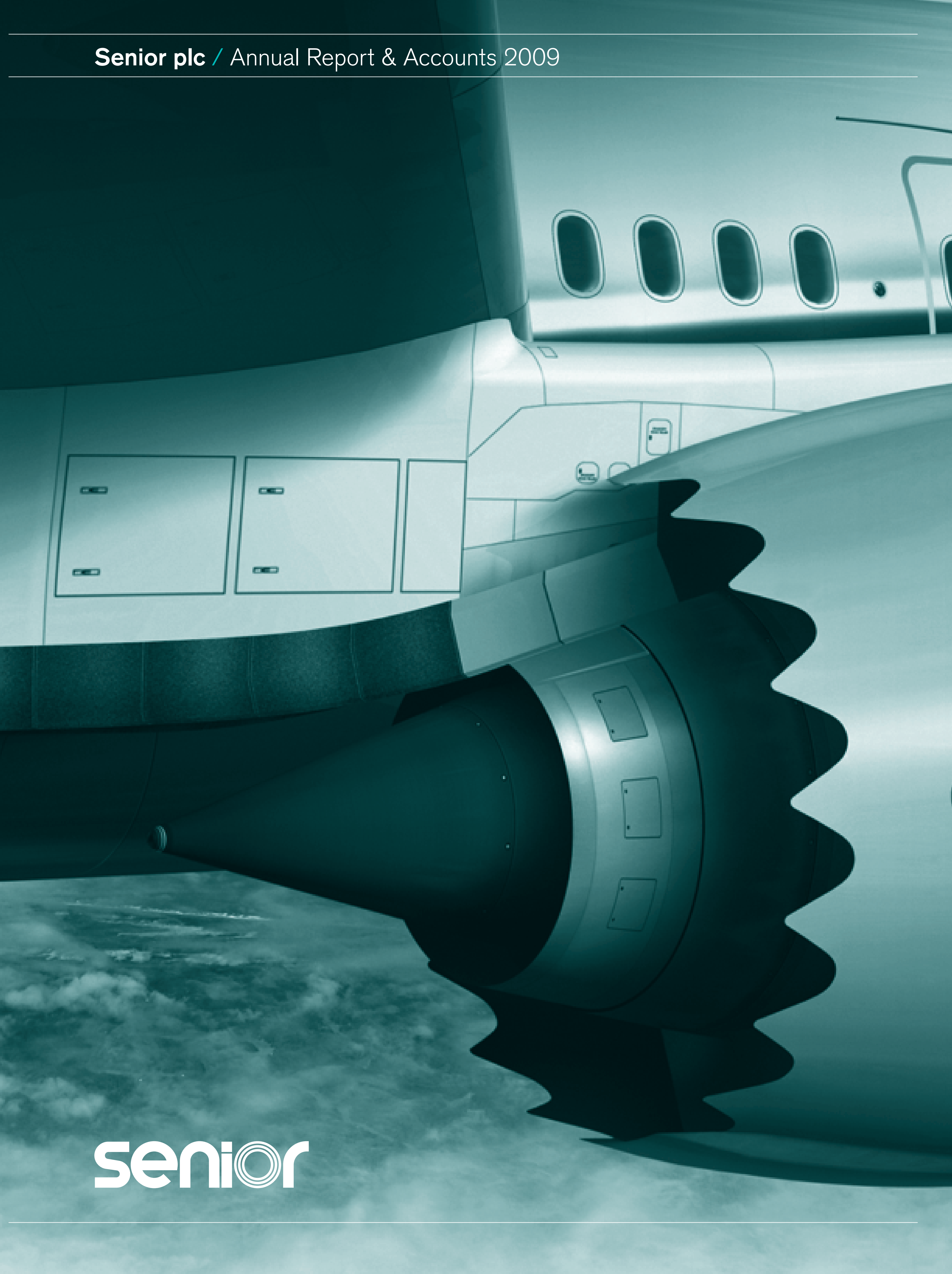

Senior plc / Annual Report & Accounts 2009
senior

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.

Senior aims to be a market-leading engineering solutions provider for its customers, delivering quality products on time, utilising its design and manufacturing engineering capabilities to optimise customer value.

The Group's operating efficiency, driven by Lean Manufacturing principles, and its strong focus on cash generation provide a robust foundation for growth and delivery of sustainable increases in shareholder value.

Boeing / 787 / The Boeing 787 is an important new programme for Senior Aerospace. The mid-range aircraft features new materials and technologies that allow the 787 to be significantly more fuel efficient than current aircraft.

