTRIES.

TECHNOLOGY COMPONENTS AND SYSTEMS
IN THE WORLDWIDE AEROSPACE, DEFENCE,





ERING PROFITABLE GROWTH

Group Sales have grown by a compound annual growth rate ("CAGR") of 12% over the last five years.

Implementation of strategy to increase exposure to aerospace and selected industrial markets resulting in significant change in composition of the Group, through acquisition and organic growth.

Adjusted EPS growth of 29% CAGR since 2003.

Adjusted operating margins have more than doubled over the last five years from 5.4% to 11.5%.

Return on capital employed increased from 11.2% (2003) to 21.7% (2008).

* Continuing operations only.

FLEXONICS – 44% 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.

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.

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

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.

FLEXONICS DIVISION:

16. Canada
17. Bartlett
18. Pathway
19. São Paulo
20. Hargreaves
21. Crumlin
22. Blois
23. Kassel
24. Olomouc
25. Cape Town
26. New Delhi

2008 HIGHLIGHTS

Strong industrial markets, a significant operational improvement in the production of heavy duty diesel products in North America and currency benefits, resulted in sales for the Flexonics Division increasing by 11% to £250.1m (2007 – £225.0m) and adjusted operating profit improving by 49% to £25.9m (2007 – £17.4m).

The Division's operating margin was 10.4%, 2.7 percentage points higher than the 7.7% reported for 2007 and at its highest level since 2000.

Pathway delivered record results in 2008 on the back of strong petrochemical and power generation markets.

Swift action taken to address rapidly changing market conditions.

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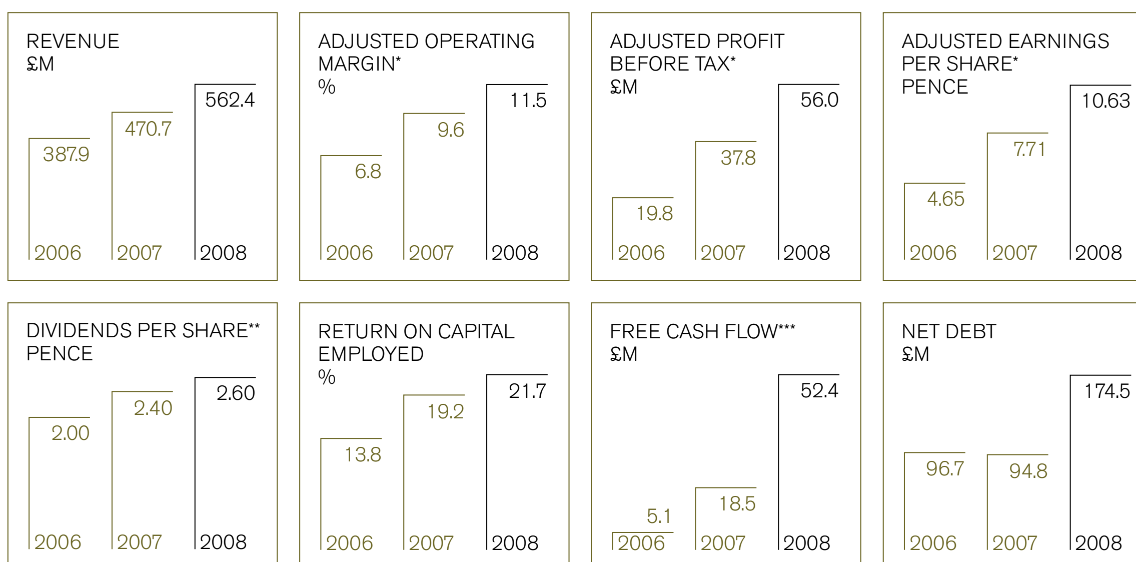
REVENUE +19%	£562.4M
OPERATING PROFIT +44%	£59.8M
BASIC EARNINGS PER SHARE +38%	9.92P
DIVIDENDS PER SHARE** +8%	2.60P
FREE CASH FLOW*** +183%	£52.4M



Adjusted profit before tax up by 48%

Adjusted operating margin of 11.5% (2007 – 9.6%)

Return on capital employed increased to 21.7%

Free cash flow nearly three times the level achieved in 2007

Group successfully refinanced in 2008. No major refinancing required until 2012

Average duration of committed facilities now 6.4 years, at fixed average interest rates of 6.4%

* Adjusted figures are stated before loss on disposal of fixed assets of £nil (2007 – £0.7m; 2006 – £0.4m), a £4.7m charge for amortisation of intangible assets acquired on acquisitions (2007 – £3.3m; 2006 – £1.3m) and the release of a provision set up on a previous acquisition of £nil (2007 – £0.5m; 2006 £nil). Adjusted earnings per share takes account of the tax impact of these items.

** Paid and proposed.

*** See Note 33(b) for derivation of free cash flow.

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MARTIN CLARK
NON-EXECUTIVE
CHAIRMAN

The Group has delivered an excellent set of results for 2008, with adjusted profit before tax 48% ahead of the prior year and free cash flow nearly three times the level achieved in 2007. This strong foundation, combined with the successful long-term refinancing of the Group undertaken during 2008, means Senior is well placed to deal with the uncertainty being seen in markets across the world today.

FINANCIAL RESULTS

2008 saw the Group achieve record levels of operating profit and cash generation from operations.

Group revenue increased by 19% to £562.4m (2007 – £470.7m) and, with margins improving strongly, operating profit increased by 44% to £59.8m (2007 – £41.5m). Capo Industries, acquired in January 2008, and Absolute Manufacturing, acquired in December 2007, both made positive contributions in their first year within the Group. Excluding the beneficial effects of acquisitions and foreign exchange movements, revenue grew by 5% and operating profit by 26%, with the industrial and aerospace businesses the key contributors, along with a much improved performance from the heavy duty diesel products in North America.

Adjusted profit before tax (as defined on page 1), the measure which the Board believes best represents the true underlying performance of the business, increased by 48% to £56.0m (2007 – £37.8m). Adjusted earnings per share increased by 38% to 10.63 pence (2007 – 7.71 pence).

Operating profit and adjusted profit before tax are stated after £1.9m of costs associated with reducing the Group's headcount by 480 people (8% of total Group employees) in the final quarter of the year, of which 35 were UK-based employees. Savings of £7.0m are anticipated in 2009 as a result of this reduction in employee numbers. The reductions arose mainly in those businesses providing parts for the land vehicle markets.

In the current global economic climate, cash generation is very important to the future well-being of every business and, therefore, the £52.4m (2007 – £18.5m) of free cash flow for the year was particularly pleasing, driven by the increase in profitability and strong inflows from working capital. This clearly demonstrates the strongly cash generative nature of the Group.

FINANCING

The Group's year-end net debt stood at £174.5m (2007 – £94.8m), as the strong operational cash flows were offset by £79.5m in adverse foreign exchange movements and the acquisition, in January 2008, of Capo Industries for £44.1m. At the end of December 2008, the Group had committed facilities of £224.5m, so providing £50.0m of headroom, and is operating comfortably within its banking covenants.

In early October 2008, the Group issued $120m of new loan notes through a private placement offer. The notes mature after 7, 10 and 12 years. This significant, and timely, refinancing means that no material funds are now due for repayment before July 2012.

DIVIDEND

The Board is recommending an unchanged final dividend of 1.70 pence per share (2007 – 1.70 pence), bringing the total dividend for the year to 2.60 pence, an increase of 8% over the 2.40 pence for 2007. The size of the increase reflects the fact that the Group is strongly cash generative and is financed for the long term whilst, at the same time, acknowledging the uncertainty underlying many of the Group's markets. At the level recommended, the full year dividend would be covered 4.1 times (2007 – 3.2 times) by adjusted underlying earnings per share. The final dividend, if approved, will be paid on 29 May 2009 to shareholders on the register at close of business on 1 May 2009.

OPERATIONS

Senior reports as two Divisions – Aerospace, consisting of 14 operating entities and representing 56% of Group revenue, and Flexonics, consisting of 11 operations and representing 44% of Group revenue. The Aerospace Division was split into two sub-sectors, Aerostructures and Fluid Systems, during 2008 in order to enhance management oversight, improve market presence and aid best practice sharing. All of Senior's operations are focused on manufacturing components and systems for original equipment manufacturers. The Group's products are typically single sourced, highly engineered and difficult to manufacture.

AEROSPACE

Production of civil aircraft (63% of divisional sales) was generally strong throughout 2008. In the commercial large aircraft sector (38% of divisional sales), Boeing and

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Airbus reported combined net order intake of 1,439 aircraft, well ahead of aircraft deliveries (858 aircraft; 2007 – 894) such that their combined order book grew by 8% during the year to 7,429 aircraft (2007 – 6,848 aircraft). Boeing, the Group's largest customer, suffered a two month strike in the second half of the year which reduced its aircraft deliveries by around 70 aircraft in 2008. The combined order book of Boeing and Airbus now represents eight times current annual deliveries. This is a healthy backlog going into 2009 when deliveries are expected to show a modest increase over 2008, as Boeing recovers from its strike, but net order intake is expected to be lower than the rate of aircraft deliveries for the first time since 2004.

Following substantial delays, Boeing is finally expected to launch its 787 aircraft during 2009. This platform is a significant opportunity for the Group, as it is expected to represent Senior's largest ever ship-set value (between £420k and £775k per aircraft, dependent upon the chosen engine). Boeing has around 880 orders for the aircraft and anticipates ramping up production to at least 120 aircraft per year. The aircraft is currently scheduled to fly for the first time during the second quarter of 2009, and to be delivered to customers starting in the first quarter of 2010. Senior has already installed most of the production capacity required to meet this increased demand.

Deliveries of regional and business jets, whose markets represented 25% of divisional sales, were good during 2008. The combined regional jet deliveries of the two largest manufacturers, Bombardier and Embraer, increased by 9% to 280 aircraft (2007 – 258) and business jet deliveries increased by 16% to 1,315 aircraft (2007 – 1,138). The military and defence sectors (23% of divisional sales) were strong throughout the year, with significantly higher content being won on the growing C130 military transporter programme.

Capo Industries, acquired in January 2008, and Absolute Manufacturing, acquired in December 2007, both contributed positively in their first year with the Group, achieving combined sales of £26.8m and adjusted operating profit of £3.3m, a 12.3% operating margin.

Healthy markets, improved operational efficiencies, acquisitions, new programme wins and beneficial currency movements, resulted in a 27% increase in the Aerospace Division's sales to £312.9m (2007 – £246.2m) and an increase in adjusted operating profit of 33% to £44.3m (2007 – £33.4m). The divisional operating margin increased for the fifth consecutive year to 14.1% (2007 – 13.6%).

FLEXONICS

Land vehicle markets accounted for 53% of divisional sales in 2008, with the remaining 47% of sales being made to industrial markets such as the petrochemical, power generation, heating and ventilation, and medical markets.

After a satisfactory first half of 2008, all land vehicle markets fell steeply at various times during the second half of the year. In North America, sales of light vehicles were 13.2 million units in 2008 (2007 – 16.1 million), with the annualised sales run rate in the fourth quarter being only 10.3 million units. Sales of medium and heavy duty trucks in North America fell by 20% to 298 thousand units (2007 – 371 thousand). In Europe, sales of light vehicles fell to 15.0 million units (2007 – 16.3 million) as volumes declined markedly in the final quarter of the year.

Senior's industrial markets remained strong throughout 2008 and the operations most exposed to these markets performed excellently. Senior Flexonics Pathway, the Group's largest industrial operation, delivered record results in 2008 on the back of strong petrochemical and power generation markets. Elsewhere, Senior's industrial businesses moved ahead strongly, benefiting from new programmes, increased volumes of products for the solar power generation market, and securing a £16m contract for the nuclear industry for delivery in 2010 and 2011.

As a result of falling demand for land vehicles, swift action was taken and costs reduced at every operation having exposure to these markets, with 16% of the workforce of these operations (380 employees) leaving the Group in the fourth quarter of 2008. Other actions such as reduced working weeks, overtime bans and wage restrictions were also implemented. Headcount has remained relatively stable in the industrial operations as these end markets generally continue at satisfactory levels.

Strong industrial markets, the decisive action taken to reduce the cost base in the land vehicle businesses, a significant operational improvement in the production

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of heavy duty diesel products in North America and currency benefits, resulted in sales for the Flexonics Division increasing by 11% to £250.1m (2007 – £225.0m) and adjusted operating profit improving by 49% to £25.9m (2007 – £17.4m). As a result, the Division's operating margin was 10.4%, 2.7 percentage points higher than the 7.7% reported for 2007 and at its highest level since 2000. Given the marked slowdown across the world in the Group's land vehicle markets, the Division's financial performance for the year was particularly pleasing and is reflective of the quality of the businesses and the prompt action taken by the Group.

EMPLOYEES AND THE BOARD

The Group's employees worked exceptionally hard throughout 2008 and I would like to thank them for the significant contribution they each made to the year's excellent performance. Despite the global uncertainty, it is encouraging to witness, as I visit Senior's operations, the generally high level of morale and commitment exhibited by Senior's workforce. Such an attitude bodes well for the future success of the Group. It was, therefore, with reluctance that headcount levels were reduced towards the end of the year at a number of operations. However, with the sudden and steep fall in some global markets, particularly for land vehicles, such action was necessary to maintain a healthy business for the future.

As previously announced, Mark Rollins took over as Group Chief Executive from Graham Menzies during March 2008, having been Group Finance Director for the previous eight years. The transition has been smooth, with Mark's detailed knowledge of the Group proving advantageous in the current climate. Simon Nicholls was appointed as the Group Finance Director on 1 May 2008, joining Senior from Hanson plc, where he had worked for nine years, latterly as Group Financial Controller and the Chief Financial Officer for Hanson's North American operations. Simon has made a strong start with the Group.

Aerospace markets now account for the majority of the Group's revenue and, cognisant of this fact, the Board added expertise in this area with the appointment of Michael Steel as a non-executive Director on 1 May 2008. Michael had previously worked in an executive capacity for GE Aviation Systems (formerly Smiths Aerospace) for 17 years, and his knowledge and experience of the industry are proving to be beneficial to Senior.

OUTLOOK

The combined order book of Boeing and Airbus represents eight times current annual deliveries. Within this, Airbus has recently announced a modest 6% reduction in build rates of their narrow-bodied aircraft from October 2009, so providing good visibility for the year, whilst Boeing's current forecast is to continue at existing production rates throughout 2009. Boeing's 787 aircraft is expected to ramp up production starting in 2010, providing significant revenue for Senior and partial mitigation for any further decline in the build rates of existing aircraft. The near-term outlook for the regional and business jet manufacturers has weakened significantly, with many manufacturers seeing large reductions in demand whilst only a few, typically those making the larger business jets, are maintaining production levels for the time being. The military and defence market remains strong and, in the medium term, this market is expected to become increasingly important to Senior, as production rates of the C130 military transporter increase, the Joint Strike Fighter moves from testing and development to full production and the A400M goes into service.

Senior's industrial markets, the largest being power and energy, remain generally healthy and the Group's industrial businesses had strong order books going into 2009. Much of the power generation business is driven by tightening emission requirements for coal-fired generating units and this business looks strong for the foreseeable future. However, demand in the land vehicle markets remains very weak, with the Group's customers typically seeing sales of finished vehicles down 30% to 40% on a year ago. No immediate recovery is anticipated and volumes are expected to remain near to current levels for the foreseeable future. The continuing significant reduction in vehicle sales across the globe is now causing severe financial hardship to automotive vehicle manufacturers, with the governments of many countries stepping in to provide financial support to the industry during the current economic crisis.

As a result of the continuing poor land vehicle markets and also the weakness being seen in some of the regional and business jet markets, the Group is reducing headcount by a further 500 people during the first four months of 2009, of which 95 are expected to be UK-based employees. This headcount reduction is expected to cost around £0.8m and be spread evenly between the Aerospace and Flexonics Divisions. 220 people left the Group in January as part of this programme. When combined with the reduction undertaken in the final quarter of 2008, nearly 1,000 employees (17% of the workforce) will have left the Group by the end of April 2009, a cost reduction of £19m for 2009.

Senior has no material refinancing need until 2012, is strongly cash generative and is operating comfortably within its bank covenants. Whilst the Group's end markets are expected to be challenging, for the foreseeable future, this financial position combined with the decisive actions taken by management to reduce the Group's cost base and the content it has on future growth programmes, such as Boeing's 787 and Lockheed's Joint Strike Fighter aircraft, gives the Board confidence in the long-term future prospects for the Group. 2009 has started satisfactorily, with adjusted profit before tax of £4.7m in January and the level of net debt reducing by £3.4m during the month.

MARTIN CLARK
Chairman

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BOTTOM SHADOW RING (BSR) ACTUATOR
THIS HIGH PRECISION COMPONENT IS USED IN THE PROCESSING OF SEMICONDUCTORS.

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1 2 3 4

EXECUTIVE DIRECTORS

5 6 7

NON-EXECUTIVE DIRECTORS

1 MARTIN CLARK Non-executive Chairman. Joined the Board in 2001. He was previously a non-executive director of BPB plc, Blick plc, Clarkson plc, and ICM Computer Group PLC. He is Chairman of the Nominations Committee.

2 DAVID BEST Non-executive Director. Joined the Board in May 2007 and is also non-executive director of St Ives plc. He is a Chartered Accountant and was formerly Group Finance Director of Xansa plc. He is Chairman of the Audit Committee and of the Trustee Board of the Senior plc Pension Plan. The Board considers David Best to be independent.

3 IAN MUCH Non-executive Director and Senior Independent Director. Joined the Board in 2005 and is also non-executive director of Chemring Group plc, and Simplyhealth Group. He was formerly Chief Executive of De la Rue plc. He is Chairman of the Remuneration Committee. The Board considers Ian Much to be independent.

4 MICHAEL STEEL Non-executive Director. Joined the Board in May 2008. Previously President of the Mechanical Systems business of GE Aviation Systems (formerly Smiths Aerospace), where he had worked for 17 years in various senior commercial and operational roles managing US and UK aerospace businesses. The Board considers Michael Steel to be independent.

EXECUTIVE DIRECTORS

5 MARK ROLLINS Group Chief Executive. A Chartered Accountant, he joined the Group in 1998 from Morgan Crucible plc, and became Group Finance Director in 2000, when he joined the Board. He became Group Chief Executive, and Chairman of the Health, Safety and Environment Committee, in March 2008. He is a non-executive director of WSP Group plc.

6 SIMON NICHOLLS Group Finance Director. A Chartered Accountant, he joined the Group in April 2008 from Hanson plc, where he worked for nine years, latterly as Chief Financial Officer for Hanson's North American operations. He joined the Board in May 2008.

7 MIKE SHEPPARD Executive Director. Joined the Board in September 2002. A US citizen, he has worked for the Group for more than 20 years, and is the Chief Executive of the Flexonics Division.

GRAHAM MENZIES Former Group Chief Executive; retired from the Board in April 2008.

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MEMBERS OF THE EXECUTIVE COMMITTEE

FAR LEFT: RON CASE
LEFT: LAUNIE FLEMING

MAIN BOARD

The main Board met a total of nine times during the period 1 January 2008 and 31 December 2008. There was full attendance at every Board meeting during the year.

AUDIT COMMITTEE

David Best (Chairman), Ian Much and Michael Steel. Michael Steel was appointed to the Committee in May 2008, upon his appointment to the Board. The Committee met three times during the year.

NOMINATIONS COMMITTEE

Martin Clark (Chairman), David Best, Ian Much and Michael Steel. Michael Steel was appointed to the Committee in May 2008, upon his appointment to the Board. The Committee met five times during the year.

REMUNERATION COMMITTEE

Ian Much (Chairman), David Best, Martin Clark and Michael Steel. Michael Steel was appointed to the Committee in May 2008, upon his appointment to the Board. The Committee met five times during the year.

HEALTH, SAFETY & ENVIRONMENT COMMITTEE

Mark Rollins, Mike Sheppard, Ron Case (Chief Executive of Aerospace Structures) and Launie Fleming (Chief Executive of Aerospace Fluid Systems). Mark Rollins became Chairman of the HSE Committee upon Graham Menzies' retirement. Launie Fleming joined the HSE Committee in October 2008. The Committee met five times during the year. James Pomeroy, the Group HSE Manager, also attends each Committee meeting.

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

EXECUTIVE COMMITTEE

The Executive Committee, although not formally appointed as a Committee of the Board, oversees the running of all Senior Group operations.

It comprises three members of the Board: Mark Rollins, Simon Nicholls and Mike Sheppard; together with Ron Case (Chief Executive of Aerospace Structures) and Launie Fleming (Chief Executive of Aerospace Fluid Systems), whose biographical details are set out below. Bindi Foyle, Group Financial Controller, acts as Secretary to this Committee.

RON CASE A US citizen, he has worked for the Group for more than 10 years, and is the Chief Executive of Aerospace Structures. Joined the Executive Committee upon his appointment as a Divisional Chief Executive in 2004. Prior to that appointment he had been Chief Executive of Senior Aerospace Jet Products and of Senior Aerospace Ketema.

LAUNIE FLEMING A US citizen, he has worked for the Group for more than 10 years. Joined the Executive Committee upon his appointment as Chief Executive of Aerospace Fluid Systems in September 2008. Prior to that appointment he had been Chief Executive of Senior Aerospace SSP.

The purpose of the Committee is to assist the Group Chief Executive in the performance of his duties, including:

- the development and implementation of strategy, operational plans, policies, procedures, and budgets;
- the monitoring of operating and financial performance;
- the assessment and control of risk;
- the prioritisation and allocation of resources; and
- the monitoring of competitive forces in each area of operation.

The Committee is also responsible for the consideration of all other matters not specifically reserved for consideration by the Board. A report on the Executive Committee's activities is provided to the Board by the Group Chief Executive at each Board meeting.

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The Directors present their Report and supplementary reports, together with the audited Financial Statements for the year ended 31 December 2008.

ACTIVITIES AND BUSINESS REVIEW

Senior plc is a holding company. The nature of the Group's operations and its principal activities are set out in the Operating and Financial Review ("OFR") on pages 10 to 23. Its Principal Group Undertakings are shown on page 82 and comments on both of the Division's results and activities in 2008 are included in the OFR. 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 used by management.

ACQUISITIONS AND DISPOSALS

Capo Industries, Inc. was acquired on 25 January 2008; details of the transaction are set out in Note 32 to the Financial Statements on pages 70 and 71. There were no disposals during the year.

RESULTS AND DIVIDENDS

The results for the year are shown in the Consolidated Income Statement on page 41.

An interim dividend of 0.90 pence per share (2007 – 0.70 pence) has already been paid and the Directors recommend a final dividend of 1.70 pence per share (2007 – 1.70 pence). The final dividend, if approved, will be payable on 29 May 2009 to shareholders on the register at the close of business on 1 May 2009. This would bring the total dividend for the year to 2.60 pence per share (2007 – 2.40 pence).

SHARE CAPITAL

The Company has one class of ordinary shares, which carries no right to a fixed income. Each share carries the right to vote at general meetings of the Company. Changes in the Company's issued share capital during 2008 were:

Shares in issue at 1 January 2008	390,805,600
Senior plc Savings-Related Share Option Plan	251,158
Senior plc Long Term Incentive Plan	1,676,231
Senior plc Executive Share Option Plan	5,590,959
Shares in issue at 31 December 2008	398,323,948

Further share capital details are given in Note 25 to the Financial Statements on page 68. Details of employee share plans are set out on pages 74 and 75.

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 Company's 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 prepared 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 Act 2006 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 24.

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.

FINANCIAL INSTRUMENTS

Note 21 to the Financial Statements on pages 64 to 66 contains disclosures on Financial Instruments.

DIRECTORS

Details on the Directors who served throughout the year can be found on page 6. The Directors' interests in the shares of the Company are included in the Remuneration Report on page 32. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings.

Graham Menzies retired from the Board in April 2008. Mark Rollins was appointed Group Chief Executive and Chairman of the Health, Safety & Environment Committee in March 2008.

Simon Nicholls, Group Finance Director, was appointed to the Board on 1 May 2008; he has a service agreement which is subject to 12 months' notice by either party. He retires in accordance with Article 77(i) and, being eligible, offers himself for election at the Annual General Meeting on 24 April 2009.

Michael Steel was appointed non-executive Director on 1 May 2008. He too retires in accordance with Article 77(i) and, being eligible, offers himself for election.

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Ian Much retires by rotation in accordance with Article 77(ii) and, being eligible, offers himself for re-election.

DIRECTORS' INDEMNITIES

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this Report.

RESEARCH AND DEVELOPMENT

In 2008, the Group incurred £8.6m (2007 – £8.2m) on research and development, before recoveries from customers of £1.2m (2007 – £0.9m). The majority of the Group's efforts are focused on product development and improving manufacturing techniques.

CHARITABLE AND POLITICAL DONATIONS

During the year, the Group made charitable donations amounting to £35,000 (2007 – £50,000), 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 36 to 38.

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 22 days (2007 – 30 days). The typical payment terms adhered to are estimated to be on average about 30 days for the Company.

MAJOR SHAREHOLDINGS

At 27 February 2009, the Company had been notified that the following shareholders were interested in 3% or more of the issued share capital of the Company:

Lloyds Banking Group	7.91%
Henderson Global Investors	6.62%
Legal & General Investment Management	6.54%
JP Morgan Asset Management	5.97%
Aberforth Partners	5.53%
BlackRock MLIM	4.51%
Aegon Asset Management	4.18%
Rathbone Investment Management	3.85%

So far as is known, no other shareholder had a notifiable interest amounting to 3% or more of the issued 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 24.

REMUNERATION REPORT

The Company's policy on executive Directors' remuneration is set out in the Remuneration Report on pages 28 to 35. The Remuneration Report is to be put to shareholder vote at the Annual General Meeting on 24 April 2009.

ANNUAL GENERAL MEETING

The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held on Friday 24 April 2009 at the offices of Royal Bank of Scotland, 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 25 April 2008, to make market purchases of the Company's shares up to an aggregate nominal amount of £3.91m, which represented approximately 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 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 information is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

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

By Order of the Board
ANDREW BODENHAM
Secretary
27 February 2009

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MARK ROLLINS
GROUP CHIEF EXECUTIVE

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, Business Objectives and 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, land vehicle and energy markets. The Group is split into two Divisions, Aerospace and Flexonics.

AEROSPACE

The Aerospace Division consists of 14 operations. These are located in the USA (nine), United Kingdom (two), and continental Europe (three). In 2008, this Division accounted for 56% of total Group revenue. Its main products were engine structures and mounting systems (29% of divisional sales), metallic ducting systems (18%), airframe and other structural parts (18%), composite ducting systems (8%), helicopter machined parts (7%) and fluid control systems (6%). 14% of divisional sales were to non-aerospace, but related technology, markets. The Division's largest customers include Boeing, representing 12% of 2008 divisional sales, United Technologies (11% of divisional sales), 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 2008, the Flexonics Division accounted for 44% of total Group revenue. This Division's sales comprised flexible mechanisms for vehicle exhaust systems (26% of divisional sales), cooling and emission control components (14%) and diesel fuel distribution pipework (13%). Sales of industrial components, principally expansion joints, control bellows and hoses increased to 47% of divisional sales in 2008 (2007 – 42%). The components were supplied to power and boiler markets (16% of divisional sales), HVAC and solar markets (11% of divisional sales), oil and gas and chemical processing industries (7% of divisional sales) and other industrial markets (13% of divisional sales). The Division's largest end users are land vehicle customers, including PSA, Cummins and Ford, each representing 9% of divisional sales, and General Motors (8% of divisional sales). The percentage of divisional sales coming from the automotive market fell to 37% (2007 – 47%) with sales to the heavy duty diesel engine market (e.g. Cummins, Caterpillar and Siemens) growing to 16% of divisional sales (2007 – 11%).

LONG-TERM STRATEGY, BUSINESS OBJECTIVES AND KEY PERFORMANCE INDICATORS

Senior is a manufacturer of products used principally in the aerospace, defence, land vehicle and energy markets.

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"IN 2008 THE GROUP MADE GOOD PROGRESS AGAINST ALL OF ITS STRATEGIC TARGETS, DRIVEN NOTABLY BY A SIGNIFICANT IMPROVEMENT IN THE UNDERLYING PERFORMANCE WITHIN ORGANIC OPERATIONS IN BOTH DIVISIONS."

There are four key elements to Senior's strategy for accelerating growth and creating shareholder value, which are:

- targeted investment in new product development and new geographies, for markets having higher than average growth potential;
- exceeding customer expectation through advanced process engineering and excellent factory and logistics execution;
- portfolio enhancement, through focused acquisitions and disposal of non-core assets: both subject to strict financial and commercial criteria, their long-term outlook and the Group's anticipated funding position; and
- creating an entrepreneurial culture, with strong controls, whilst continuously striving for improvements amongst its operating businesses.

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

- to have organic 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 fund future growth and 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 pre-tax 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% from 113.7 tonnes in 2006 to below 96.6 tonnes by 2010; and
- to reduce the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work by 5% per annum.

In 2008 the Group made good progress against all of its strategic targets, driven notably by a significant improvement in the underlying performance within organic operations in both Divisions. This improvement was in turn attributable to a combination of various new programme wins, increased operational efficiencies and improved working capital management through the continued implementation of the Group's Lean Manufacturing Programme. Further improvements were also made in the level of carbon dioxide emissions and recordable injuries.

A summary of the Key Performance Indicators ("KPIs") showing the Group's progress in relation to its strategic objectives is set out in the table below:

	2008	2007
Organic revenue growth (1)	+5%	+18%
Adjusted earnings per share (2)	10.63p	7.71p
– growth	+38%	+66%
Return on revenue margin (3)	11.5%	9.6%
Return on capital employed (4)	21.7%	19.2%
CO_2 emissions/£m revenue (5)	104 tonnes	110 tonnes
Lost time injury frequency rate (6)	1.94	2.55

(1) Organic revenue growth is the rate of growth in 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 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 is 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 is the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees.

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GROUP OPERATING RESULTS

	Revenue		Adjusted operating profit [1]		Margin	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 %	2007 %
Aerospace	312.9	246.2	44.3	33.4	14.1	13.6
Flexonics	250.1	225.0	25.9	17.4	10.4	7.7
Inter-segment sales	(0.6)	(0.5)	–	–	–	–
Central costs	–	–	(5.7)	(5.8)	–	–
Group total	562.4	470.7	64.5	45.0	11.5	9.6

[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 table of KPIs on page 11 shows that the Group achieved all of its financial targets in the year. It also remains on course to achieve its targeted CO_2 emissions reduction of 15% by 2010 (compared to 2006), and reduced the level of recordable injuries by 25% in the year, comfortably in excess of its annual target.

ACQUISITIONS

The Group completed the acquisition of Capo Industries on 25 January 2008 for a total consideration of £44.6m (including deferred consideration of £0.5m). Located in Chino, California, Capo Industries 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 Industries is a complementary fit for the Group's Aerospace Structures operations. Financial details relating to this acquisition are disclosed in Note 32 to the Financial Statements.

FINANCIAL REVIEW

SUMMARY

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

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

	2008 £m	2007 £m
Operating profit per Financial Statements	59.8	41.5
Loss on sale of fixed assets	–	0.7
Release of provision set up on acquisition	–	(0.5)
Amortisation of acquisition intangible assets	4.7	3.3
Adjusted operating profit	64.5	45.0

The Group benefited from particularly strong market demand in the first half of the year in all product lines. However, demand weakened significantly in automotive and truck markets in the final quarter and, in wide-bodied aerospace markets, demand was adversely impacted as Boeing machinists were on strike for two months. Demand conditions in other markets, including industrial components and other aerospace markets, remained robust all year. As a result, Group revenue increased by 19% in 2008 (10% excluding the impact of foreign exchange). Adjusted operating profit increased significantly by 43% (33% excluding the impact of foreign exchange) due to acquisitions and further encouraging improvements in organic operations' profitability achieved in both Divisions. Operating margins increased significantly to 11.5% (2007 – 9.6%).

The Group's free cash flow and net debt for 2008 and the prior year were:

	2008 £m	2007 £m
Free cash flow	52.4	18.5
Net debt	174.5	94.8

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:

	2008 £m	2007 £m
Net cash from operating activities	74.6	35.3
Interest received	1.7	0.8
Proceeds on disposal of tangible fixed assets	0.6	1.9
Purchases of tangible fixed assets	(23.8)	(19.0)
Purchases of intangible assets	(0.7)	(0.5)
Free cash flow	52.4	18.5

Despite a significant increase in free cash flow, net debt increased to £174.5m (2007 – £94.8m). This was principally due to the acquisition of Capo Industries (£44.1m) and foreign exchange losses of £79.5m, which arose due to a 28% increase in the value of the US dollar against Sterling in the fourth quarter of 2008.

REVENUE

Group revenue increased by £91.7m (19%) to £562.4m (2007 – £470.7m) including a full year contribution of £6.9m from Absolute Manufacturing, which was acquired on 10 December 2007, and £19.9m from Capo Industries,

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which was acquired on 25 January 2008. If the effect of acquisitions and a year-on-year beneficial exchange impact of £39.6m are excluded then underlying revenue grew by 5% on a constant currency basis. In 2008, 64% of Group sales originated from North America, 18% from the rest of Europe, 11% from the United Kingdom and 7% from the Rest of the World.

OPERATING PROFIT

Group operating profit increased by 44% to £59.8m (2007 – £41.5m), primarily due to increased profitability in organic operations and acquisition contributions. Adjusted operating profit increased by £19.5m (43%) to £64.5m (2007 – £45.0m). Adjusted operating profit is that before loss on disposal of fixed assets of £nil (2007 – £0.7m), amortisation of intangible assets arising on acquisitions of £4.7m (2007 – £3.3m) and the release of provision originally set up on a previous acquisition of £nil (2007 – £0.5m). If the effects of the acquisitions (an increase in reported operating profit of £3.3m) and foreign currency effects (£3.5m benefit) are excluded, then underlying adjusted operating profit increased by 26% on a constant currency basis.

FINANCE COSTS

Finance costs, net of investment income of £2.7m (2007 – £1.0m), increased to £8.5m (2007 – £7.2m). This was due to an increase in interest costs on borrowings to £6.8m (2007 – £6.4m) as the average level of the Group's debt increased following the acquisition of Capo Industries in January 2008. Pension related charges also increased, to £1.7m in 2008 (2007 – £0.8m), principally as a result of higher interest costs relating to the unwinding of discounted liabilities in the Group's pension schemes.

PROFIT BEFORE TAX

Adjusted profit before tax increased by 48% to £56.0m (2007 – £37.8m). Reported profit before tax increased to £51.3m (2007 – £34.3m).

TAX CHARGE

The total tax charge increased to £12.1m (2007 – £6.4m) due to the increase in the Group's taxable profits. Net tax benefits, arising on the loss on sale of fixed assets (applicable to 2007 only), amortisation of intangible assets from acquisitions and the release of the provision originally set up on a previous acquisition (applicable to 2007 only), totalled £1.9m (2007 – £1.4m). If these are added back then the resultant tax charge of £14.0m (2007 – £7.8m) represented an underlying rate of 25.0% (2007 – 20.6%) on the adjusted profit before tax of £56.0m (2007 – £37.8m). 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 effective tax rate is approximately 36%.

EARNINGS PER SHARE

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 395.0 million (2007 – 389.0 million). Adjusted earnings per share increased by 38% to 10.63p (2007 – 7.71p). Basic earnings per share increased by 38% to 9.92p (2007 – 7.17p).

DIVIDENDS

A final dividend of 1.70 pence per share is proposed for 2008 (2007 final dividend – 1.70 pence) which would cost £6.8m (2007 final dividend cost £6.7m). This would bring the full year dividend to 2.60 pence per share, an 8% increase over the prior year's 2.40 pence per share. The cash outflow incurred in 2008, in respect of the final dividend for 2007 and the interim dividend for 2008, was £10.3m (2007 – £8.1m).

RESEARCH AND DEVELOPMENT

The Group's expenditure on research and development increased to £8.6m during 2008 (2007 – £8.2m). Expenditure was mainly incurred on designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production.

CAPITAL EXPENDITURE

The Group increased its investment in capital expenditure in 2008 to £24.5m (2007 – £19.5m) principally to increase capacity to meet demand in aerospace markets. Disposal of assets no longer required raised £0.6m (2007 – £1.9m). A lower level of capital expenditure is anticipated for 2009, as the Group is now sufficiently capitalised for its near-term growth programmes.

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SIMON NICHOLLS
GROUP FINANCE DIRECTOR

CAPITAL STRUCTURE

The Group's Consolidated Balance Sheet at 31 December 2008 may be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	138.4	–	138.4
Goodwill and intangible assets	201.6	–	201.6
Current assets and liabilities	193.8	(125.9)	67.9
Other non-current assets and liabilities	3.7	(9.7)	(6.0)
Post-retirement obligations	–	(51.2)	(51.2)
Total before net debt	537.5	(186.8)	350.7
Net debt	11.9	(186.4)	(174.5)
TOTAL AT 31 DECEMBER 2008	549.4	(373.2)	176.2
Total at 31 December 2007	393.1	(243.2)	149.9

Net assets increased by 18% in the year to £176.2m (2007 – £149.9m), in the main as a result of retained profits and an appreciation of the US dollar and the Euro against Sterling in 2008, and net assets per share increased by 15% to 44.2p (2007 – 38.4p). There were 398.3 million ordinary shares in issue at the end of 2008 (2007 – 390.8 million). Post-retirement obligations increased to £51.2m (2007 – £36.3m), with the increase in deficit arising principally due to a decrease in returns on invested assets, which was partially offset by the benefit of a higher rate of 6.4% being used to discount the UK Pension Scheme liabilities (2007 – 5.9%).

CASH FLOW

The Group's free cash flow, whose derivation is set out in the table below, increased significantly by 183% to £52.4m (2007 – £18.5m). The increased inflow of £33.9m was largely driven by a combination of increased operating profits of £59.8m, which were £18.3m ahead of last year, and net inflows from working capital of £12.2m which were £22.5m ahead of last year (2007 – outflow of £10.3m). Net capital expenditure of £23.9m (2007 – £17.6m) remained ahead of the depreciation level of £18.7m (2007 – £14.6m), excluding £4.7m (2007 – £3.3m) of amortisation of intangible assets acquired on acquisition.

	2008 £m	2007 £m
Operating profit	59.8	41.5
Depreciation and amortisation	23.4	17.9
Working capital movement	12.2	(10.3)
Pension payments above service cost	(5.2)	(3.0)
Other items	1.7	2.4
Cash generated from operations	91.9	48.5
Interest paid (net)	(6.8)	(6.2)
Tax paid	(8.8)	(6.2)
Capital expenditure	(24.5)	(19.5)
Sale of fixed assets	0.6	1.9
Free cash flow	52.4	18.5
Dividends	(10.3)	(8.1)
Acquisitions and disposals	(43.6)	(8.1)
Share issues	1.3	0.2
Foreign exchange variations	(79.5)	(0.8)
Non-cash movements	–	0.2
Opening net debt	(94.8)	(96.7)
Closing net debt	(174.5)	(94.8)

NET DEBT

Net debt increased by £79.7m in the year to £174.5m (2007 – £94.8m), despite the Group's very strong free cash flow performance in 2008. The principal reasons for the increase in net debt were the acquisition of Capo Industries (£44.1m), and foreign exchange losses of £79.5m. These foreign exchange losses occurred, in the main, in the fourth quarter of the year when the US dollar appreciated against Sterling by 28%, impacting foreign currency borrowings and forward exchange contracts that are used to hedge the Group's net balance sheet exposure. At the year-end, net debt comprised gross borrowings of £150.8m (with around 85% of the Group's gross borrowings in US dollars (31 December 2007 – 75%)), unrealised losses on forward exchange contracts of £33.9m, finance lease commitments of £1.7m, and cash and cash equivalents of £11.9m.

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"THE GROUP REMAINS HIGHLY CASH GENERATIVE AND CONCLUDED A SUCCESSFUL LONG-TERM REFINANCING IN OCTOBER 2008. THIS MEANS THAT NO MATERIAL FUNDS ARE NOW DUE FOR REPAYMENT BEFORE JULY 2012."