Aerospace / 59% of Group revenue

/ Revenue £319.2m
/ Adjusted* operating profit £38.8m
/ Adjusted* operating margin 12.2%

Capabilities /

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

Key market drivers

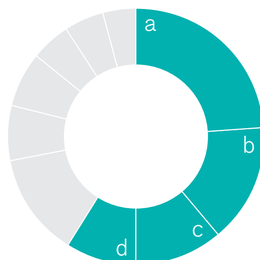
/ Global passenger air miles
/ Large commercial aircraft build rates
/ Regional and business jet build rates
/ US military aerospace programme spending

2009 highlights

/ Boeing and Airbus collectively delivered a record number of commercial aircraft
/ First flight of the Boeing 787 was an important milestone for Senior
/ Significant contraction in regional and business jet markets, although some stabilisation in business jet markets late in the year
/ Healthy sales growth in military and defence sector with increased content on the Group's largest programmes
/ Quick and effective action taken to reduce the cost base where appropriate
/ Robust operating margin performance in challenging market conditions

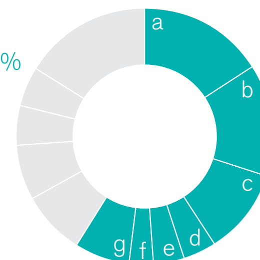
Markets

a / Large commercial aircraft / 24%
b / Military and defence / 15%
c / Regional and business jets / 11%
d / Other / 9%



Products

a / Engine structures and mountings / 16%
b / High-pressure ducting / 14%
c / Airframe structural parts / 11%
d / Low-pressure ducting and other composites / 4%
e / Helicopter machined parts / 4%
f / Fluid control systems / 3%
g / Non-aerospace / 7%



Locations

USA (nine) / United Kingdom (two) / Continental Europe (three)

Flexonics / 41% of Group revenue

/ Revenue £221.3m
/ Adjusted* operating profit £26.2m
/ Adjusted* operating margin 11.8%

Capabilities /

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.

Key market drivers

/ Passenger car and light vehicle sales in North America, Europe, Brazil and India

/ Medium and heavy duty truck sales in North America and Europe

/ Capital project and refurbishment expenditure in the global petrochemical and power generation industries

/ Increasingly stringent environmental and emission control legislation

2009 highlights

/ Increase in operating margins in spite of severe declines in land vehicles, due to strong demand for large industrial expansion joints and effective cost reduction plans

/ European and North American government-backed incentive schemes for passenger vehicles reduced severity of market declines

/ Healthy land vehicle markets in Brazil and India

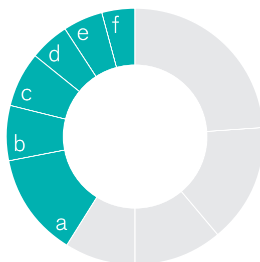
/ Increased sales of heavy duty diesel products in the second half of the year ahead of introduction of tighter emission regulations

/ Majority of industrial markets impacted by lower demand and customer de-stocking

/ Operating margin increased by 1.2% to 11.8%

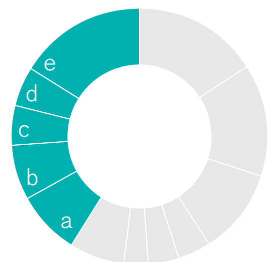
Markets

a / Automobile / 13%
b / Truck / 7%
c / Power and energy / 7%
d / Heating, ventilation and solar / 5%
e / Petrochemical / 5%
f / Other industrial / 4%



Products

a / Exhaust flexes / 8%
b / Emission control / 7%
c / Fuel distribution / 5%
d / HVAC ducting / 5%
e / Expansion joints, bellows, hoses / 16%



Locations

USA (two) / Canada (one) / United Kingdom (two) / Continental Europe (three) / South Africa (one) / India (one) / Brazil (one)

£540.1m
Revenue / 2008 – £562.4m

11.0%
Adjusted operating margin* / 2008 – 11.5%

£48.0m
Adjusted profit before tax* / 2008 – £56.0m

£49.6m
Profit before tax / 2008 – £51.3m

8.91p
Adjusted earnings per share* / 2008 – 10.63p

9.79p
Basic earnings per share / 2008 – 9.92p

2.60p
Dividends per share** / 2008 – 2.60p

18.6%
Return on capital employed / 2008 – 21.7%

£60.1m
Free cash flow*** / 2008 – £52.4m

£102.3m
Net debt*** / 2008 – £174.5m

* Adjusted figures are stated before loss on disposal of fixed assets of £0.1m (2008 – £nil), a £4.6m charge for amortisation of intangible assets acquired on acquisitions (2008 – £4.7m) and an exceptional pension gain of £6.3m (2008 – £nil). Adjusted earnings per share takes account of the tax impact of these items.