The Group's committed borrowing facilities contain a requirement that the ratio of EBITDA (adjusted profit before interest, tax, depreciation and amortisation) to net interest costs must exceed 3.5x, and that the ratio of net debt to EBITDA must not exceed 3.0x. At 31 December 2008 the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 12.0x and the ratio of net debt to EBITDA was 2.1x.

LIQUIDITY

As at 31 December 2008, the Group's gross borrowings were £150.8m (2007 – £99.8m). 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	1.2	–
In the second year	–	–
In years three to five	20.2	96.0
After five years	129.4	128.5
	150.8	224.5

[1] Gross borrowings include the use of bank overdrafts, other loans and committed facilities, but exclude finance leases and unrealised losses on forward foreign exchange contracts.

On 8 October 2008 the Group issued $120m (£83.3m at year-end exchange rates) of new loan notes through a private placement offer. The issuance consisted of three tranches of loan notes: $25m maturing in October 2015; $75m maturing in October 2018; and $20m maturing in October 2020. The new loan notes carry a weighted average fixed coupon rate of 6.77% per annum. The new funds were used to repay $75m of loan notes, which matured on 22 October 2008, and also to reduce the level of borrowings under the Group's £80m revolving credit facility. At the year-end the Group had committed facilities of £224.5m, with a weighted average maturity of 6.4 years. The Group is in a strong funding position with the next material refinancing now not due until July 2012.

GOING CONCERN BASIS

The Group's business activities, performance and position are set out in the Operations Review on page 10 and the Divisional Review on pages 16 and 17. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described within this Financial Review. In addition, a review of the principal risks and uncertainties that are likely to affect the Group's future development are set out on pages 17 to 21, together with a summary of the Group's policies and processes in respect of capital and financial risk management including foreign exchange, interest rate, credit and liquidity risks.

The Group meets its day-to-day working capital and other funding requirements through a combination of long-term funding, in the form of revolving credit and private placement facilities, and short-term overdraft lending. At 31 December 2008 approximately 85% of the Group's net debt was financed via revolving credit and private placement facilities, with an average maturity of 6.8 years, and 15% of the Group's net debt was financed via short-term overdraft facilities which are due for renewal within 12 months. The Group is well funded, having concluded a successful refinancing in October 2008 and now has no major borrowing facility renewal before 2012.

However, current economic conditions create uncertainty particularly over the level of demand for the Group's products (most notably in land vehicle markets) and the exchange rate between Sterling and the US dollar, given that around 75% of the Group's profits in 2008 were earned in the US and 85% of its gross borrowings at 31 December 2008 were denominated in US dollars. For these reasons, a sensitivity analysis has been performed on the Group's forecasts and projections, to take account of reasonably possible changes in trading performance together with foreign exchange fluctuations under the hedging policies that are in place. This analysis shows that the Group will be able to operate within the level of its current committed borrowing facilities and banking covenants. As a consequence, and after making relevant other enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Group's Annual Report & Accounts 2008.

CHANGES IN ACCOUNTING POLICIES

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

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DIVISIONAL REVIEW

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that the results for 2007 have been translated at constant currency using 2008 average exchange rates in order to make appropriate comparisons at constant currency.

AEROSPACE DIVISION

	2008 £m	2007 £m	Change
Revenue	312.9	265.8[1]	+18%
Adjusted operating profit	44.3	35.8[1]	+24%
Operating margin	14.1%	13.5%	–

[1] 2007 results translated using 2008 average exchange rates.

The revenue of the Aerospace Division grew by £47.1m (18%) to £312.9m (2007 – £265.8m at constant currency). The year-on-year effect of acquisitions was £26.8m at constant currency, with Absolute Manufacturing acquired in December 2007 and Capo Industries acquired in January 2008. Organic revenue therefore increased by 8%.

Demand in wide-bodied aerospace markets (namely Boeing, Airbus and the associated engine builders), which accounts for 38% of this Division's sales, was strong for the majority of the year. Total aircraft deliveries by Boeing and Airbus were 858 aircraft this year (2007 – 894), a good increase in underlying delivery rates after taking account of a significant reduction in Boeing deliveries in the second half of the year due to a two month Boeing machinists' strike which reduced its total deliveries for the full year by around 70 aircraft. Of equal importance, the 2008 net order intake was 1,439 aircraft, over one and a half times the level of deliveries, and the combined Boeing and Airbus order book stood at 7,429 aircraft at the year end. This represents over eight years of deliveries at current build rates and continues to represent a solid foundation for the Group's future.

The regional jet market was strong for the majority of 2008. Combined deliveries of 280 aircraft by the principal regional jet manufacturers, Embraer (166 aircraft) and Bombardier (114 aircraft), were 9% higher than the combined total of 258 achieved in 2007. The business jet market was also strong for most of the year, with 1,315 deliveries being some 16% higher than in 2007 (1,138 deliveries), although demand levels began to soften late in the year due to the impact of the global financial crisis. Military markets remained robust overall, with increased volumes of helicopter parts delivered to Sikorsky, and stable demand in other US Government programmes.

The Aerospace Division's adjusted operating profit (before profit/loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions) increased strongly by £8.5m (24%) to £44.3m (2007 – £35.8m at constant currency) with acquisitions accounting for £3.3m of this increase. Excluding acquisitions, organic adjusted operating profit improved by 15% compared to 2007. The Division's operating margin increased by 0.6 percentage points to 14.1% (2007 – 13.5%). These increases were driven by further operational improvements across the Division but were tempered, in the fourth quarter, by the impact of the Boeing strike.

Capital expenditure for the Aerospace Division increased to £17.1m in 2008 (2007 – £10.9m), as production capacity and increased capability were added to meet the demands of both existing and future major programmes, such as the C130 military transport plane, the Boeing 787 Dreamliner and the Joint Strike Fighter. Total capital expenditure in this Division represented 1.9x depreciation (2007 – 1.6x).

FLEXONICS DIVISION

	2008 £m	2007 £m	Change
Revenue	250.1	245.0[1]	+2%
Adjusted operating profit	25.9	18.6[1]	+39%
Operating margin	10.4%	7.6%	–

[1] 2007 results translated using 2008 average exchange rates.

Revenue for the Flexonics Division increased by £5.1m (2%) to £250.1m (2007 – £245.0m at constant currency). The Division benefited from sustained strength in industrial markets (oil refining, power generation and chemical processing) with the Group's industrial operations based in Texas and Germany performing well all year. Industrial markets accounted for almost half of this Division's sales in 2008 and order books remain healthy going into 2009. However, gains in the industrial operations were largely

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offset by an overall reduction in the Group's principal land vehicle markets, in particular in medium/heavy duty trucks in North America and light vehicles in both North America and Europe. Despite satisfactory volumes in the first half of the year, these markets declined rapidly in the fourth quarter. Sales of medium/heavy duty trucks in North America were 298,000 in 2008, a decline of 20% compared to the 371,000 sold in 2007. Light vehicle sales in North America fell by 2.9 million vehicles (18%) to 13.2 million and in Europe were down by 1.3 million vehicles (8%) to 15.0 million. The decline in the seasonally adjusted annual rate of sales of light vehicles in North America in December 2008 was even more marked at 10.3 million vehicles, a reduction of 36% compared to 16.1 million vehicles in December 2007. Similar falls were also seen in most other geographic regions.

Despite the increasingly difficult land vehicle markets, the Flexonics Division's adjusted operating profit for 2008 increased by an excellent 39% to £25.9m (2007 – £18.6m at constant currency). All of the growth was organic, as no acquisitions have been undertaken in this Division in recent years. The improved performance was achieved through additional volumes in the industrial operations, a continuing improvement in contribution from the heavy duty diesel products, improved factory performances across the Division and the mitigating impact of prompt action taken in all land based vehicle operations, in the fourth quarter, to reduce both direct and indirect costs as demand levels fell. Profit preservation plans were implemented at all seven land vehicle operations, at a cost of £1.9m, including a reduction in workforce of 380 people representing 13% of the Division's employees. Savings of £5.3m will be realised from this initiative in 2009. In total, the operating margin of the Flexonics Division for 2008 increased by a very satisfactory 2.8 percentage points to 10.4% (2007 – 7.6%).

Capital expenditure for the Division decreased to £7.4m or 0.8x depreciation in 2008 (2007 – £8.5m or 1.1x depreciation), reflecting weakening market conditions and the fact that capital expenditure levels in recent years, in particular in the land based vehicle operations, have been well above depreciation.

OUTLOOK

A detailed Outlook statement is included in the Chairman's Statement on pages 2 to 4 of this Report.

Demand conditions are strongest in the military and defence aerospace sector and in the Group's industrial markets. Large commercial aircraft build rates are stable. However, demand for regional and business jets has weakened and land vehicle markets are very weak and are expected to remain so for the foreseeable future. In response, the Group has implemented profit preservation plans in affected operations, and by the end of April 2009 it is anticipated that total headcount will have fallen by around 1,000 employees (17% of the workforce), of which approximately 130 are UK based.

Against this backdrop the Group concluded a successful refinancing in October 2008, remains cash generative, is operating well within bank covenants and does not have to renew any major banking facilities until 2012. Going forward, the Group is well funded with healthy long-term prospects.

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.

GLOBAL CREDIT CRISIS

The current global financial crisis presents significant challenges to the Group, principally the level of market demand in key aerospace, industrial and land vehicle markets and also the need to ensure that the Group is adequately financed and hence able to settle its financial liabilities as they fall due. The potential market demand and related customer risks are discussed in more detail directly below. The Group's financing position is set out in the Financial Review on pages 12 to 15 of this Report, and the way the Group manages its capital structure, foreign exchange, interest rate, liquidity and other financial risks is set out on pages 19 to 21.

MARKETS AND CUSTOMERS

Long-term growth in demand in the Group's major markets is an essential foundation for future growth. The Group is well positioned in this respect in its key aerospace and industrial markets, and in the emission related sectors of

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land based vehicle markets where increasingly stringent legislation will ensure that long-term demand for the Group's land vehicle based products remains high. However, the Group has already experienced a contraction in demand in land vehicle markets in the latter part of 2008, and has implemented rationalisation plans to preserve profitability levels that include a reduction in personnel of 480 across the Group, representing approximately 8% of the Group's total workforce. The short-term outlook in land vehicle markets remains depressed, and a further significant contraction in these or the Group's other key markets could potentially have a material impact on the Group's profitability.

In addition, the Group maintains close relationships with key customers in both Divisions. Superior customer service, in particular the provision of innovative customer solutions and quality products delivered on time and fully in line with specifications, are critical components of customer value that ensure continued participation in existing and future development programmes. Provision of superior customer value is a top priority within the Group.

The Group derived 56% of its sales in 2008 from the aerospace market with the most significant element attributable to the large commercial aircraft sector which accounted for 21% of Group sales. Whilst the commercial aerospace market is expected to remain buoyant in the long term, and build rates for wide-bodied commercial aircraft are anticipated to remain stable in 2009, 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, Boeing, representing only 7% of 2008 Group sales. The immediate and total loss of such a customer is considered to be highly improbable given that many parts are typically supplied by a number of Senior's operations to a range of customer locations, with many products on long-term agreements.

The Group's industrial markets are diverse, fragmented and generally healthy, with the largest single customer representing only 1% of 2008 Group sales. The failure of any single industrial customer is, therefore, unlikely to have a material effect on the Group.

The economic viability of North American and European automotive manufacturers remains uncertain. Whilst funds have been made available by the French Government to support the Group's major European automotive customers, and in the US the new US Presidential administration has indicated its intention to ensure that an appropriate long-term rescue package is provided, the details of this rescue package are uncertain. It is therefore possible that one of the larger US automotive manufacturers may seek protection from its creditors (known as going into Chapter 11 in the US), which in turn could result in some of its suppliers seeking similar creditor protection. In this event the Group may not recover all of the amounts owed to it. However, production of vehicles, and hence sales of the Group's relevant products would likely 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 4% of 2008 Group sales, both to the manufacturer directly and/or to its supplier base.

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 commercial, operational and engineering support to be readily given to its customers. Whilst the industry is consolidating, the supplier base remains fragmented and the Group participates in a diverse range of aerospace programmes with a broad range of end customers. Hence, 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 (47% of 2008 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 heavy duty diesel engine products are similar in nature to those produced in the Aerospace Division, in that engineering support and process engineering are very important to the customers' choice of supplier, and the Group therefore maintains appropriate resources close to customers' locations in these cases. 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

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THE GROUP'S END MARKETS ARE EXPECTED TO BE MORE CHALLENGING IN 2009. A COMBINATION OF SIGNIFICANT CONTENT ON FUTURE GROWTH PROGRAMMES, PROFIT PRESERVATION PLANS ALREADY IMPLEMENTED, AND SECURED LONG-TERM FINANCING UNDERPIN THE GROUP'S HEALTHY LONG-TERM PROSPECTS.

manufacturing products in its lower cost operations in the Czech Republic, South Africa, Brazil and India, rather than in its North American and European operations.

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. The Group's combined pension deficits at 31 December 2008 were £51.2m (31 December 2007 – £36.3m). A 10 year funding plan was approved by the UK Pensions Regulator, based on the actuarial valuation of the UK scheme undertaken in April 2007. Under this funding plan the Group is committed to contributing an additional £5m per annum above service cost into this scheme for 10 years. The Group also plans to make additional voluntary contributions to the smaller US schemes, of approximately £1m, in 2009 to preserve their funding positions. These funding plans may be subject to change depending on future changes in the level of scheme deficits.

By virtue of legislation, there may be additional risks for the Group in relation to its pension schemes. 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, it could have an adverse effect on the results of the Group's operations. In order to mitigate some of these risks the Group closed the UK defined benefit scheme to new employees from April 2008, and has implemented a liability-driven investment strategy to reduce the risk from the scheme.

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 balance between debt and equity. 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 to not exceed 2.5x. At 31 December 2008 net debt was 2.1x the Group's level of EBITDA (31 December 2007 – 1.6x). In addition, all borrowing facilities contain the requirement for EBITDA interest cover (the number of times net interest is covered by the Group's EBITDA) to be in excess of 3.5x. At 31 December 2008 EBITDA was 12.0x the level of net interest (31 December 2007 – 9.3x).

The Group's strategy in respect of gearing is to target a long-term gearing ratio within the range of 60% to 80%. Ratios outside this range may still be considered to be acceptable, in certain circumstances. The gearing ratio for the Group at the end of 2008 was 99% (2007 – 63%). The increase in 2008 is attributable to the acquisition of Capo Industries (£44.1m) in January 2008, together with foreign translation losses (£79.5m) incurred as Sterling weakened significantly against most major currencies in the fourth quarter of 2008.

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,

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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 89% of its revenue from businesses outside the United Kingdom, of which 64% 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 10% appreciation (or depreciation) of the US dollar against Pound Sterling would have increased (or decreased) 2008 Group operating profit by £4.8m.

The majority of shareholder funds are denominated in foreign currency, particularly in US dollars. In order to match the Group's net asset exposures, to comply with a bank covenant relating to the Group's consolidated net worth that expired in 2008, hedges were previously put in place through a combination of borrowings in the same currencies and foreign exchange forward contracts. Given that this bank covenant attached only to borrowings that matured during 2008, and hence no longer exists under the replacement facilities, the Group will not replace the forward contracts (which all expire during 2009) and will instead hedge its remaining foreign exchange exposure by seeking to match borrowings in the same currencies and proportions as EBITDA is generated. This change will provide an improved hedge for the Group's foreign exchange exposure in relation to its remaining bank covenants.

At the end of 2008, the achieved cover of the Group's net assets, including goodwill, denominated in currencies other than Pound Sterling were: US dollar at 83% (2007 – 76%), Euro at 46% (2007 – 94%), Czech Crown at 32% (2007 – 110%) and Canadian Dollar at 86% (2007 – 57%). Net assets denominated in Indian Rupees, South African Rand, and Brazilian Real were not hedged in 2008 and 2007. A 10% appreciation of all other currencies against Pound Sterling would have increased net equity by £8.8m, £5.0m 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 10% appreciation (or depreciation) of the Euro against the Rand would have increased (or decreased) operating profit by £0.2m, and a 10% appreciation (or depreciation) of the US dollar against Pound Sterling would have increased (or decreased) operating profit by £0.4m. 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 10% appreciation (or depreciation) of the Euro against the Rand and of the US dollar against Pound Sterling would have decreased (or increased) net equity by £0.6m and £2.7m, respectively.

INTEREST RATE RISK MANAGEMENT

On occasion the Group enters into interest rate swaps to mitigate the risk of rising interest rates and to balance the borrowing structure between fixed and variable debt. The following sensitivity analysis of the Group's and the 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 (or higher), the Group's and Company's net profit would have increased (or decreased) by £0.3m. Any fixed interest debt is held up to maturity and not fair value adjusted through profit and loss. An increase (or decrease) of 0.5% in the US dollar market interest rate for the fixed rate debt held up to maturity would have decreased (or increased) the fair value of the Group's borrowings by £3.7m. The Group's 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 account their 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. The Group is guarantor under the lease of two buildings in the UK, which arose on the disposal of former Group owned subsidiaries in 2001 and 2004.

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's and Company's maximum exposure to credit risk.

LIQUIDITY RISK MANAGEMENT
Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. 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. Cash flow forecasts are produced monthly, together with appropriate downside capacity planning and scenario analysis, to ensure that bank covenant and liquidity targets will be met. The Directors also regularly assess the balance of capital and debt funding of the Group, as part of a process to satisfy the Group's long-term strategic funding requirements.

The global credit crisis presents a potential risk to the Group's funding status, and steps already taken in relation to changes in market conditions and in respect of the long-term financing of the Group have been discussed earlier in this OFR. In summary, the Group has incurred costs of £1.9m in 2008 in rationalising various land vehicle operations, and has reduced the total workforce by 8% in the fourth quarter of 2008. In addition, a successful major refinancing was completed in October 2008. As a result, the Group is currently in a very well-funded position with significant headroom and no major renewal of borrowing facilities now due until 2012. Group management is prepared to take further action to rationalise operations as necessary to mitigate the impact of any further downturn in market demand, wherever this may occur. The Group has an experienced management team that was also substantially in place during the market downturn that occurred after "9/11", a period during which the Group generated significant positive free cash flow. It is considered unlikely that the Group will face any significant funding issues in the foreseeable future.

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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 2008 was 5,822 (2007 – 5,684). Of these 4,984 were in production related roles, 61 in distribution, 309 in sales and 468 in administration. Senior is a global group operating in 11 countries. At the end of 2008 the Group employed a total of 5,457 people with 52% located in North America, 17% in the United Kingdom, 20% in the rest of Europe and 11% 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 2008 the Group spent £24.5m (2007 – £19.5m) on capital expenditure to add to the Group's manufacturing capability, as well as its production capacity. This was 1.3x the depreciation level (2007 – 1.3x).

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 8% of the shares of the Company. As at 31 December 2008, the Company's share price was 39.0p, giving it a market capitalisation of around £155.3m. In respect of debt financing, at the end of 2008, the Group had committed borrowing facilities totalling £224.5m of which £174.5m was being utilised. The committed facilities at this time consisted of $35m (£24.3m) of loan notes due in 2014, $25m (£17.4m) of loan notes due in 2015, $30m (£20.8m) of loan notes due in 2017, $75m (£52.1m) of loan notes due in 2018, $20m (£13.9m) of loan notes due in 2020, an £80.0m multi-currency revolving credit facility maturing in 2012 and a $23m (£16.0m) bilateral facility maturing in 2011.

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 Responsibility Report" on pages 36 to 38.

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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 and 2008.

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE

The Company has been in compliance with the provisions set out in Section 1 of the 2006 version 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 three other independent non-executive Directors, who were selected for appointment because of their wide industrial and commercial experience. In addition, there is an 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 members of the Board and of the Executive Committee are included on pages 6 and 7.

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 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 2008); and in addition there were three meetings of the Audit Committee in 2008, together with five meetings of the Remuneration Committee, five meetings of the Nominations Committee and five 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 and environmental performance is reviewed by the Board on a regular, and at least quarterly, basis; while social and ethical issues, agreement of budgets and levels of insurance cover are reviewed whenever appropriate.