** Paid and proposed.

*** See Notes 32(b) and 32(c) for derivation of free cash flow and of net debt respectively.

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Martin Clark / Chairman

Group highlights

- Resilient results in challenging market conditions
- Quick action taken to reduce costs in the face of market declines
- Further success with working capital efficiency initiatives resulted in a significant cash inflow through inventory reductions
- Strong cash flow generation and £72m reduction in net debt
- Significant increase in the Group's funding headroom in the year, with long-term financing facilities in place
- Stabilisation of demand in the second half resulted in improved profit performance and supports an improved outlook
- Boeing 787 first flight and increasing content on major military aerospace platforms support the Group's long-term growth potential

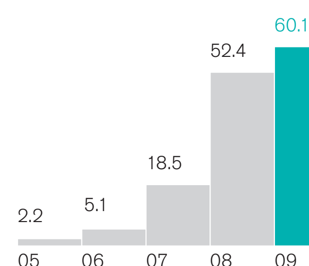
"Senior has delivered a resilient set of results for 2009, with the highlights being the strong cash generation and the £72m reduction in net debt. These results, which were achieved despite the adverse impact that the global economic crisis had on many of the Group's markets, demonstrate the operational and financial strength of the Group. The current year has started ahead of the Board's expectations and, consequently, prospects for 2010, which were previously forecast to be more difficult than in 2009, have improved and the Group's performance for 2010 is now anticipated to be broadly in line with the 2009 outcome."

Financial Results

Group revenue decreased by 4% to £540.1m (2008 – £562.4m), whilst reported operating profit increased by 2% to £61.0m (2008 – £59.8m). On an underlying basis, excluding the effects of beneficial foreign exchange movements and the exceptional pension curtailment gain, revenue declined by 16% and operating profit fell by 22%. The pension gain of £6.3m arose from the introduction of a 2% cap on future annual increases in pensionable salaries for active members of the Group's UK defined benefit pension plan. The reductions in underlying revenue and operating profit arose mainly as a result of the severe declines experienced in the land vehicle and business jet markets during the year.

Free Cash Flow

(£m)



Adjusted profit before tax, the measure which the Board believes most accurately reflects the true underlying performance of the business, decreased by 14% to £48.0m (2008 – £56.0m). Adjusted profit before tax measures profit before the loss on disposal of fixed assets of £0.1m (2008 – £nil), the charge for amortisation of intangible assets arising on acquisitions of £4.6m (2008 – £4.7m) and the exceptional pension gain of £6.3m (2008 – £nil). Adjusted earnings per share decreased by 16% to 8.91 pence (2008 – 10.63 pence).

One of the highlights of 2009 was the level of cash generated by the Group. Free cash flow increased by 15% to £60.1m (2008 – £52.4m), even after discretionary pension payments of £13.2m (2008 – £nil) were made into the UK and USA defined benefit pension plans. The very strong cash flow, combined with beneficial currency movements, resulted in net debt reducing by £72.2m to £102.3m during the year (31 December 2008 – £174.5m). This level of net debt represents 1.3 times (31 December 2008 – 2.1 times) earnings before interest, tax, depreciation and amortisation ("EBITDA"), well within the Group's principal banking covenant requirement that net debt to EBITDA is less than 3.0 times.

Through its resilient 2009 results, Senior has demonstrated that it can react quickly, and cost-effectively, to very challenging market conditions. Furthermore, the Group is well financed, with year-end net debt being £105.0m below the level of its committed borrowing facilities. These strong fundamentals leave the Group well positioned to invest in the future growth of the business.

The Group's 2009 financial performance is discussed in greater detail in the Operating and Financial Review which follows this statement.

Dividend

The Board is recommending an unchanged final dividend of 1.70 pence per share (2008 – 1.70 pence), bringing the total dividend for the year to 2.60 pence (2008 – 2.60 pence). At the level recommended, the full-year dividend would be covered 3.4 times (2008 – 4.1 times) by adjusted underlying earnings per share. The final dividend, if approved,

will be paid on 28 May 2010 to shareholders on the register at close of business on 30 April 2010.