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

NOMINATIONS COMMITTEE

The Nominations Committee leads the process for Board appointments, and supervises management development and succession plans. It also makes recommendations to the Board on all new Board appointments. The Committee, which consists entirely of non-executive Directors, is chaired by Martin Clark, and its composition is shown on page 7. Its Terms of Reference may be found on the Company's website.

The appointment of new 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, and then present their recommendation to the Board. When appointing non-executive Directors, 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. Following completion of extensive selection processes, the Nominations Committee recommended the appointments of Mark Rollins as Group Chief Executive, Simon Nicholls as Group Finance Director, and Michael Steel as a non-executive Director.

Michael Steel has been appointed for an initial period of three years, with potential for renewal for a further three years, unless terminated by either the Company or Michael Steel upon giving one month's notice. His annual fee is £35,000.

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. David Best and Ian Much, in consultation with the executive Directors, undertook an evaluation of the Chairman's performance, and concluded that Martin 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.

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B) DIRECTORS' REMUNERATION

The Remuneration Report on pages 28 to 35 describes how the Board has applied itself to remuneration matters.

C) ACCOUNTABILITY AND AUDIT

The Audit Committee Report on pages 26 and 27 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. Ian 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 have failed to resolve, or where such contact is appropriate.

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 2008, 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 Michael Steel following his appointment as a non-executive Director on 1 May 2008.

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 put to shareholders at the AGM 2008 were passed unanimously on a show of hands. Resolution 12 (relating to the inclusion of a dispute resolution provision in the revised Articles of Association) was withdrawn and not put to the meeting. Details of the proxy voting received by the Company for the AGM 2008 are set out in the table below.

The issued share capital as at 29 February 2008 (the date of the Notice of the AGM 2008), was 391.0 million shares of 10p each.

The total number of proxy votes received for the AGM 2008 represented approximately 57.8% (2007 – 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 2008

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	223,052,162	5,438,921	133,749	0	228,624,832
2. To approve Remuneration Report	228,412,628	69,735	135,549	6,920	228,624,832
3. To declare a Final Dividend	228,473,083	18,000	133,749	0	228,624,832
4. To re-elect Mark Rollins as a Director	228,419,883	28,600	166,349	10,000	228,624,832
5. To re-elect Mike Sheppard as a Director	228,417,658	40,825	166,349	0	228,624,832
6. To elect David Best as a Director	228,201,699	239,224	172,709	11,200	228,624,832
7. To re-elect Deloitte & Touche LLP as auditors	228,199,886	265,171	158,875	900	228,624,832
8. Authority to allot shares	218,148,569	10,300,003	165,360	10,900	228,624,832
9. Disapplication of pre-emption rights	218,108,230	10,330,593	173,336	12,673	228,624,832
10. Authority to buy back shares	228,409,240	50,157	161,635	3,800	228,624,832
11. To adopt new Articles of Association	227,708,443	234,577	179,320	502,492	228,624,832

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 the external auditor's management letter and management's response;
- reviewing the effectiveness of the risk management process ensuring that the process is active and dynamic;
- understanding the strategy at both Group and operational levels to ensure that business risks and other relevant issues 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 to 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, all of whom are independent non-executive Directors, are: David Best (Chairman), Ian Much and Michael Steel. Michael Steel was appointed to the Committee on 1 May 2008, upon his appointment to the Board. All members of the Committee have significant commercial and financial experience at a senior management level. David Best has the recent and relevant financial experience required by the Combined Code to chair the Committee. 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.

The Audit Committee also holds separate discussions with the Auditors without the presence of executive management.

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 2007 Annual Report, and the Interim Report issued in August 2008, 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 2008 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 had 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 also responsible for monitoring the external auditors' independence, objectivity and compliance with regulatory requirements.

AUDIT COMMITTEE REPORT

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 2008, £0.2m (2007 – £0.2m) 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 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 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.

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 in 2005. A new Audit Partner is to take over the role by rotation, following completion of the audit of the 2008 Financial Statements;
- 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.

As a consequence of its satisfaction with the results of the activities of the external auditors, the Committee has recommended to the Board that Deloitte LLP is 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 be in accordance 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 its review of the effectiveness of internal control in the Group, the Board takes into consideration the following key features of the risk management process and system of internal control:

- the 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 Group's operations, and to deal with areas for improvement which come to the 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:

DAVID BEST
Chairman of the Audit Committee
27 February 2009

REMUNERATION REPORT

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The Directors present their Remuneration Report for the year ended 31 December 2008 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. Ian Much (Chairman), David Best and Martin Clark were members of the Committee throughout the year. Michael Steel was appointed to the Remuneration Committee on 1 May 2008.

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 160 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 7.

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 Hewitt New Bridge Street 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 reward executive Directors for performance 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 2008 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. In the event of termination, the service agreements provide for payment of salary and applicable benefits, such as use of company car, life cover and healthcare, for the 12 month period, plus a pro-rated performance-related bonus; there are no provisions in the agreements, or otherwise, for additional termination payments. The agreements contain provisions requiring the relevant Director to mitigate his loss in the event of termination.

The non-executive Directors do not have service agreements with the Company. Martin Clark was appointed Chairman with effect from 1 May 2007 for an initial three year term. Ian Much was appointed with effect from 21 December 2005 for an initial three year term. The Board has accepted the Nominations Committee's recommendations to extend the appointment of Ian Much for a further three years. David Best and Michael Steel were appointed with effect from 1 May 2007 and 1 May 2008 respectively for initial three year terms. The Chairman's appointment may be terminated upon the Company or Martin Clark providing 12 months' notice expiring on or after 1 May 2010. The appointments of the other non-executive Directors may be terminated upon the Company or non-executive Director providing one month's notice.

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, Mark Rollins held one such position. In 2008, Mark Rollins received and retained non-executive directorship fees of £35,000. Graham Menzies received and retained non-executive directorship fees of £9,000 from 1 January 2008 until his retirement from the Board on 25 April 2008.

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 more than 160 senior managers and therefore is fully cognisant of pay levels throughout the Group when determining the pay of the executive Directors.

In 2008 the executive Directors received the following salaries: Graham Menzies – £115,000 (2007 – £340,000), Mark Rollins – £298,000 (2007 – £210,000) and Mike Sheppard – $342,500 (2007 – $325,000).

Mark Rollins' salary increased to £320,000 with effect from 7 March 2008 upon appointment to the role of Group Chief Executive. Simon Nicholls was appointed Group Finance Director on 1 April 2008 and to the Board on 1 May 2008, with an annual salary of £220,000.

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As a result of the review of the executive Directors' remuneration, the Remuneration Committee recommended that the base salaries for the executive Directors for 2009 should be as follows: Mark Rollins – £350,000, Simon Nicholls – £230,000 and Mike Sheppard – $355,000.

The 2008 fees for the non-executive Directors, which shall remain unchanged in 2009, were Martin Clark – £90,000, Ian Much – £38,000 (including £3,000 for chairing the Remuneration Committee), David Best £45,000 (including £7,000 for chairing the Trustee Board of the Pension Plan, and £3,000 for chairing the Audit Committee). Michael Steel was appointed to the Board on 1 May 2008 and received a fee of £23,333 for the year. His fee for 2009 shall be £35,000.

C) ANNUAL PERFORMANCE BONUS SCHEME

Under the annual performance bonus scheme, bonuses up to 60% (2007 – 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 2008 bonus award was maximised by achieving the following targets: Cash flow targets – Interim: £8.3m (up £1.5m on 2007), Full year: £24.5m (up £6.0m on 2007); Earnings per share target – Year-on-year growth: 9.25p (up 20% on 2007), Internal target: 10.25p (up 33% on 2007).

The table below provides details of the maximum possible awards for the executive Directors for 2008, together with details of the bonus paid to Mark Rollins as a percentage of his salary. The 2008 bonus paid to Simon Nicholls was 45.0% of annual salary having been pro rated to reflect the proportion of the 2008 calendar year that he was employed. As Mike 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 2008, he earned a bonus of 60.0% of salary (2007 – 55.9%) consisting of 48.0% for Divisional performance and 12.0% for Group performance.

The structure of the annual performance-related bonus scheme in place for 2009 is broadly similar to that of the 2008 scheme. Given the importance of safeguarding the Group's cash position in the current economic environment, the Committee believes it is appropriate to place a greater emphasis on cash management (with 25% of salary being the maximum bonus achievable for this part of the scheme, instead of 15% in 2008). The maximum bonus achievable for the EPS element of the bonus scheme has been reduced by 5% in order to partially offset the increase to the Cash Flow Target. Overall, the 2009 scheme provides a maximum bonus potential of 65% of salary (2008 – 60%). The Committee believes this modest increase is appropriate, and that the maximum bonus payout limit remains towards the lower end of the limits found in bonus schemes offered to executive Directors in comparable businesses.

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 to 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 2008, awards outstanding and shares issued in the previous 10 years under all share plans (the 1999 Executive Share Option ("the 1999 Plan"), the 2005 Long Term Incentive Plan ("the 2005 LTIP") and the 2006 Savings-Related Share Option Plan (the "Sharesave Plan")) amounted to 4.34% of the issued ordinary share capital of the Company. At 31 December 2008, awards outstanding and shares issued in the previous 10 years under executive (discretionary) plans (the 1999 Plan and the 2005 LTIP) amounted to 2.92% of the issued ordinary share capital of the Company.

The Remuneration Committee monitors the flow rates of the Company's share plans, 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 from 2005)

No more options have been granted under the 1999 Plan since the introduction of the Senior plc 2005 Long Term Incentive Plan.

All options held by executive Directors were exercised during the year and they held no options under the 1999 Plan at the end of the year.

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.

	Cash flow target		Earnings per share target		
	Interim %	Full year %	Internal target %	Year-on-year growth %	Total %
Maximum possible award for 2008 and 2007	6.0	9.0	20.0	25.0	60.0
2007 bonus paid	4.8	9.0	20.0	25.0	58.8
2008 bonus paid	6.0	9.0	20.0	25.0	60.0
Maximum possible award for 2009	16.0	15.0	20.0	20.0	65.0

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The maximum number of shares over which options were 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 became exercisable if the Group's underlying earnings per share grew 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 exercised by the Directors in 2008 are shown under Directors' Interests, together with the base underlying earnings per share figure used to determine whether the performance target had 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 to the executive Directors in 2008 under the 2005 LTIP were limited to 75% of salary, except for the award to Simon Nicholls, upon his appointment, which was 100% of salary. No award was made to Graham Menzies in 2008. 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 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 granted in 2005, 2006 and 2007 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, based on advice from Hewitt New Bridge Street, determined that the comparator group for assessing the Company's TSR performance for future LTIP awards should be changed. The TSR comparator group applicable to the 2008, and future LTIP awards, consists of certain manufacturing companies within the following FTSE All Share sectors: Aerospace & Defence; Automobiles & Parts; Electronic & Electrical Equipment; and Industrial Engineering. The Company was no longer in the FTSE250 Index at the year-end.

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)	Percentage of TSR half over the performance period 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 LTIP awards granted between 2005 and 2008 have been, or 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 is currently considering making 2009 LTIP awards. It has concluded that, in the current economic environment, the adoption of the EPS performance condition of the LTIP to be unrealistic and potentially demotivating to the recipients of the LTIP awards. The Committee is therefore considering alternative performance conditions.

The Remuneration Committee has received independent advice from Hewitt New Bridge Street and has had regard to current best practice, and how best to retain and motivate senior executives.

Under the Rules of the LTIP, the Committee has the flexibility to set different conditions for future awards provided that "they are not substantially different and, in the reasonable opinion of the Committee, the new targets are at least as challenging in the circumstances" as the original conditions were in the circumstances prevailing when the LTIP was introduced.

In the current economic environment, the Remuneration Committee regards the current EPS growth targets (RPI + 5%–12% p.a.) above the 2008 EPS as unrealistic. It has therefore concluded that the 2009 LTIP awards should be subject solely to the TSR condition, whereby the TSR performance is compared to TSR of the comparator group of manufacturing companies, as described above.

Awards of up to 100% of salary are allowed under the 2005 LTIP, but in light of the fact that the EPS element is not proposed to be implemented, the Committee has determined to restrict the maximum award to half the level. Having given due consideration to all the facts, the Committee has decided to make the 2009 LTIP awards to the executive Directors based on 40% of their salary.

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

Mark Rollins' and Simon Nicholls' pension arrangements are provided by the Group's UK pension plan and are based upon their pensionable salaries up to the HMRC's "cap". Mark Rollins and Simon Nicholls contribute 9% of salary to "cap". From 6 April 2006 (A-Day), the Group's UK pension plan adopted its own earnings "cap", which as been calculated on the same basis as the HMRC's pre-A-Day "cap". Mike Sheppard participates in a defined benefit plan that has now been 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 $230,000 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

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2008 Total £000's	2007 Total £000's
Executive					
Mark Rollins	298	192	15	505	348
Simon Nicholls (from 1 April 2008)	165	94	1	260	–
Mike Sheppard	185	111	14	310	265
Graham Menzies (to 25 April 2008)	115	64	12	191	577
Non-executive					
Martin Clark	90	–	–	90	78
David Best (from 1 May 2007)	45	–	–	45	22
Ian Much	38	–	–	38	33
Michael Steel (from 1 May 2008)	23	–	–	23	–
	959	461	42	1,462	1,323

Bonuses as shown above are payable to the executive Directors 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.

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AGGREGATE REMUNERATION

	2008 £000's	2007 £000's
Emoluments	1,462	1,323
Gains on exercise of share options and incentives (see Options and other share incentives table below)	3,203	–
Money purchase pension contributions	8	7
Total	4,673	1,330

In addition to setting the remuneration of the executive Directors, the Remuneration Committee oversees the remuneration of more than 160 other senior managers. The table below shows the cumulative benefits of the five other Divisional Directors (of which two Divisional Director roles were newly created with effect from 1 September 2008) and the three most senior Corporate managers.

For the purposes of comparison, the benefits of the two people appointed to the newly created Divsional Director roles have been included in full for both 2007 and 2008.

SENIOR MANAGERS' EMOLUMENTS

	2008 £000's	2007 £000's
Short-term employee benefits	1,501	1,207
Post-employment benefits	99	71
Share-based payments	192	327
Total	1,792	1,605

DIRECTORS' INTERESTS

At 31 December 2008 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 2008	Shares 2007
Mark Rollins	450,000	120,000
Simon Nicholls (from 1 April 2008)	20,000	–
Mike Sheppard	150,000	–
Martin Clark	90,000	60,000
David Best (from 1 May 2007)	40,195	20,000
Ian Much	20,000	20,000
Michael Steel (from 1 May 2008)	20,000	–

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

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OPTIONS AND OTHER SHARE INCENTIVES

Date of grant/award	At 31.12.07	Granted 2008	Exercised 2008	Option price Pence	Date of exercise/ vesting	Market price on exercise/ vesting 2008	Gains on exercise/ vesting 2008	Forfeited 2008	Lapsed 2008	At 31.12.08	Exercise period/ maturity date
Mark Rollins											
1999 Executive Share Option Plan											
12.03.03	547,122	–	547,122	21.97	11.03.08	£0.9500	£399,563	–	–	0	3 years to 11.03.09
2005 Long Term Incentive Plan											
20.05.05	394,115	–	394,115	–	23.05.08	£1.1624	£458,119	–	–	0	May 08
15.03.06	146,706	–	–	–	–	–	–	–	–	146,706	March 09
08.03.07	130,435	–	–	–	–	–	–	–	–	130,435	March 10
13.03.08	–	252,631	–	–	–	–	–	–	–	252,631	March 11
Simon Nicholls											
2005 Long Term Incentive Plan											
02.04.08	–	217,821	–	–	–	–	–	–	–	217,821	April 11
Mike Sheppard											
1999 Executive Share Option Plan											
12.03.03	524,789	–	524,789	21.97	08.04.08	£1.0200	£419,989	–	–	0	3 years to 11.03.09
2005 Long Term Incentive Plan											
20.05.05	332,563	–	332,563	–	23.05.08	£1.1624	£386,571	–	–	0	May 08
15.03.06	134,572	–	–	–	–	–	–	–	–	134,572	March 09
08.03.07	104,571	–	–	–	–	–	–	–	–	104,571	March 10
13.03.08	–	133,785	–	–	–	–	–	–	–	133,785	March 11
Graham Menzies (retired 25.04.08)											
1999 Executive Share Option Plan											
12.03.03	1,070,643	–	1,070,643	21.97	11.03.08	£0.9500	£781,891	–	–	0	3 years to 11.03.09
2005 Long Term Incentive Plan											
20.05.05	650,810	–	650,810	–	23.05.08	£1.1624	£756,502			0	May 08
09.08.07	310,502	–	–	–	–	–	–	–	–	310,502	August 10

No share awards were exercised or vested in 2007.

Details of the share schemes referred to in the above table may be found on pages 29 and 31.

REMUNERATION REPORT

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:

Year of grant	20.05.05	15.03.06	08.03.07	09.08.07	13.03.08	02.04.08
Market price of Company's shares (on date of award)	38.28p	65.86p	80.75p	104.00p	99.75p	103.50p

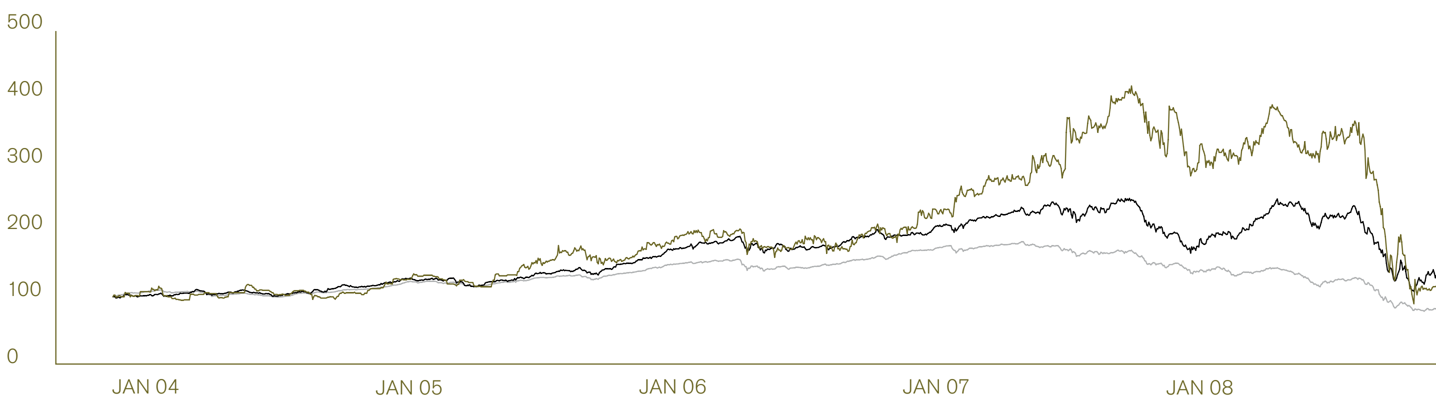
All outstanding options and awards become exercisable only when certain performance targets have been met. The base underlying earnings per share figures used to determine whether the target has been met are as follows:

Year of grant	2003	2005	2006	2007	2008
Base underlying EPS (adjusted for the effect of the rights issue)	4.26p	3.42p	3.82p	4.65p	7.71p

At 31 December 2008, 1,044,859 ordinary shares (2007 – 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 2008 was £407,495 (2007 – £1,230,321). 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 were not credited to share option awards under the 1999 Plan. The Remuneration Committee notes the 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 2008 was 39.00p (2007 – 117.75p). During 2008, the shares traded in the range of 27.00p to 119.50p.



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.

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DIRECTORS' PENSION ENTITLEMENTS

At 31 December 2008 the Directors had accrued entitlements under defined benefit plans as follows:

	Gross increase in accrued pension (A) £000's	Increase/(decrease) in accrued pension net of inflation (B) £000's	Total accrued pension at 31.12.08 (C) £000's	Value of net increase/(decrease) in accrual over period (D) £000's	Change in transfer value during period (E) £000's	Transfer value of accrued pension at 31.12.08 (F) £000's	Transfer value of accrued pension at 31.12.07 (G) £000's
Mark Rollins	4	3	32	29	97	413	306
Simon Nicholls	3	3	3	25	25	33	n/a
Mike Sheppard	22	7	55	25	25	143	80
Total	29	13	90	79	147	589	386

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 2008. Mike Sheppard's pension benefit will be payable in US dollars. A significant proportion of the gross increase in accrued pension during the year was attributable to the strengthening of the US dollar relative to Sterling. In dollar terms, the gross increase in his accrued pension was approximately $13,000.

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 as at 31 December 2008 have been calculated in accordance with the assumptions used by the Trustees to calculate cash equivalent values in accordance with the legislation which came into force with effect from 1 October 2008. Where applicable, the transfer values as at 31 December 2007 were 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 Mike 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 $15,500 and the Company paid $14,960 during the year.

6. The 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 increase in accrued pension net of inflation (B) and is quoted after deducting the Director's contribution.

7. The change in the transfer value (E) is quoted after deducting the Director's contribution.

8. The calculations reflect the change in Mark Rollins' and Simon Nicholls' member contributions from April 2008 from 7.5% to 9.0%.

9. Transfer values are rounded to the thousand pounds.

10. For the disclosures in respect of Mike Sheppard, an exchange rate of £1:$1.85 has been used for figures relating to increases in accrued pension over 2008 and £1:$1.44 for year-end figures, and US consumer price inflation, where relevant, of 0.1% over 2008.

SHAREHOLDER APPROVAL FOR THE REMUNERATION REPORT

The Company is proposing an ordinary resolution for its shareholders to approve this Remuneration Report at the AGM on 24 April 2009.

This Report was approved by the Board on 27 February 2009 and signed on its behalf by:

IAN 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, Group operations 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 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 and employee share plans.

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 conflicts of interest, business gifts, and bribery and corruption. The Group does not permit its employees to make contributions to political parties or organisations, or to 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 looks to offer competitive remuneration packages to its employees, which assists in the retention of its skilled workforce. Each operation aims to recognise and respond constructively to any community concerns about the health, safety and environmental aspects of its activities.

C) HEALTH, SAFETY & ENVIRONMENT

The Board as a whole takes an active interest in ensuring that its operations provide a safe working environment for their employees. The Group operates a Health, Safety & Environment ("HSE") Committee, whose members are Mark Rollins (Chairman), Mike Sheppard (CEO Flexonics Division), Ron Case (CEO Aerospace Structures) and Launie Fleming (CEO Aerospace Fluid Systems). The Committee's terms of reference can be found on the Senior plc website.

The HSE Committee met five 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. This is done by each operation integrating HSE within its planning and performance reporting processes, creating a local management framework with defined accountability, and establishing and resourcing a set of local objectives and improvement initiatives.

Improving HSE performance continues to be a priority for the Group, and 2008 has seen some important improvements including:

- the number of operations implementing a formal management system for HSE has increased, with an additional four businesses attaining ISO 14001 accreditation, and two achieving OHSAS 18001 certification;
- technical enhancements have been made at a number of operations, including improvements to dust extraction machinery, guarding, and ergonomic alternations to workstations;
- improvements have been made to methods of internal communication and knowledge sharing, with the development of a corporate HSE website for hosting tools and templates, incident alerts and best practices; and
- the Group maintains a strong focus on identifying and reducing risks within its manufacturing processes, and has an ongoing risk assessment programme.

The Board and operational management teams are committed to delivering further improvements in the coming year.

CORPORATE SOCIAL RESPONSIBILITY REPORT

D) ENVIRONMENT

Senior's key environmental impacts include: emissions (resulting from the use of energy in manufacturing processes and facilities); raw materials usage; water consumption; the reuse, recycling, discharge and disposal of waste; and the impact of Senior's products on customers' environmental performance. Whilst still a key environmental impact, solvent and VOC release is on the decline.

The management of environmental impacts is undertaken by conformity with local regulatory requirements. The operations consider additional ways to further reduce such impacts, as part of their business planning processes. Each operation considers the possible environmental impact of new products and processes, and the Board considers environmental issues during business acquisitions and divestments.

PERFORMANCE INDICES

Outlined below are details of the Group's environmental performance. This data should be reviewed in the context of product usage, as 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's Lean Manufacturing Initiatives continue to make a positive contribution to reducing the amount of waste generated. The level of recycling has also improved compared to prior years as a result of ISO 14001 initiatives, with several operations finding alternative uses for materials previously landfilled, and introducing new technology to treat liquid waste on-site.

The total amount of waste generated by the Group increased in 2008 to 13,075 tonnes (2007: 11,200 tonnes), however, 63% of this relates to metals and packaging, which was recycled. In 2008, the total amount of liquid and solid waste increased by 7%, reflecting the increased size of the Group; when comparing like-for-like operations, this represents an improvement in waste generation.

WASTE LEVELS (TONNES)

	2006	2007	2008
Recyled	45%	58%	62%
Special	31%	22%	23%
Landfill	24%	20%	15%

II. WATER AND SOLVENT USAGE

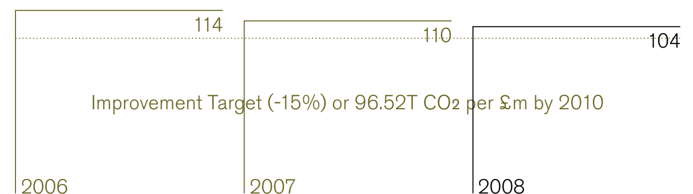
The Group's main water uses are processing, such as material cleaning, and equipment cooling. By introducing water reduction initiatives on these processes, such as reducing the flow rates of cleaning lines, recycling rinse water, and substituting air for water on equipment cooling, Senior has reduced its water consumption by 10.5% to 367 megalitres (2007 – 410 megalitres). This is the second consecutive year the Group has reduced water usage, despite its increased size and sales volumes. Since 2006 water consumption has reduced by 25%.

The majority of the Group's solvent usage results from chemicals that are inherent within the production processes. The Group has made significant improvements in substituting chemicals with lower impact material wherever possible, such as on cleaning lines. The Group is committed to reducing Volatile Organic Compounds ("VOC") emissions, either by product design or by changing processes, although many processes and materials are regulated for aviation safety, and substitution can be difficult. Currently, the majority of VOC emissions emanate from one operation, where the emissions are captured and prevented from atmospheric release.

III. ENERGY

In 2006 the Group targeted the reduction of CO_2 emissions to revenue ratio by 15% by 2010. With sales of £562.4m in 2008 and carbon emissions of 58,469 tonnes (2007 – £470.7m and 51,939 tonnes), Senior emitted 104 tonnes of CO_2 for every £m sales. This represents a 3% improvement on the prior year and demonstrates continued improvement towards the 2010 target. The Group's main sources of CO_2 emissions during the year were electricity consumption (42,764 tonnes) and natural gas consumption (11,681 tonnes).

CO_2 TO £M SALES (TONNES OF CO_2 VERSUS SALES (£M)



CORPORATE SOCIAL RESPONSIBILITY REPORT

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. In 2006, the Group established a target of reducing the DACR by 5% per annum; for the second consecutive year this has been achieved, falling 24% from 2.55 in 2006 to 1.94 in 2008. Since 2006, the number of accidents incurring absence has been reduced by 30%.

The second of the metrics used by the Group, the Accident Severity Rate, measures the number of lost workdays resulting from occupational injuries and illnesses per 100 employees. The lower number of accidents, along with improved return-to-work programmes, has reduced the number of days lost as a result of accidents and ill health by 1,700 in 2008, resulting in the Accident Severity Rate reducing from 70.1 in 2007 to 44.5 in 2008.

The focus during 2009 will be to improve the processes for identifying and assessing hazards through the use of risk assessments. The Group will continue to focus on reducing the frequency and severity of the main injury types experienced, namely lacerations and strains, by improving workplace ergonomics and enhancing the safety and efficiency of tasks.

AUDIT AND VERIFICATION

The Group's Environment, Health & Safety Charter established minimum standards and defines core programmes that each entity must operate. The Group HSE Manager audits all operations annually; performance is measured against the Charter, and recommendations for improvements issued.

In addition to the HSE audits, each operation undergoes a property risk management audit by an independent specialist, typically every two years. The 23 operations that operate a formalised HSE management programme (2007: 18) undergo an additional annual audit, ensuring compliance with local regulation and good management practice. The results of both of these audit programmes demonstrated sustainable improvement at each operation in 2008.

ORGANISATION AND RESPONSIBILITIES

Operating in an ethical and socially aware manner which preserves health, safety and the environment is a mainstream management responsibility. Executive Officers and line managers at all levels within the Group are directly responsible for the 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 the 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.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

1. the Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the Operating and Financial Review, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

MARK ROLLINS
Group Chief Executive
27 February 2009

SIMON NICHOLLS
Group Finance Director

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 2008 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 37. 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 2008 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 2008;
- 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 LLP
Chartered Accountants and Registered Auditors
Nottingham
27 February 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

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	Notes	Year ended 2008 £m	Year ended 2007 £m
CONTINUING OPERATIONS			
Revenue	3	562.4	470.7
Trading profit	5	59.8	42.2
Loss on sale of fixed assets		–	(0.7)
Operating profit(1)		59.8	41.5
Investment income	7	2.7	1.0
Finance costs	8	(11.2)	(8.2)
Profit before tax(2)		51.3	34.3
Tax	10	(12.1)	(6.4)
PROFIT FOR THE PERIOD	5	39.2	27.9
Attributable to:			
Equity holders of the parent		39.2	27.9
Earnings per share			
Basic	12	9.92p	7.17p
Diluted	12	9.78p	7.00p
(1) Adjusted operating profit	9	64.5	45.0
(2) Adjusted profit before tax	9	56.0	37.8

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2008

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
(Losses)/gains on cash flow hedges	(9.0)	0.5	(0.3)	0.3
(Losses)/gains on revaluation of financial instruments	(44.4)	(2.6)	–	0.2
Exchange differences on translation of foreign operations	59.9	3.2	0.6	(0.5)
Actuarial losses on defined benefit pension schemes	(15.0)	(0.8)	(10.0)	(1.7)
Tax on items taken directly to equity	0.5	2.1	–	–
NET (EXPENSE)/INCOME RECOGNISED DIRECTLY IN EQUITY	(8.0)	2.4	(9.7)	(1.7)
Amounts transferred to profit or loss on cash flow hedges	3.2	(0.4)	–	–
PROFIT/(LOSS) FOR THE PERIOD	39.2	27.9	(3.4)	1.1
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD	34.4	29.9	(13.1)	(0.6)
Attributable to:				
Equity holders of the parent	34.4	29.9	(13.1)	(0.6)

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 2008

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	Notes	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
NON-CURRENT ASSETS					
Goodwill	13	184.0	114.3	–	–
Other intangible assets	14	17.6	11.9	–	–
Investments in subsidiaries	15	–	–	179.0	179.0
Property, plant and equipment	16	138.4	93.6	0.1	0.2
Deferred tax assets	22	0.4	0.1	–	–
Trade and other receivables	19	3.3	3.5	48.2	75.0
Total non-current assets		343.7	223.4	227.3	254.2
CURRENT ASSETS					
Inventories	17	99.6	79.4	–	–
Construction contracts	18	1.5	2.9	–	–
Trade and other receivables	19	92.7	78.7	58.3	5.0
Cash and cash equivalents	33a	11.9	8.7	1.1	1.0
Total current assets		205.7	169.7	59.4	6.0
TOTAL ASSETS		549.4	393.1	286.7	260.2
CURRENT LIABILITIES					
Trade and other payables	24	151.8	92.5	4.0	3.4
Tax liabilities		8.0	9.0	–	–
Obligations under finance leases	23	0.2	0.2	–	–
Bank overdrafts and loans	20	1.2	41.5	1.4	39.0
Total current liabilities		161.2	143.2	5.4	42.4
NON-CURRENT LIABILITIES					
Trade and other payables	24	–	–	–	3.5
Bank and other loans	20	149.6	58.3	139.1	57.7
Retirement benefit obligations	36	51.2	36.3	37.3	30.5
Deferred tax liabilities	22	8.8	3.3	–	–
Obligations under finance leases	23	1.5	1.3	–	–
Others		0.9	0.8	–	–
Total non-current liabilities		212.0	100.0	176.4	91.7
TOTAL LIABILITIES		373.2	243.2	181.8	134.1
NET ASSETS		176.2	149.9	104.9	126.1
EQUITY					
Issued share capital	25	39.8	39.1	39.8	39.1
Share premium account	26	12.0	11.3	12.0	11.3
Equity reserve	27	1.7	1.6	1.7	1.6
Distributable reserve	28	19.4	19.4	19.4	19.4
Hedging and translation reserve	29	6.3	(4.4)	(0.3)	(0.6)
Retained earnings	30	98.4	84.3	33.7	56.7
Own shares	31	(1.4)	(1.4)	(1.4)	(1.4)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		176.2	149.9	104.9	126.1
TOTAL EQUITY		176.2	149.9	104.9	126.1

The Financial Statements were approved by the Board of Directors and authorised for issue on 27 February 2009.
They were signed on its behalf by:

Martin Clark, Director   Simon Nicholls, Director

CASH FLOW STATEMENTS

For the year ended 31 December 2008

	Notes	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	33a	74.6	35.3	(14.3)	(11.3)
INVESTING ACTIVITIES					
Interest received		1.7	0.8	7.5	9.7
Dividends received from subsidiaries		–	–	–	21.5
Disposal of subsidiary		0.1	0.1	–	–
Proceeds on disposal of property, plant and equipment		0.6	1.9	–	–
Purchases of property, plant and equipment		(23.8)	(19.0)	–	(0.1)
Purchases of intangible assets		(0.7)	(0.5)	–	–
Acquisition of Capo Industries	32	(44.1)	–	–	–
Acquisition of Sterling Machine		0.4	–	–	–
Acquisition of AMT, net of cash acquired		–	(1.2)	–	–
Acquisition of Absolute Manufacturing	32	–	(7.0)	–	–
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		(65.8)	(24.9)	7.5	31.1
FINANCING ACTIVITIES					
Dividends paid		(10.3)	(8.1)	(10.3)	(8.1)
Repayment of borrowings		(85.9)	(61.0)	(85.9)	(61.0)
Repayments of obligations under finance leases		(0.2)	(0.2)	–	–
Share issues		1.3	0.2	1.3	0.2
New loans raised		103.4	55.9	93.7	55.7
Net loans repaid by/(advanced to) subsidiaries		–	–	4.0	(15.6)
Net cash (outflow)/inflow on forward contracts		(13.0)	0.4	4.0	–
NET CASH (USED IN)/FROM FINANCING ACTIVITIES		(4.7)	(12.8)	6.8	(28.8)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4.1	(2.4)	–	(9.0)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		4.9	7.0	(0.3)	8.7
Effect of foreign exchange rate changes		1.7	0.3	–	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD		10.7	4.9	(0.3)	(0.3)

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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 page 84. The nature of the Group's operations and its principal activities are set out in Note 4 and in the Operating and Financial Review ("OFR") on pages 10 to 23.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These Financial Statements are presented in Pounds Sterling, which is the Company's functional and the Group's presentation currency.

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. They have also been prepared on the going concern basis as set out in the OFR on pages 10 to 23.

In the current year, the Group has adopted IFRIC 14, "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The adoption of this Interpretation has not led to any changes in the Group's accounting policies and does not have an impact on these Financial Statements. The Group's accounting policy for share-based compensation arrangements has always been in compliance with IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions". IAS 39 (Amendment)/ IFRS 7 (Amendment) Reclassification of Financial Assets was effective from 1 July 2008, but does not have an impact on these Financial Statements. IFRIC 12, "Service Concession Arrangements" was also effective in 2008, but is not relevant to the Group's operations.

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 1 (Amendment)/IAS 27 (Amendment) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. Effective for periods commencing on or after 1 January 2009. Endorsed by the EU.

IFRS 1 (Amendment) First time Adoption of Financial Reporting Standards. Effective for periods commencing on or after 1 July 2009.

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

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. Endorsed by the EU.

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

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

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. Endorsed by the EU.

IAS 39 (Amendment) Eligible Hedged Items. Effective for periods commencing on or after 1 July 2009.

Improvements to IFRS – as published in May 2008. Mostly effective for periods commencing on or after 1 January 2009. Endorsed by the EU.

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

IFRIC 15 Agreements for the Construction of Real Estate. Effective for periods commencing on or after 1 January 2009.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation. Effective for periods commencing on or after 1 October 2008.

IFRIC 17 Distributions of Non-cash Assets to Owners. Effective for periods commencing on or after 1 January 2009.

IFRIC 18 Transfers of Assets from Customers. Effective from 1 July 2009.

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.

The separate Financial Statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act, the separate Financial 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.

2. SIGNIFICANT ACCOUNTING POLICIES continued

On acquisition, the assets and liabilities and contingent liabilities, that meet the conditions for recognition under IFRS 3, 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 is initially measured at cost and represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognised immediately through the Income Statement.

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.

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. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

REVENUE RECOGNITION

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

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

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

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

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

CONSTRUCTION CONTRACTS

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

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

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

LEASING

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

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES continued

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 below on Derivative financial instruments and hedging 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. Exchange rate 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.

The exchange rates for the major currencies applied in the translation of results were as follows:

	Average rates 2008	Average rates 2007	Year-end rates 2008	Year-end rates 2007
US dollar	1.85	2.00	1.44	1.99
Euro	1.26	1.46	1.03	1.36

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 the Income Statement 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 Statements of Recognised Income and Expense.

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

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

TAXATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES continued

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 which has been taken as the effective cost on transition to IFRS. 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 to write off the cost of an asset 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 land	nil
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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES continued

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". Derivative financial assets and liabilities that are not designated and effective as hedging instruments are categorised as "financial assets at fair value through profit or loss" and "financial liabilities at fair value through profit or loss", respectively. 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 the Income Statement 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 the Income Statement.

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.

Certain derivative instruments do not qualify for hedge accounting. These are categorised as at fair value through profit or loss and are stated at fair value, with any resultant gain or loss recognised in the Income Statement.

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 the Income Statement. Gains or losses from remeasuring the derivative are also recognised in the Income Statement. 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 the Income Statement for the period.

2. SIGNIFICANT ACCOUNTING POLICIES continued

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 if 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 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

In the process of applying the Group's accounting policies, management has made a number of judgements. Estimates and assumptions concerning the future are also made by the Group. These are continually evaluated and are based on historical experience and other factors that are considered to be relevant. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The key assumptions concerning the future and other key sources of estimation uncertainty and judgements at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

GOODWILL

The Group reviews the carrying values of its goodwill balances by carrying out impairment tests at least on an annual basis. These tests require estimates to be made of the value in use of its CGUs which are dependent on estimates of future cash flows and long-term growth rates of the CGUs. The carrying amount of goodwill at 31 December 2008 was £184.0m (2007 – £114.3m). Further details on these estimates are set out in Note 13.

FAIR VALUE OF INTANGIBLE ASSETS ACQUIRED ON ACQUISITION

On acquisition of a business, the Group reviews the potential for recognising intangible assets and to date has recognised amounts in respect of customer relationships acquired. The fair values of these intangible assets are dependent on estimates of attributable future revenues, profitability and cash flows. The carrying amount at 31 December 2008 of intangible assets in respect of customer relationships acquired was £15.7m (2007 – £10.7m).

INCOME TAXES

In determining the Group provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made. The carrying amount of net current tax and deferred tax liabilities at 31 December 2008 was £8.0m (2007 – £9.0m) and £8.4m (2007 – £3.2m), respectively. Further details on these estimates are set out in Notes 10 and 22.

RETIREMENT BENEFIT OBLIGATIONS

The asset or liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases, expected return on plan assets and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligation recognised. The carrying amount of retirement benefit obligations at 31 December 2008 was a liability of £51.2m (2007 – £36.3m). Further details on these estimates are set out in Note 36.