Markets and Operations

Senior reports as two Divisions – Aerospace, consisting of 14 operations and representing 59% of 2009 Group revenue, and Flexonics, consisting of 11 operations and representing 41% of Group revenue. 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 involve advanced manufacturing processes.

Aerospace

The market for commercial aircraft (59% of Divisional sales) was mixed during 2009. Boeing and Airbus collectively delivered a record 979 wide-bodied commercial aircraft in the year, 14% higher than in 2008 (858 aircraft), although net order intake declined to 413 aircraft (2008 – 1,439). Their combined order book consequently reduced to 6,863 aircraft at the year-end (2008 – 7,429), still a healthy seven-year order book at current build rates. Of these orders, 851 are for the Boeing 787 aircraft, where Senior has between US$600k and US$1,100k of content per aircraft, depending on the engine configuration. The 787 flew for the first time on 15 December 2009; an important milestone for Senior. Boeing anticipates that deliveries of the 787 to customers will start in the final quarter of 2010, with production increasing steadily thereafter to a rate of 120 aircraft per annum by the end of 2013.

Bombardier and Embraer, the two largest regional jet manufacturers, experienced contrasting fortunes during 2009, with jet-aircraft deliveries up 7% at Bombardier but 25% down at Embraer. Net order intake for in-production aircraft was actually negative for both companies, as cancellations exceeded orders. Both companies are, therefore, expected to reduce their regional jet build rates in 2010. Bombardier officially launched its new CSeries aircraft during 2009, with Senior being awarded the low-pressure and high-pressure ducting systems at the Paris Air Show in July. Bombardier received orders for 50 CSeries aircraft in the year, with deliveries expected to commence in 2013.

The business jet sector was the hardest hit sector of the commercial aircraft market in 2009, with deliveries falling by 34% to 870 aircraft, from the record 1,315 aircraft delivered in 2008. Recently, however, there have been some signs of stabilisation in the business jet market with prices of second-hand aircraft no longer declining and manufacturers once again ordering parts from suppliers as inventory levels become more aligned with demand.

Senior experienced healthy sales growth in the military and defence sector during 2009; and this market now represents 26% of Aerospace Divisional sales. The Group's two largest defence programmes, the Lockheed Martin C-130 military air-transport aircraft and the Sikorsky Black Hawk helicopter, both experienced increases in build rates in 2009. The Group also increased the content that it has on each aircraft. Elsewhere, the Airbus A400M military air-transport aircraft flew for the first time in December 2009 and Lockheed Martin continued with its F35 Joint Strike Fighter flight-testing and development programme.

The Boeing 787 flew for the first time on 15 December 2009; an important milestone for Senior.

The effects of the contraction in the regional and business jet marketplaces were partially mitigated by the stronger defence market and beneficial currency movements; this resulted in reported sales for the Aerospace Division increasing slightly to £319.2m (2008 – £312.9m) but adjusted operating profit declining by 12% to £38.8m (2008 – £44.3m), with the Divisional operating margin at 12.2% (2008 – 14.1%).

Flexonics

Industrial markets, such as petrochemical, power generation, medical and heating and ventilation, accounted for 50% of the 2009 Divisional sales. Sales to land vehicle markets accounted for the remainder.

The land vehicle markets started the year extremely poorly, with year-on-year production volumes down by 35% to 55% in the first half of 2009 in North America and Western Europe. During the second half of the year, production of passenger cars improved slightly due to the combination of modestly improved vehicle sales, driven at least partially by various government incentive schemes, and the generally low levels of inventory of finished vehicles. As a result, production of light passenger vehicles ended the year down 32% and 20% in North America and Europe respectively. By way of contrast, sales and production of light vehicles were slightly ahead in Brazil and India, two increasingly important markets for Senior. Sales and production of medium and heavy duty trucks remained weak (typically down 40%) throughout 2009 in North America and Europe. However, sales of the Group's most significant land vehicle product in North America, an exhaust gas recycling cooler, were very strong in the final quarter, as truck engine manufacturers built more engines ahead of the implementation of tighter emission regulations from 1 January 2010.

The market for large industrial expansion joints remained strong throughout 2009.

During 2009, many of the Group's industrial markets were adversely impacted by the global slowdown, with the effect of poorer end markets being compounded by the Group's customers de-stocking in order to generate cash. Encouragingly, these issues became less pronounced towards the end of the year. One important market which did remain strong throughout 2009 was that for large metal and fabric expansion joints for industrial piping systems. Senior Flexonics Pathway is one of the world's leading suppliers to this market and its strong financial performance made a healthy contribution to the Flexonics Division's results for 2009. In addition, Senior has a small, but growing, presence in the burgeoning alternative energy market, with product development for the combined heat and power ("CHP") and solar energy markets making encouraging progress during the year.