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3. REVENUE

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

	Year ended 2008 £m	Year ended 2007 £m
Sale of goods	551.2	459.3
Revenue from construction contracts	11.2	11.4
Total	562.4	470.7

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 2008 £m	Flexonics Year ended 2008 £m	Eliminations/ central costs Year ended 2008 £m	Total Year ended 2008 £m	Aerospace Year ended 2007 £m	Flexonics Year ended 2007 £m	Eliminations/ central costs Year ended 2007 £m	Total Year ended 2007 £m
External revenue	312.4	250.0	–	562.4	245.9	224.8	–	470.7
Inter-segment revenue	0.5	0.1	(0.6)	–	0.3	0.2	(0.5)	–
Total revenue	312.9	250.1	(0.6)	562.4	246.2	225.0	(0.5)	470.7
Adjusted operating profit (see Note 9)	44.3	25.9	(5.7)	64.5	33.4	17.4	(5.8)	45.0
Loss on sale of fixed assets	–	–	–	–	(0.3)	(0.4)	–	(0.7)
Release of provision from previous acquisition	–	–	–	–	–	0.5	–	0.5
Amortisation of intangible assets from acquisitions	(4.7)	–	–	(4.7)	(3.3)	–	–	(3.3)
Operating profit	39.6	25.9	(5.7)	59.8	29.8	17.5	(5.8)	41.5
Investment income				2.7				1.0
Finance costs				(11.2)				(8.2)
Profit before tax				51.3				34.3
Tax				(12.1)				(6.4)
Profit after tax				39.2				27.9

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

	Assets Year ended 2008 £m	Liabilities Year ended 2008 £m	Additions to PPE and intangibles Year ended 2008 £m	Depreciation and amortisation Year ended 2008 £m	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
Aerospace	374.4	56.8	17.1	13.8	237.4	35.4	10.9	10.1
Flexonics	156.1	53.0	7.4	9.5	140.5	47.7	8.5	7.7
Sub total continuing operations	530.5	109.8	24.5	23.3	377.9	83.1	19.4	17.8
Unallocated corporate amounts	18.9	263.4	–	0.1	15.2	160.1	0.1	0.1
Total	549.4	373.2	24.5	23.4	393.1	243.2	19.5	17.9

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 values 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 2008 £m	Segment assets Year ended 2008 £m	Additions to PPE and intangibles Year ended 2008 £m	Sales revenue Year ended 2007 £m	Segment assets Year ended 2007 £m	Additions to PPE and intangibles Year ended 2007 £m
North America	338.4	376.1	16.2	267.3	235.8	13.1
UK	55.8	63.2	1.1	50.3	61.4	1.7
Rest of Europe	128.7	71.8	5.6	115.5	58.7	3.4
Rest of World	39.5	19.4	1.6	37.6	22.0	1.2
Sub total continuing operations	562.4	530.5	24.5	470.7	377.9	19.4
Unallocated corporate amounts	–	18.9	–	–	15.2	0.1
Total	562.4	549.4	24.5	470.7	393.1	19.5

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 2008 £m	Year ended 2007 £m
Revenue	562.4	470.7
Cost of sales	(427.9)	(369.0)
Gross profit	134.5	101.7
Distribution costs	(3.5)	(3.7)
Administrative expenses	(71.2)	(55.8)
Trading profit	59.8	42.2

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

	Year ended 2008 £m	Year ended 2007 £m
Net foreign exchange losses/(gains)	1.4	(0.6)
Research and development costs	8.6	8.2
Depreciation of property, plant and equipment	18.1	14.1
Amortisation of intangible assets included in administration expenses	5.3	3.8
Cost of inventories recognised as expense	427.9	369.0
Net change in carrying amount of allowance for doubtful receivables	(0.1)	(0.1)
Staff costs (see Note 6)	162.4	139.5
Auditors' remuneration for audit services (see below)	0.6	0.6

All research and development costs were expensed during the year.

Amounts payable to Deloitte LLP and their associates by the Company and its subsidiary undertakings in respect of non-audit services were £0.2m (2007 – £0.2m).

Auditors' remuneration for audit services to the Company was £0.1m (2007 – £0.1m).

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5. TRADING PROFIT AND PROFIT FOR THE PERIOD continued

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

	£m	2008 %	£m	2007 %
Audit services				
– statutory audit	0.6	75	0.6	75
	0.6	75	0.6	75
Non-audit services				
– tax compliance services	0.1	12	0.1	12
– tax advisory services	0.1	13	0.1	13
	0.2	25	0.2	25
	0.8	100	0.8	100

A description of the work of the Audit Committee is set out on pages 26 and 27 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 Directors) was:

	Group Year ended 2008 Number	Group Year ended 2007 Number	Company Year ended 2008 Number	Company Year ended 2007 Number
Production	4,984	4,903	–	–
Distribution	61	61	–	–
Sales	309	287	–	–
Administration	468	433	19	18
	5,822	5,684	19	18

	Year ended 2008 £m	Year ended 2007 £m	Year ended 2008 £m	Year ended 2007 £m
Their aggregate remuneration comprised:				
Wages and salaries	139.2	118.6	2.0	1.9
Social security costs	17.1	14.4	0.2	0.2
Other pension costs – defined contribution (see Note 36a)	3.4	2.8	–	–
Other pension costs – defined benefit (see Note 36e)	1.8	2.2	0.2	0.2
Share-based payments	0.9	1.5	0.4	0.5
	162.4	139.5	2.8	2.8

7. INVESTMENT INCOME

	Year ended 2008 £m	Year ended 2007 £m
Interest on bank deposits	0.4	0.3
Foreign currency derivatives	2.1	0.6
Others	0.2	0.1
Total income	2.7	1.0

The Company earned investment income of £7.5m (2007 – £9.6m) on financial assets all of which relate to the "Loans and receivables" category.

8. FINANCE COSTS

	Year ended 2008 £m	Year ended 2007 £m
Interest on bank overdrafts and loans	3.1	3.0
Interest on other loans	6.1	4.3
Foreign currency derivatives	0.2	–
Interest on obligations under finance leases	0.1	0.1
Net finance cost of retirement benefit obligations (Note 36e)	1.7	0.8
Total finance costs	11.2	8.2

The Company incurred finance costs of £8.9m (2007 – £7.3m) on financial liabilities all of which relate to the "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 2008 £m	Year ended 2007 £m
Operating profit	59.8	41.5
Loss on sale of fixed assets	–	0.7
Release of provision from previous acquisition	–	(0.5)
Amortisation of intangible assets from acquisitions	4.7	3.3
Adjustments to operating profit	4.7	3.5
Adjusted operating profit	64.5	45.0
Profit before tax	51.3	34.3
Adjustments to profit as above before tax	4.7	3.5
Adjusted profit before tax	56.0	37.8

10. TAX CHARGE

	Year ended 2008 £m	Year ended 2007 £m
Current tax:		
UK Corporation Tax	–	–
Foreign tax	9.8	5.6
Adjustments in respect of prior periods	(0.2)	(0.1)
	9.6	5.5
Deferred tax (Note 22):		
Current year	3.6	1.9
Adjustments in respect of prior periods	(1.1)	(1.0)
	2.5	0.9
	12.1	6.4
Attributable to:		
Continuing operations	12.1	6.4

With effect from 1 April 2008, the UK Corporation Tax rate was reduced to 28%. This reduction has had no significant impact upon these Financial Statements and is not expected to affect the Group's effective tax rate in the foreseeable future.

UK Corporation Tax is calculated at an effective rate of 28.5% (2007 – 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 2008 £m	Year ended 2008 %	Year ended 2007 £m	Year ended 2007 %
Profit before tax from continuing operations	51.3		34.3	
Tax at the UK Corporation Tax rate of 28.5% (2007 – 30%)	14.6		10.3	
Tax effect of income/expenses that are non taxable/deductible in determining taxable profit	(0.2)		(0.7)	
Tax effect of unrelieved tax losses	0.5		–	
Tax effect of movements in temporary differences not previously recognised	(1.2)		(0.9)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(0.3)		(1.2)	
Adjustments to tax charge in respect of prior periods	(1.3)		(1.1)	
Tax expense and effective tax rate for the year	12.1	23.6	6.4	18.7

In addition to the amount charged to the Income Statement, tax relating to unrealised foreign exchange gains/losses amounting to £1.0m (2007 – £0.8m) has been credited directly to equity via hedging and translation reserves (see Note 29), and tax relating to deductible temporary differences amounting to £0.5m (2007 – £1.3m credited) has been charged directly to equity via retained earnings (see Note 30).

11. DIVIDENDS

	Year ended 2008 £m	Year ended 2007 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2007 of 1.700p (2006 – 1.381p) per share	6.7	5.4
Interim dividend for the year ended 31 December 2008 of 0.900p (2007 – 0.700p) per share	3.6	2.7
	10.3	8.1
Proposed final dividend for the year ended 31 December 2008 of 1.700p (2007 – 1.700p) per share	6.8	6.6

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 2008 m	Year ended 2007 m
Weighted average number of ordinary shares for the purposes of basic earnings per share	395.0	389.0
Effect of dilutive potential shares:		
Share options	6.0	9.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share	401.0	398.5

	Year ended 2008		Year ended 2007	
Earnings and earnings per share	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period	39.2	9.92	27.9	7.17
Adjust:				
Loss on sale of fixed assets net of tax of £nil (2007 – £0.3m)	–	–	0.4	0.10
Release of provision from acquisition net of tax of £nil (2007 – £0.2m)	–	–	(0.3)	(0.08)
Amortisation of intangible assets from acquisitions net of tax of £1.9m (2007 – £1.3m)	2.8	0.71	2.0	0.52
Adjusted earnings after tax	42.0	10.63	30.0	7.71
Earnings per share				
– basic		9.92p		7.17p
– diluted		9.78p		7.00p
– adjusted		10.63p		7.71p
– adjusted and diluted		10.47p		7.53p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2007 – £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 2008 £m	Group Year ended 2007 £m
COST		
At 1 January	114.3	111.0
Exchange differences	39.8	(0.4)
Recognised on acquisition of subsidiaries	29.8	4.1
Other changes	0.1	(0.4)
At 31 December	184.0	114.3
ACCUMULATED IMPAIRMENT LOSSES		
At 1 January and at 31 December	–	–
CARRYING AMOUNT AT 31 DECEMBER	184.0	114.3

The amount shown for other changes in 2008 represents an increase in respect of Absolute Manufacturing acquired in December 2007, and in 2007 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. As noted in the OFR on pages 10 to 23, the Aerospace Division consists of 14 operating companies and the Flexonics Division consists of 11 operating companies. Each of these operating companies is considered an individual CGU. Goodwill has been allocated to 15 of these individual CGUs – 10 in Aerospace and 5 in Flexonics. The table below highlights the carrying amount of goodwill allocated to the CGUs that are considered significant in comparison with the total carrying amount of goodwill. Where the carrying amount of goodwill allocated to a CGU is individually not considered significant, it is aggregated in the table below. The carrying amount of goodwill of the aggregated Aerospace CGUs is considered significant and the recoverable amounts for these units are based on some of the same key assumptions.

	Group Year ended 2008 £m	Group Year ended 2007 £m
Aerospace		
– Capo Industries	40.9	–
– AMT	37.4	27.1
– Jet Products	17.9	13.0
– Sterling Machine	14.5	10.5
– BWT	15.0	15.0
– Bird Bellows	12.0	12.0
– Other Aerospace CGUs	17.2	14.9
	154.9	92.5
Flexonics		
– Pathway	18.7	13.5
– Other Flexonics CGUs	10.4	8.3
	29.1	21.8
Total	184.0	114.3

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The 2008 goodwill impairment review was undertaken as at 31 December 2008. The recoverable amounts of all the CGUs are determined from value in use calculations. The calculations for all the CGUs use cash flow forecasts derived from the most recent financial budgets and visions per individual unit, as approved by management for the next three years; a detailed budget covers the next financial year which is supplemented by forecasts of performance for the two years after that. These forecasts have been revised further, where appropriate, to take account of the current economic environment, resulting in more conservative estimates about the future. This includes revising volumes in line with updated guidance from our customers, but also includes a reduction in capital expenditure levels and incorporates anticipated savings from headcount reductions and other cost control measures as set out in the OFR on pages 10 to 23. Cash flows thereafter have been extrapolated based on estimated growth rates. These growth rates do not exceed the long-term average growth rates for the relevant markets. The cash flow forecasts for each CGU have also been adjusted to reflect risks specific to each CGU. The pre-tax rate used to discount the forecast cash flows for all CGUs is 10.3%. This is based on the Group's weighted average pre-tax cost of capital and is the measurement used by management in assessing investment appraisals.

13. GOODWILL continued

The key assumptions used in the value in use calculations for all Aerospace CGUs are the forecast build rates for aircraft, forecast gross margins and long-term average growth rates. Forecast build rates for aircraft are in line with guidance available at the time from manufacturers such as Boeing and Airbus and have since been adjusted further for more recent market updates from these manufacturers. Forecast gross margins are set individually by each CGU and reflect past experience, notably the most recently achieved margins, but also factor in expected efficiency improvements to counteract inflationary increases in underlying costs. They are also adjusted to incorporate anticipated savings from headcount reductions and other cost control measures implemented in light of the current economic environment. Cash flows extrapolated beyond the initial forecast period of three years are based on growth rates of 2.5% per annum which does not exceed the long-term average growth rate forecasts for the Aerospace market as included in market outlooks from Boeing and Airbus. For Capo Industries, which was acquired during the year, the initial forecast period is expanded a further two years to reflect the medium-term plan of management, with cash flows beyond this term being extrapolated based on growth rates of 2.5% per annum as noted above. Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of Capo Industries, AMT, Jet Products, Sterling Machine, BWT, Bird Bellows and all other aggregated Aerospace CGUs to exceed the recoverable amount of those units and aggregated units, respectively.

The key assumptions used in the value in use calculations for Pathway are the forecast orders and forecast gross margins. Forecast orders are based on the orders secured and quote activity at the time of setting the budget and also reflect past experience with build up of orders and quote success rates. Forecast gross margins reflect past experience, notably the most recently achieved margins, but also factor in expected efficiency improvements to counteract inflationary increases in underlying costs. They are also adjusted to incorporate anticipated savings from headcount reductions and other cost control measures implemented in light of the current economic environment. Cash flows extrapolated beyond the initial forecast period of three years are based on growth rates of 1.5% per annum which does not exceed the long-term average growth rate forecasts for power generation and energy markets as noted by the International Energy Agency. Management believes that any reasonable possible change in the key assumptions on which Pathway's recoverable amount is based would not cause Pathway's carrying amount to exceed its recoverable amount.

No significant goodwill is associated with CGUs operating in land vehicle markets where, as noted in the OFR, the Group experienced a contraction in demand in the latter part of 2008. With the exception of the military and defence business within Aerospace, which to date has had limited exposure to the current economic conditions, the potential for impairment losses in the future associated with CGUs has increased.

No impairment charges were recognised in 2008 (2007 – £nil).

14. OTHER INTANGIBLE ASSETS

	Group Year ended 2008 Customer relationships £m	Group Year ended 2008 Computer software £m	Group Year ended 2008 Total £m	Group Year ended 2007 Customer relationships £m	Group Year ended 2007 Computer software £m	Group Year ended 2007 Total £m	Company Year ended 2008 Computer software £m	Company Year ended 2007 Computer software £m
COST								
At 1 January	15.2	5.5	20.7	15.2	4.9	20.1	0.1	0.1
Additions	–	0.7	0.7	–	0.5	0.5	–	–
Acquired on acquisition of subsidiaries	5.1	–	5.1	0.2	–	0.2	–	–
Disposals	–	–	–	–	–	–	–	–
Exchange differences	7.7	2.2	9.9	(0.2)	0.1	(0.1)	–	–
At 31 December	28.0	8.4	36.4	15.2	5.5	20.7	0.1	0.1
AMORTISATION								
At 1 January	4.5	4.3	8.8	1.2	3.8	5.0	0.1	0.1
Charge for the year	4.7	0.6	5.3	3.3	0.5	3.8	–	–
Disposals	–	–	–	–	–	–	–	–
Exchange differences	3.1	1.6	4.7	–	–	–	–	–
At 31 December	12.3	6.5	18.8	4.5	4.3	8.8	0.1	0.1
CARRYING AMOUNT AT 31 DECEMBER	15.7	1.9	17.6	10.7	1.2	11.9	–	–

The carrying amount of the Group's customer relationships includes an amount of £9.8m (2007 – £9.6m) and £5.7m (2007 – £nil) in respect of customer contracts acquired as part of the acquisitions of AMT in 2006 and Capo Industries in 2008, respectively. These are to be amortised over the next 2.8 years (2007 – 3.8 years) and 4.0 years, respectively.

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15. 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 82.

	Company Year ended 2008 £m	Company Year ended 2007 £m
At 1 January	179.0	111.8
Additional investment in subsidiaries	–	87.0
Impairment of investment in subsidiaries	–	(19.8)
At 31 December	179.0	179.0

In 2007 additional investment in subsidiaries included £87.0m recapitalisation of subsidiary by means of the capitalisation of part of an interest bearing loan due from the subsidiary.

16. PROPERTY, PLANT AND EQUIPMENT

A) GROUP

	Year ended 2008 Freehold land and buildings £m	Year ended 2008 Leasehold land and buildings £m	Year ended 2008 Plant and equipment £m	Year ended 2008 Total £m	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
COST OR VALUATION								
At 1 January	46.6	1.4	193.4	241.4	43.2	1.4	179.9	224.5
Additions	3.5	0.2	20.1	23.8	2.2	–	16.8	19.0
Acquired on acquisition	0.5	–	5.7	6.2	–	–	2.0	2.0
Exchange differences	15.6	0.4	63.4	79.4	1.2	–	3.5	4.7
Disposals	(0.9)	–	(8.0)	(8.9)	–	–	(8.8)	(8.8)
At 31 December	65.3	2.0	274.6	341.9	46.6	1.4	193.4	241.4
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January	10.7	0.9	136.2	147.8	9.4	0.9	126.6	136.9
Charge for the year	1.4	0.1	16.6	18.1	1.0	–	13.1	14.1
Exchange differences	3.4	0.3	42.2	45.9	0.3	–	2.7	3.0
Eliminated on disposals	(0.5)	–	(7.8)	(8.3)	–	–	(6.2)	(6.2)
At 31 December	15.0	1.3	187.2	203.5	10.7	0.9	136.2	147.8
CARRYING AMOUNT AT 31 DECEMBER	50.3	0.7	87.4	138.4	35.9	0.5	57.2	93.6

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £2.6m (2007 – £2.0m) 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 2008, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.8m (2007 – £5.7m).

16. PROPERTY, PLANT AND EQUIPMENT continued

B) COMPANY

	Year ended 2008 Plant and equipment £m	Year ended 2007 Plant and equipment £m
COST		
At 1 January	0.5	0.5
Additions	–	0.1
Disposals	(0.1)	(0.1)
At 31 December	0.4	0.5
ACCUMULATED DEPRECIATION		
At 1 January	0.3	0.3
Charge for the year	0.1	0.1
Eliminated on disposals	(0.1)	(0.1)
At 31 December	0.3	0.3
CARRYING AMOUNT AT 31 DECEMBER	0.1	0.2

17. INVENTORIES

	Group Year ended 2008 £m	Group Year ended 2007 £m
Raw materials	33.2	28.1
Work-in-progress	45.2	37.2
Finished goods	21.2	14.1
	99.6	79.4

An amount of £0.9m (2007 – £0.9m) has been charged in respect of inventory write-downs.

18. CONSTRUCTION CONTRACTS

	Group Year ended 2008 £m	Group Year ended 2007 £m
Contracts in progress at 31 December:		
Amounts due from contract customers included in current assets	1.5	2.9
Amounts due to contract customers included in trade and other payables	–	–
	1.5	2.9
Current costs incurred plus recognised profits less recognised losses to date	11.2	11.4
Less: progress billings	(9.7)	(8.5)
	1.5	2.9

At 31 December 2008, retentions held by customers for contract work amounted to £0.4m (2007 – £0.4m). Advances received from customers for contract work amounted to £nil (2007 – £nil).

At 31 December 2008, amounts of £nil (2007 – £0.2m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

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19. TRADE AND OTHER RECEIVABLES

Trade and other receivables at 31 December comprise the following:

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Non-current assets				
Deferred consideration on disposal of Hose operations	2.5	2.5	–	–
Trade receivables	–	0.2	–	–
Other receivables	0.8	0.8	–	–
Due from subsidiaries	–	–	48.2	75.0
	3.3	3.5	48.2	75.0
Current assets				
Trade receivables	83.4	70.8	–	–
Current tax recoverable	0.6	0.8	2.6	1.0
Value added tax	1.0	0.8	0.1	0.1
Currency derivatives	0.4	0.8	7.2	0.3
Prepayments and accrued income	6.9	4.5	1.0	0.8
Other receivables	0.4	0.9	0.4	0.7
Deferred consideration on disposal of Hose operations	–	0.1	–	–
Due from subsidiaries	–	–	47.0	2.1
	92.7	78.7	58.3	5.0
Total trade and other receivables	96.0	82.2	106.5	80.0

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.

Further disclosures on credit risk are included in the OFR on pages 10 to 23.

19. TRADE AND OTHER RECEIVABLES continued

The average credit period taken on sales of goods is 59 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.9m (2007 – £2.0m). 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 2008 £m	Group Year ended 2007 £
Movements in allowance for doubtful receivables:		
At 1 January	2.0	2.1
Provision for impairment	1.2	0.5
Amounts written off as uncollectible	(0.2)	(0.3)
Amounts recovered	(1.5)	(0.3)
Exchange differences	0.4	–
At 31 December	1.9	2.0
Ageing analysis of past due but not impaired trade receivables:		
Up to 30 days past due	9.3	9.9
31 to 60 days past due	2.4	2.0
61 to 90 days past due	1.0	0.6
91 to 180 days past due	0.8	0.4
Total past due but not impaired	13.5	12.9
Not past due	69.9	58.1
Total trade receivables	83.4	71.0
Less: non current trade receivables	–	(0.2)
Current trade receivables	83.4	70.8

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 (2007 – £nil).

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20. BANK OVERDRAFTS AND LOANS

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Bank overdrafts	1.2	3.8	1.4	1.3
Bank loans	20.2	25.0	10.6	25.0
Other loans	129.4	71.0	128.5	70.4
	150.8	99.8	140.5	96.7
The borrowings are repayable as follows:				
On demand or within one year	1.2	41.5	1.4	39.0
In the second year	–	–	–	–
In the third to fifth years inclusive	20.2	25.0	10.6	25.0
After five years	129.4	33.3	128.5	32.7
	150.8	99.8	140.5	96.7
Less: amount due for settlement within 12 months (shown under current liabilities)	(1.2)	(41.5)	(1.4)	(39.0)
Amount due for settlement after 12 months	149.6	58.3	139.1	57.7

ANALYSIS OF BORROWINGS BY CURRENCY:
31 December 2008

	Total £m	Sterling £m	Euros £m	US dollars £m	Others £m
Bank overdrafts	1.2	–	0.9	–	0.3
Bank loans	20.2	18.6	1.6	–	–
Other loans	129.4	–	0.9	128.5	–
	150.8	18.6	3.4	128.5	0.3

An analysis of the Company's borrowings is as follows: Bank overdrafts Sterling £1.4m, Bank loans Euros £1.6m and Sterling £9.0m and Other loans US dollars £128.5m.

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.

The weighted average interest rates paid were as follows:

	Year ended 2008 %	Year ended 2007 %
Bank overdrafts	5.40	6.03
Bank loans	4.76	6.15
Other loans	6.46	6.23

20. BANK OVERDRAFTS AND LOANS continued

Bank loans and overdrafts of £21.4m (2007 – £28.8m) 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 since then.

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

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Bank overdrafts	1.2	3.8	1.4	1.3
Bank loans	20.2	25.0	10.6	25.0
Other loans	121.2	71.1	120.3	70.5
	142.6	99.9	132.3	96.8

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 $120m, 2008 £83.3m (2007 – £nil) were taken out in October 2008. Notes of $25m carry interest at the rate of 6.42% and are due for repayment in October 2015. Notes of $75m carry interest at the rate of 6.84% and are due for repayment in October 2018. Notes of $20m carry interest at the rate of 6.94% and are due for repayment in October 2020.

b) Loan notes of $30m, 2008 £20.8m (2007 – £15.1m) 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.

c) Loan notes of $35m, 2008 £24.4m (2007 – £17.6m) 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.

d) Loan notes of $75m, 2008 £nil (2007 – £37.7m) were taken out in October 1998 and were repaid in October 2008. The loan notes carried interest at the rate of 6.52% per annum.

The Group also has two revolving credit facilities: a committed £80m syndicated multi-currency facility maturing in July 2012 and a committed $23m single bank (£16.0m) facility maturing in August 2011. As at 31 December 2008, £20.2m was drawn by the Group under the first facility, comprising £18.6m and €1.7m (£1.6m). As at 31 December 2008, £10.6m was drawn by the Company under the first facility, comprising £9.0m and €1.7m (£1.6m). As at 31 December 2007, £25.0m was drawn by the Group and the Company under the first facility, comprising £21.0m and €5.5m (£4.0m).

The $23m (£16.0m) facility existed at 31 December 2007, and the maturity has been extended from August 2010 to August 2011. There were no amounts drawn under this facility as at 31 December 2008. As at 31 December 2007 $6m (£3.0m) was drawn 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. The facility was cancelled in October 2008 following the raising of the $120m loan notes.

As at 31 December 2008, the Group had available £75.8m (2007 – £63.5m) 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 OFR on pages 10 to 23.

CATEGORIES OF FINANCIAL INSTRUMENTS

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Carrying value of financial assets:				
Cash and cash equivalents	11.9	8.7	1.1	1.0
Deferred consideration receivable	2.5	2.6	–	–
Trade receivables	83.4	71.0	–	–
Other receivables	1.2	1.7	0.4	0.7
Due from subsidiaries	–	–	95.2	77.1
Loans and receivables at amortised cost	99.0	84.0	96.7	78.8
Currency derivatives used for hedging	0.4	0.8	–	0.3
Currency derivatives at fair value through profit and loss	–	–	7.2	–
Total financial assets	99.4	84.8	103.9	79.1
Carrying value of financial liabilities:				
Bank overdrafts and loans	150.8	99.8	140.5	96.7
Obligations under finance leases	1.7	1.5	–	–
Trade payables	49.2	47.8	0.3	0.4
Other payables	53.4	36.1	3.5	2.9
Due to subsidiaries	–	–	–	3.5
Other financial liabilities at amortised cost	255.1	185.2	144.3	103.5
Currency derivatives used for hedging	41.2	2.5	–	–
Currency derivatives at fair value through profit and loss	0.1	–	0.1	–
Total financial liabilities	296.4	187.7	144.4	103.5
Undiscounted contractual maturity of other financial liabilities:				
Amounts payable:				
On demand or within one year	132.8	155.4	24.1	75.5
In the second to fifth years inclusive	35.7	9.5	33.2	7.7
After five years	161.2	39.2	160.9	38.7
	329.7	204.1	218.2	121.9
Less: future finance charges	(74.6)	(18.9)	(73.9)	(18.4)
Other financial liabilities at amortised cost	255.1	185.2	144.3	103.5

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 given below:

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Notional amounts:				
Foreign exchange contracts – cash flow hedges	57.9	61.6	–	21.0
Foreign exchange contracts – net investment hedges	140.9	118.9	–	–
Foreign exchange contracts – held for trading	1.4	–	49.3	–
Total	200.2	180.5	49.3	21.0
Less: amounts maturing within 12 months	(187.4)	(175.0)	(49.3)	(21.0)
Amounts maturing after 12 months	12.8	5.5	–	–
Contractual maturity:				
Cash flow hedges balances due within one year:				
Outflow	42.7	54.4	–	20.7
Inflow	39.6	55.3	–	21.0
Cash flow hedges balances due between one and two years:				
Outflow	12.6	5.1	–	–
Inflow	11.3	5.0	–	–
Cash flow hedges balances due between two and three years:				
Outflow	0.2	–	–	–
Inflow	0.2	–	–	–
Net investment hedges balances due within one year:				
Outflow	140.9	118.9	–	–
Inflow	109.4	117.4	–	–
Held for trading balances due within one year:				
Outflow	1.4	–	42.1	–
Inflow	1.3	–	49.2	–
Fair values:				
Foreign exchange contracts – cash flow hedges	(7.8)	0.5	–	0.3
Foreign exchange contracts – net investment hedges	(31.8)	(1.9)	–	–
Foreign exchange contracts – held for trading	(0.1)	–	7.1	–
Total (liability)/asset	(39.7)	(1.4)	7.1	0.3

These fair values are based on market values of equivalent instruments at the balance sheet date, comprising £1.6m (2007 – £1.1m) assets included in trade and other receivables, of which £1.2m (2007 – £0.3m) is within prepayments and accrued income, and £41.3m (2007 – £2.5m) is included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £6.3m loss (2007 – £0.2m gain) has been deferred in equity. The fair values for the Company comprise £7.2m (2007 – £0.3m) assets included in trade and other receivables and £0.1m (2007 – £nil) included in trade and other payables.

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21. FINANCIAL INSTRUMENTS continued

An amount of £3.2m loss (2007 – £0.4m gain) 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. A loss of £0.1m (2007 – £nil) has been recognised in the Income Statement in respect of foreign exchange contracts held for trading. For the Company, a net gain of £10.6m (2007 – £nil) has been recognised in its Income Statement in respect of foreign exchange contracts held for trading.

Most of the hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 15 months. However, there are a few forecast transactions that are expected to occur at various dates between the next 15 months and two years. 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 as appropriate 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 and no further swaps have been entered into since. 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. No amounts were charged against hedged interest payments in 2008 (2007 – £nil).

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 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
At 1 January 2008	7.9	2.8	3.1	(0.6)	(7.3)	(2.7)	3.2
Charge/(credit) to income	1.7	–	1.6	0.2	(1.2)	0.2	2.5
Charge to equity	–	–	–	–	1.9	–	1.9
Exchange differences	3.3	–	1.7	(0.1)	(3.3)	(0.8)	0.8
As 31 December 2008	12.9	2.8	6.4	(0.5)	(9.9)	(3.3)	8.4

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 2008 £m	Group Year ended 2007 £m
Deferred tax liabilities	8.8	3.3
Deferred tax assets	(0.4)	(0.1)
	8.4	3.2

At the balance sheet date, the Group has unused tax losses of £26.0m (2007 – £23.1m) available for offset against future profits. A deferred tax asset has been recognised in respect of £10.3m (2007 – £9.3m) of such losses. No deferred tax asset has been recognised in respect of the remaining £15.7m (2007 – £13.8m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £0.4m (2007 – £2.0m) that will expire within five years (2007 – seven 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 £225.5m (2007 – £175.3m). 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.

22. DEFERRED TAX LIABILITIES AND ASSETS continued

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 £47.1m (2007 – £32.9m), share-based payments of £0.6m (2007 – £4.2m), accelerated book depreciation of £4.4m (2007 – £3.7m) and other temporary differences of £8.9m (2007 – £0.8m). The Company has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £37.3m (2007 – £30.5m), share-based payments of £0.3m (2007 – £2.8m), accelerated book depreciation of £0.5m (2007 – £0.5m) and other temporary differences of £1.0m (2007 – £1.0m). 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 (2007 – £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 (2007 – £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 (2007 – £15.6m) of such unused capital losses.

23. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2008 £m	Group Year ended 2007 £m	Group Year ended 2008 £m	Group Year ended 2007 £m
Amounts payable under finance leases:				
Within one year	0.3	0.3	0.2	0.2
In the second to fifth years inclusive	1.5	1.1	1.2	0.8
After five years	0.3	0.5	0.3	0.5
	2.1	1.9	1.7	1.5
Less: future finance charges	(0.4)	(0.4)	–	–
Present value of lease obligations	1.7	1.5	1.7	1.5
Less: amount due for settlement within 12 months (shown under current liabilities)			(0.2)	(0.2)
Amount due for settlement after 12 months			1.5	1.3

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 76% (2007 – 78%) of the Group's obligations, expires in 2014. For the year ended 31 December 2008, the average effective borrowing rate was 6.2% (2007 – 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 £1.3m (2007 – £1.2m) and US dollars £0.4m (2007 – £0.3m).

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24. TRADE AND OTHER PAYABLES

Trade and other payables at 31 December comprise the following:

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Non-current liabilities				
Due to subsidiaries	–	–	–	3.5
	–	–	–	3.5
Current liabilities				
Trade payables	49.2	47.8	0.3	0.4
Social security and PAYE	7.1	5.4	0.1	0.1
Value Added Tax	0.8	0.7	–	–
Currency derivatives	41.3	2.5	0.1	–
Other payables and accruals	53.4	36.1	3.5	2.9
	151.8	92.5	4.0	3.4
	151.8	92.5	4.0	6.9

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

The average credit period taken for trade purchases is 56 days.

25. ISSUED SHARE CAPITAL

	Group and Company Year ended 2008 £m	Year ended 2007 £m
Authorised:		
500 million ordinary shares of 10p each	50.0	50.0
Issued and fully paid:		
398.3 million ordinary shares of 10p each	39.8	39.1

At 31 December 2007, the issued and fully paid up share capital was 390.8 million ordinary shares of 10p each.

5,842,117 shares were issued during 2008 at an average price of 22.06p per share under share option plans raising £1.3m. 1,676,231 shares were issued during 2008 under the 2005 Long Term Incentive Plan.

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

26. SHARE PREMIUM ACCOUNT

	Group and Company Year ended 2008 £m	Year ended 2007 £m
Balance at 1 January	11.3	11.2
Movement in year	0.7	0.1
Balance at 31 December	12.0	11.3

27. EQUITY RESERVE

	Group and Company Year ended 2008 £m	Group and Company Year ended 2007 £m
Balance at 1 January	1.6	0.8
Transfer to retained earnings reserve	(0.7)	–
Movement in year	0.8	0.8
Balance at 31 December	1.7	1.6

The transfer to retained earnings reserve is in respect of equity-settled share-based payments that vested during the year.

The movement in the year includes £0.9m (2007 – £0.8m) in respect of the share-based payment charge for the year, and £0.1m (2007 – £nil) release in respect of the shares issued in the year under the 2005 Long Term Incentive Plan.

28. DISTRIBUTABLE RESERVE

	Group and Company Year ended 2008 £m	Group and Company Year ended 2007 £m
Balance at 1 January	19.4	19.4
Movement in year	–	–
Balance at 31 December	19.4	19.4

This reserve represents additional distributable reserves.

29. HEDGING AND TRANSLATION RESERVES

A) GROUP

	Hedging reserve Year ended 2008 £m	Translation reserve Year ended 2008 £m	Total Year ended 2008 £m	Hedging reserve Year ended 2007 £m	Translation reserve Year ended 2007 £m	Total Year ended 2007 £m
Balance at 1 January	(1.2)	(3.2)	(4.4)	1.3	(7.2)	(5.9)
Exchange differences on translation of overseas operations	–	59.9	59.9	–	3.2	3.2
Change in fair value of hedging derivatives	(50.2)	–	(50.2)	(2.5)	–	(2.5)
Tax on items taken directly to equity	–	1.0	1.0	–	0.8	0.8
Balance at 31 December	(51.4)	57.7	6.3	(1.2)	(3.2)	(4.4)

B) COMPANY

	Hedging reserve Year ended 2008 £m	Translation reserve Year ended 2008 £m	Total Year ended 2008 £m	Hedging reserve Year ended 2007 £m	Translation reserve Year ended 2007 £m	Total Year ended 2007 £m
Balance at 1 January	0.3	(0.9)	(0.6)	(0.2)	(0.4)	(0.6)
Exchange differences on translation	–	0.6	0.6	–	(0.5)	(0.5)
Change in fair value of hedging derivatives	(0.3)	–	(0.3)	0.5	–	0.5
Balance at 31 December	–	(0.3)	(0.3)	0.3	(0.9)	(0.6)

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30. RETAINED EARNINGS

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Balance at 1 January	84.3	64.0	56.7	65.4
Dividends paid	(10.3)	(8.1)	(10.3)	(8.1)
Net profit/(loss) for the year	39.2	27.9	(3.4)	1.1
Pension actuarial loss	(15.0)	(0.8)	(10.0)	(1.7)
Transfer from equity reserve	0.7	–	0.7	–
Tax on deductible temporary differences	(0.5)	1.3	–	–
Balance at 31 December	98.4	84.3	33.7	56.7

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 2008 £m	Group and Company Year ended 2007 £m
Balance at 1 January	1.4	1.4
Movement in the year	–	–
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

A) CAPO INDUSTRIES, INC.

On 25 January 2008, the Group acquired 100% of the issued share capital of Capo Industries, Inc. ("Capo Industries"), 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 £0.5m is payable in 2009. 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 translated at the acquisition date exchange rate:

	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	–	5.1
Property, plant and equipment	5.4	6.2
Inventories	3.8	3.8
Trade and other receivables	1.9	1.9
Trade and other payables	(2.2)	(2.2)
Net assets acquired	8.9	14.8
Goodwill		29.8
Total consideration		44.6
Consideration satisfied by:		
Cash		44.0
Directly attributable costs		0.1
Net cash outflow		44.1
Deferred consideration		0.5
Total consideration		44.6

32. ACQUISITIONS continued

The intangible assets acquired as part of the acquisition relate to customer contracts, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows. The excess of the total consideration over the fair value of the net assets acquired is recognised as goodwill and represents the premium paid in anticipation of future profitability from assets that are not capable of being separately identified and separately recognised such as the assembled workforce.

Capo Industries contributed £19.9m revenue and £2.6m (before £0.3m inventory mark-up) to the Group's operating profit from the date of acquisition to 31 December 2008.

If the above acquisition had been completed on 1 January 2008, Group revenue for the year ended 2008 would have been £563.7m and Group operating profit would have been £59.9m.

B) ABSOLUTE MANUFACTURING, INC.

On 10 December 2007, the Group acquired 100% of the issued share capital of Absolute Manufacturing, Inc., 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 translated at the acquisition date exchange rate:

	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	0.6	0.2
Property, plant and equipment	1.4	2.0
Inventories	0.9	0.9
Trade and other receivables	0.3	0.3
Trade and other payables	(0.2)	(0.6)
Net assets acquired	3.0	2.8
Goodwill		4.2
Total consideration		7.0
Consideration satisfied by:		
Cash paid		6.9
Directly attributable costs		0.1
Net cash outflow arising on acquisition		7.0

Goodwill of £4.1m was recognised in the Financial Statements for the year ended 31 December 2007, based on provisional fair values allocated to the net assets. Completion of the fair value exercise has resulted in an increase in goodwill of £0.1m.

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. The excess of the total consideration over the fair value of the net assets acquired is recognised as goodwill and represents the premium paid in anticipation of future profitability from assets that are not capable of being separately identified and separately recognised such as the assembled workforce.

33. NOTES TO THE CASH FLOW STATEMENT

A) RECONCILIATION OF OPERATING PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Operating profit/(loss) from continuing operations	59.8	41.5	(3.4)	(3.7)
Adjustments for:				
Depreciation of property, plant and equipment	18.1	14.1	0.1	0.1
Amortisation of intangible assets	5.3	3.8	–	–
Share options	0.9	1.5	0.4	0.5
Loss on disposal of property, plant and equipment	–	0.7	–	–
Release of provision from previous acquisition	–	(0.5)	–	–
Pension payments in excess of service cost	(5.2)	(3.0)	(5.0)	(2.8)
Operating cash flows before movements in working capital	78.9	58.1	(7.9)	(5.9)
Decrease/(increase) in inventories	7.6	(8.7)	–	–
Decrease/(increase) in receivables	10.0	(10.0)	0.3	(0.2)
(Decrease)/increase in payables	(5.4)	8.4	(0.4)	0.2
Decrease/(increase) in receivables from subsidiaries	–	–	0.7	(0.3)
Working capital currency movements	0.8	0.7	–	–
Cash generated by operations	91.9	48.5	(7.3)	(6.2)
Income taxes(paid)/received	(8.8)	(6.2)	1.1	1.7
Interest paid	(8.5)	(7.0)	(8.1)	(6.8)
Net cash from/(used in) operating activities	74.6	35.3	(14.3)	(11.3)
Cash and cash equivalents comprise:				
Cash	11.9	8.7	1.1	1.0
Bank overdrafts	(1.2)	(3.8)	(1.4)	(1.3)
Total	10.7	4.9	(0.3)	(0.3)

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. The Directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

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 2008 £m	Group Year ended 2007 £m
Net cash from operating activities	74.6	35.3
Interest received	1.7	0.8
Proceeds on disposal of property, plant and equipment	0.6	1.9
Purchases of property, plant and equipment – cash	(23.8)	(19.0)
Purchase of intangible assets	(0.7)	(0.5)
Free cash flow	52.4	18.5

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33. NOTES TO THE CASH FLOW STATEMENT continued

C) ANALYSIS OF GROUP NET DEBT

	At 1 January 2008 £m	Cash flow £m	Exchange movement £m	At 31 December 2008 £m
Cash	8.7	1.0	2.2	11.9
Overdrafts	(3.8)	3.1	(0.5)	(1.2)
Cash and cash equivalents	4.9	4.1	1.7	10.7
Debt due within one year	(37.7)	42.7	(5.0)	–
Debt due after one year	(58.3)	(60.2)	(31.1)	(149.6)
Finance leases	(1.5)	0.2	(0.4)	(1.7)
Forward exchange contract losses	(2.2)	13.0	(44.7)	(33.9)
Total	(94.8)	(0.2)	(79.5)	(174.5)

The forward exchange contract losses shown above are reported as £33.9m (2007 – £2.7m) in current liabilities within trade and other payables and £nil (2007 – £0.5m) in current assets within trade and other receivables.

34. OPERATING LEASE ARRANGEMENTS

THE GROUP AND THE COMPANY AS LESSEE

	Group Year ended 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	5.1	4.4	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 2008 £m	Group Year ended 2007 £m	Company Year ended 2008 £m	Company Year ended 2007 £m
Within one year	5.2	3.9	0.2	0.2
In the second to fifth years inclusive	15.7	11.0	0.4	0.6
After five years	11.7	9.8	–	–
	32.6	24.7	0.6	0.8

Operating lease payments principally represent rentals payable by the Group for certain of its manufacturing properties. The leases with the three largest outstanding commitments, representing 59% (2007 – 54%) of the Group's commitment, respectively expire in 2018 (with rentals fixed for 4.5 years), in 2026 (with rentals fixed for three years) and in 2009 (with a 10 year extension presently being negotiated).

The Company has guaranteed £1.4m (2007 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

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35. SHARE-BASED PAYMENTS

The Group recognised total expenses of £0.9m (2007 – £1.5m) related to share-based payments, of which £0.9m (2007 – £0.8m) related to equity-settled share-based payments, and £nil (2007 – £0.5m) related to social security costs on share-based payments. At 31 December 2008, the Group had a liability of £0.1m (2007 – £0.9m) arising from share-based payments of which £0.1m (2007 – £0.7m) related to social security costs. The Company recognised total expenses of £0.4m (2007 – £0.5m) related to equity-settled share-based payments. At 31 December 2008 the Company had a liability of £nil (2007 – £0.4m) related to social security costs.

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

A) 1999 EXECUTIVE SHARE OPTION PLAN

EQUITY-SETTLED SHARE OPTION PLANS

Under the 1999 Executive Share Option Plan, options normally only became exercisable if the Group's adjusted earnings per share grew 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 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. The 1999 Plan is closed for new awards. The following options were outstanding as at 31 December 2008 and 2007:

	Year ended 2008		Year ended 2007	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	5,830,853	21.97p	6,578,113	23.10p
Granted	–	–	–	–
Exercised	(5,590,959)	21.97p	–	–
Forfeited	–	–	(138,201)	21.97p
Expired	–	–	(609,059)	34.12p
Outstanding at 31 December	239,894	–	5,830,853	21.97p
Exercisable at 31 December	239,894	21.97p	5,830,853	21.97p

The weighted average share price at the date of exercise for share options exercised during the period was 97.42p (2007 – nil).

The options outstanding at 31 December 2008 had an exercise price of 21.97p per share, and a weighted average remaining contractual life of 0.2 years. 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.

CASH-SETTLED SHARE OPTION PLANS

Under the 1999 Executive Share Option Plan, shadow options were 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 excercise price and the then market value of the shares in relation to which the shadow option is exercised. No shadow options were granted during the year, however 249,864 shadow share options were exercised under the 1999 Executive Share Option Plan during 2008.

The weighted average share price at the date of exercise for share options exercised during the period was 95.15p (2007 – nil). There were no shadow share options outstanding at 31 December 2008. 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.

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35. SHARE-BASED PAYMENTS continued

B) 2005 LONG TERM INCENTIVE PLAN

1,598,123 and 217,821 shares were awarded under the 2005 Long Term Incentive Plan on 13 March 2008 and 2 April 2008 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 88.10p and 93.50p per share, which are essentially the closing share prices the day preceding the date of grant of 95.00p and 101.00p 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 45.30p and 48.10p per share, reflecting an adjustment of 51% to the fair value of the awards with EPS conditions due to the stringent TSR condition.

These fair values were calculated by applying a binomial option pricing model. This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition. The model inputs at the date of grant were the share prices of 95.00p and 101.00p respectively, a risk-free interest rate of 3.9% per annum, expected volatility of 35.0% 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 2008 and 2007:

	Year ended 2008 Number of shares	Year ended 2007 Number of shares
Outstanding at 1 January	4,045,048	2,926,698
Granted	1,815,944	1,200,549
Exercised	(1,676,231)	–
Forfeited	(122,351)	(82,199)
Outstanding at 31 December	4,062,410	4,045,048

C) SAVINGS-RELATED SHARE OPTION PLAN

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

The following options were outstanding as at 31 December 2008 and 2007:

	Year ended 2008		Year ended 2007	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	2,207,693	73.21p	1,151,484	24.87p
Granted	–	–	2,116,900	79.50p
Exercised	(251,158)	24.18p	(866,018)	24.97p
Forfeited	(418,690)	79.50p	(185,393)	71.83p
Expired	–	–	(9,280)	39.99p
Outstanding at 31 December	1,537,845	79.50p	2,207,693	73.21p
Exercisable at 31 December	–	–	250,530	24.04p

The weighted average share price at the date of exercise for share options exercised during the period was 96.95p (2007 – 104.71p). The options outstanding at 31 December 2008 had an exercise price of 79.50p per share, and a weighted average remaining contractual life of 2.0 years. 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.

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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. This plan was closed to new employees from April 2008. 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 2008.

In addition, the Group operates two 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 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 £3.4m (2007 – £2.8m).

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 2008				31 December 2007			
	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	(162.8)	(31.1)	(4.6)	(198.5)	(172.8)	(21.3)	(3.8)	(197.9)
Fair value of plan assets	125.5	21.8	–	147.3	142.3	19.3	–	161.6
Plan deficit per Balance Sheet	(37.3)	(9.3)	(4.6)	(51.2)	(30.5)	(2.0)	(3.8)	(36.3)

36. RETIREMENT BENEFIT SCHEMES continued

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

	31 December 2008				31 December 2007			
	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	172.8	21.3	3.8	197.9	172.1	21.8	3.5	197.4
Current service costs	1.2	0.5	0.1	1.8	1.4	0.5	0.3	2.2
Interest cost	10.1	1.4	0.1	11.6	9.0	1.2	0.2	10.4
Contributions by plan participants	0.7	–	–	0.7	0.7	–	–	0.7
Actuarial (gains)/losses	(14.9)	0.3	(0.5)	(15.1)	(3.5)	(1.1)	(0.2)	(4.8)
Benefits paid	(7.1)	(0.9)	(0.2)	(8.2)	(6.9)	(0.8)	(0.3)	(8.0)
Exchange differences	–	8.5	1.3	9.8	–	(0.3)	0.3	–
At 31 December	162.8	31.1	4.6	198.5	172.8	21.3	3.8	197.9

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

	31 December 2008				31 December 2007			
	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	142.3	19.3	–	161.6	141.3	18.6	–	159.9
Expected return on plan assets	8.3	1.6	–	9.9	8.2	1.4	–	9.6
Actuarial (losses)/gains	(24.9)	(5.2)	–	(30.1)	(5.2)	(0.4)	–	(5.6)
Contributions from employer	6.2	0.6	–	6.8	4.2	0.7	–	4.9
Contributions by plan participants	0.7	–	–	0.7	0.7	–	–	0.7
Benefits paid	(7.1)	(0.9)	–	(8.0)	(6.9)	(0.8)	–	(7.7)
Exchange differences	–	6.4	–	6.4	–	(0.2)	–	(0.2)
At 31 December	125.5	21.8	–	147.3	142.3	19.3	–	161.6

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

	31 December 2008				31 December 2007			
	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	1.2	0.5	0.1	1.8	1.4	0.5	0.3	2.2
Interest cost	10.1	1.4	0.1	11.6	9.0	1.2	0.2	10.4
Expected return on plan assets	(8.3)	(1.6)	–	(9.9)	(8.2)	(1.4)	–	(9.6)
Included within finance costs	1.8	(0.2)	0.1	1.7	0.8	(0.2)	0.2	0.8
	3.0	0.3	0.2	3.5	2.2	0.3	0.5	3.0

Of the current service cost for the year, £1.0m (2007 – £1.3m) has been included in cost of sales, and £0.8m (2007 – £0.9m) has been included in administrative expenses.

Actuarial losses of £15.0m (2007 – £0.8m) have been recognised in the Statements of Recognised Income and Expense. The cumulative amount of actuarial losses recognised in the Statement of Recognised Income and Expense as at 31 December 2008 is £16.9m (2007 – £1.9m).

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36. RETIREMENT BENEFIT SCHEMES continued

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2008 £m	2007 £m	2008 £m	2007 £m
Fair value of plan assets				
Equities and active currency	53.9	75.7	7.6	13.5
Bonds	47.3	13.7	13.8	5.5
Gilts	24.2	52.8	–	–
Properties and other	0.1	0.1	0.4	0.3
Total	125.5	142.3	21.8	19.3
Actual return on plan assets	(16.6)	3.0	(3.6)	1.0
Major assumptions (per annum %)				
Inflation	2.8%	3.2%	n/a	n/a
Increase in salaries	3.8%	4.2%	4.0%	4.0%
Increase in pensions	2.7%	3.1%	0.0%	0.0%
Increase in deferred pensions	2.8%	3.2%	0.0%	0.0%
Rate used to discount plan liabilities	6.4%	5.9%	6.1%	6.2%
Expected return on assets at 31 December	5.1%	5.8%	7.5%	8.0%
Life expectancy of a male aged 65 in 2008	20.8	20.8	17.7	17.7
Life expectancy of a male aged 65 in 2028	21.9	21.9	17.7	17.7

Benefits under the US funded plans are not linked to inflation.

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.

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

	2008 %	2007 %
Equities and active currency	6.6	7.4
Bonds	4.5	4.5
Gilts	3.1	3.9
Total	5.1	5.8

For the UK plan, the estimated impact on the plan deficit at 31 December 2008 for changes in assumptions is as follows:

	Increase in plan deficit £m
0.5% decrease in the discount rate	13.0
One year increase in life expectancy	4.0
0.5% increase in inflation	8.5

For the UK plan, the Group has agreed with the Trustees to fund the plan deficit over a 10 year period. The estimated amounts of contributions expected to be paid during 2009 to the UK plan is £6.3m (£4.9m of which is additional to normal contributions to fund the past service deficit) and to the USA funded plans is £2.3m (£1.3m of which is discretionary).

36. RETIREMENT BENEFIT SCHEMES continued

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £2.7m (2007 – £2.4m), unfunded closed pension and post-retirement healthcare plans in the USA £0.5m (2007 – £0.4m) and provision for post-retirement payments in France of £1.4m (2007 – £1.0m).

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 6.1%, and annual healthcare cost trend rate of 8.7%, reducing to 4.5% in 2028. 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 6.3%, salary growth 2.0% and inflation 1.5%. In France, the provision arises from a legal obligation to make payments to retirees in the first two years post-retirement. Hence, it is not subject to discounting to the same extent as the other longer term post-retirement liabilities.

h) History of experience gains and losses

UK plan funded	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	(162.8)	(172.8)	(172.1)	(165.7)	(150.9)
Fair value of plan assets	125.5	142.3	141.3	134.4	117.2
Plan deficit	(37.3)	(30.5)	(30.8)	(31.3)	(33.7)
Experience gain/(loss) on plan liabilities	0.1	12.8	(2.2)	0.3	6.1
Experience (loss)/gain on plan assets	(24.9)	(5.2)	0.7	11.1	1.8

US plan funded	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	(31.1)	(21.3)	(21.8)	(23.2)	(19.8)
Fair value of plan assets	21.8	19.3	18.6	18.3	15.6
Plan deficit	(9.3)	(2.0)	(3.2)	(4.9)	(4.2)
Experience gain/(loss) on plan liabilities	0.1	0.3	0.1	(0.1)	(0.8)
Experience (loss)/gain on plan assets	(5.2)	(0.4)	1.4	(0.1)	(0.3)

Unfunded plans	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligations	(4.6)	(3.8)	(3.5)	(3.7)	(3.5)
Fair value of plan assets	–	–	–	–	–
Plan deficit	(4.6)	(3.8)	(3.5)	(3.7)	(3.5)
Experience gain/(loss) on plan liabilities	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

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 2008 £m	Year ended 2007 £m
TRANSACTIONS IN YEAR		
Management charges	0.5	0.3
Pension recharges	0.2	0.3
Dividends receivable	–	21.5
Gains on foreign exchange contracts held for trading	10.7	–
Interest receivable	7.5	9.5
Interest payable	(0.4)	(0.2)
BALANCES AT YEAR-END		
Investments in subsidiaries	179.0	179.0
Amounts due from subsidiaries	95.2	77.2
Fair value of currency derivative assets	7.2	–
Amounts due to subsidiaries	–	3.5

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 28 to 35.

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GROUP INCOME STATEMENT	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
REVENUE					
Continuing operations	562.4	470.7	387.9	338.6	306.8
Discontinued operations	–	–	–	–	19.1
	562.4	470.7	387.9	338.6	325.9
ADJUSTED OPERATING PROFIT					
Continuing operations	64.5	45.0	26.2	19.8	16.1
Discontinued operations	–	–	–	–	0.5
	64.5	45.0	26.2	19.8	16.6
(Loss)/profit on sale of fixed assets	–	(0.7)	(0.4)	(0.2)	0.5
Release of provision from previous acquisition	–	0.5	–	–	–
Amortisation of intangible assets from acquisitions	(4.7)	(3.3)	(1.3)	–	–
OPERATING PROFIT	59.8	41.5	24.5	19.6	17.1
Loss on disposal of discontinued operations	–	–	–	–	(4.8)
Investment income/finance costs, net	(6.8)	(6.4)	(5.6)	(3.9)	(2.9)
Net finance cost of retirement benefit obligations	(1.7)	(0.8)	(0.8)	(1.1)	(1.2)
PROFIT BEFORE TAX	51.3	34.3	18.1	14.6	8.2
Tax	(12.1)	(6.4)	(2.9)	(2.5)	(1.7)
PROFIT FOR THE YEAR	39.2	27.9	15.2	12.1	6.5
DEPRECIATION AND AMORTISATION OF INTANGIBLES	23.4	17.9	13.9	12.0	13.3
GROSS CAPITAL EXPENDITURE (INCLUDING FINANCE LEASE ASSETS)	24.5	19.5	20.7	16.6	10.4
BASIC EARNINGS PER SHARE	9.92p	7.17p	4.35p	3.75p	2.02p
DILUTED EARNINGS PER SHARE	9.78p	7.00p	4.25p	3.69p	1.99p
ADJUSTED EARNINGS PER SHARE	10.63p	7.71p	4.65p	3.82p	3.42p
DIVIDENDS IN RESPECT OF YEAR – PER SHARE	2.600p	2.400p	2.000p	1.905p	1.905p
– VALUE	10.4	9.4	7.5	6.4	6.1
GROUP BALANCE SHEETS					
Non-current assets	343.7	223.4	217.5	158.2	147.0
Net current assets	44.5	26.5	42.4	44.4	33.8
Non-current liabilities	(212.0)	(100.0)	(132.8)	(110.3)	(97.1)
Net assets	176.2	149.9	127.1	92.3	83.7
Net borrowings	(174.5)	(94.8)	(96.7)	(62.4)	(50.6)
GROUP CASH FLOW					
Net cash from operating activities	74.6	35.3	22.3	16.5	17.7
Interest received	1.7	0.8	1.3	1.4	2.5
Proceeds from disposal of property, plant and equipment	0.6	1.9	2.2	0.9	0.7
Purchase of property, plant and equipment – cash	(23.8)	(19.0)	(20.1)	(16.3)	(9.8)
– finance leases	–	–	–	–	(0.4)
Purchase of intangible assets	(0.7)	(0.5)	(0.6)	(0.3)	(0.2)
Free cash flow	52.4	18.5	5.1	2.2	10.5
Dividends paid	(10.3)	(8.1)	(6.5)	(6.1)	(6.1)
Acquisitions less disposals	(43.6)	(8.1)	(79.7)	(0.1)	4.5
Share issues	1.3	0.2	34.8	0.5	–
Increase/(decrease) in loans	17.5	(5.1)	46.0	6.1	(18.9)
(Decrease)/increase in finance leases	(0.2)	(0.2)	(0.2)	(0.3)	0.1
Cash (outflow)/inflow on forward contracts	(13.0)	0.4	(0.2)	(0.2)	4.5
Increase/(decrease) in cash and cash equivalents	4.1	(2.4)	(0.7)	2.1	(5.4)

PRINCIPAL GROUP UNDERTAKINGS

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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	Congleton
	Senior Aerospace – BWT	Macclesfield
	Senior Automotive – Crumlin	Crumlin
Senior Operations LLC* (incorporated in Delaware, USA)	Senior Aerospace – Absolute Manufacturing	Arlington, Washington
	Senior Aerospace – AMT	Arlington, Washington
	Senior Aerospace – Capo Industries**	Chino, California
	Senior Aerospace – Composites	Wichita, Kansas
	Senior Aerospace – Jet Products	San Diego, California
	Senior Aerospace – Ketema	El Cajon, California and Saltillo, Mexico
	Senior Aerospace – Metal Bellows	Sharon, Massachusetts
	Senior Aerospace – SSP	Burbank, California
	Senior Aerospace – Sterling Machine	Enfield, Connecticut
	Senior Automotive – Bartlett	Bartlett, Illinois
	Senior Flexonics – Pathway	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 Operations Inc. converted to Senior Operations LLC on 30 June 2008.
**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

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ANALYSIS OF SHAREHOLDERS AT 31 DECEMBER 2008

	Shareholders		Shareholdings	
	number	%	millions	%
BY CATEGORY				
Corporate bodies	870	23.16	382	95.78
Other shareholders	2,886	76.84	16.82	4.22
	3,756	100.00	398.32	100.00
BY RANGE OF HOLDINGS				
1 – 24,999	3,305	87.99	14.07	3.53
25,000 – 49,999	126	3.35	4.28	1.07
50,000 – 249,999	159	4.24	17.87	4.49
250,000 – 499,999	42	1.12	14.33	3.60
500,000 – 999,999	39	1.04	28.31	7.11
1,000,000 – and over	85	2.26	319.46	80.20
	3,756	100.00	398.32	100.00

The number of shares in issue at 31 December 2008 was 398,323,948.

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 page 84, 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 share certificate, 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 24 April 2009 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.

2009 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.

2 MARCH
2008 Annual Results Release.

13 MARCH
Publication of Annual Report & Accounts 2008.

22 APRIL
Interim Management Statement.

24 APRIL
Annual General Meeting.

29 APRIL
Shares ex-dividend for 2008 final dividend.

1 MAY
Record date for shareholders on the register to receive the 2008 final dividend.

29 MAY
Payment of 2008 final dividend.

29 JUNE
Pre-Close Trading Statement.

3 AUGUST
2009 Interim Results Release.

7 AUGUST
Publication of Interim Report 2009.

19 OCTOBER
Interim Management Statement.

28 OCTOBER
Shares ex-dividend for 2009 interim dividend.

30 OCTOBER
Record date for shareholders on the register to receive the 2009 interim dividend.

30 NOVEMBER
Payment of 2009 interim dividend.

17 DECEMBER
Pre-Close Trading Statement.

OFFICERS AND ADVISERS

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INVESTMENT BANKERS
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STOCKBROKERS
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