Despite the severe declines in the land vehicle markets in North America and Europe, improved performances in the Rest of the World, beneficial currency movements, the strong expansion joint market and the quick action taken to reduce costs resulted in reported adjusted operating profit for the Division increasing slightly to £26.2m (2008 – £25.9m). Whilst reported sales declined by 12% to £221.3m (2008 – £250.1m), the Divisional operating margin improved significantly to 11.8% (2008 – 10.4%). This was a satisfactory outcome to what was a challenging year for the Flexonics Division.

Employees and the Board

2009 was a difficult time for many of the Group's personnel with headcount reductions and short-time working having an adverse impact on employees at many operations. Whilst the Group's total headcount fell by 1,180 (20%) in nine months, to stand at 4,756 at the end of June 2009, employee numbers stabilised, as anticipated, in the second half of the year, with the Group having 4,764 employees at the year-end. Given the significant uncertainty seen during the past year, I would especially like to thank all of Senior's employees for their continued hard work on behalf of the Group and for maintaining such a positive attitude during the challenging trading environment witnessed during 2009.

As previously announced, there was one change to the Board during 2009 with Mike Sheppard, Chief Executive for the Flexonics Division, stepping down at the end of July in order to focus all of his time on Flexonics operations. On behalf of the Board, I would like to thank Mike for his contribution, past and continuing, to the Group.

Outlook

The current year has started ahead of the Board's expectations and prospects for 2010 have improved.

Senior is financially and operationally strong and well positioned to take advantage of the significant opportunities being seen across the Group. The growing emphasis on better understanding customer needs, and providing solutions for them, is already generating increased quotation activity and new business. Market share is also being won as a result of the difficulties some of the Group's competitors are experiencing in the current economic environment.

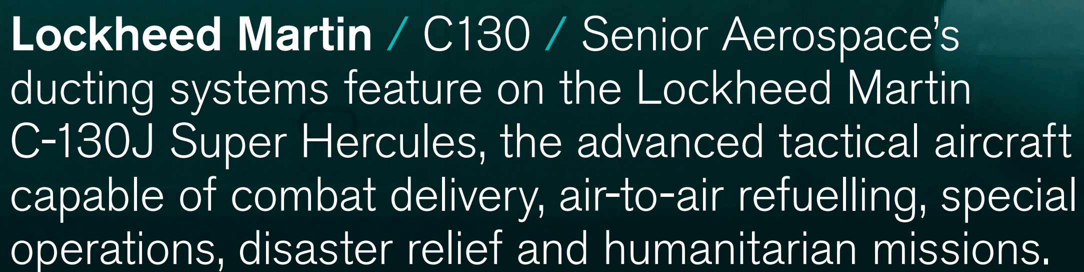
In Aerospace, the most recent announcements from Boeing and Airbus indicate that their 2010 production volumes will be at, or slightly below, 2009 levels. Boeing and Airbus each have order books representing nearly seven years of production at current build rates. The regional jet manufacturers' order books are generally weaker and build rates are anticipated to fall further in 2010. Business jet production levels, which typically react more quickly to changes in economic conditions, have recently shown some signs of stabilisation. Looking forward, it is expected that the Boeing 787, on which Senior has more content than on any previous commercial aircraft, will start to be delivered to customers in late 2010. Two other potentially important new programmes for the Group, the Airbus 350 and Bombardier CSeries aircraft, are scheduled for delivery to customers beginning in 2013.

Build rates of the Group's three main military programmes, the Joint Strike Fighter, the C-130 air-transporter and the Black Hawk helicopter, are each expected to increase further during 2010, with the Joint Strike Fighter seeing a steadily increasing build rate over subsequent years.

In the land vehicle markets, which represent around half of the Flexonics Division's revenue, industry commentators are forecasting production of passenger vehicles to be slightly higher in most of the Group's geographical markets in 2010 than in 2009, except in Western Europe, particularly Germany, where more challenging markets are expected as government-funded incentive schemes come to an end. Sales of medium and heavy duty trucks have been at low levels for some time now, with the average age of commercial fleets increasing. Whilst there are currently few signs of improvement in this marketplace, volumes can be expected to increase when fleet owners become more confident about future economic conditions. On the industrial side of the Flexonics Division, the market for large expansion joints has been very strong for the past two years and there must be the possibility that the capital-project element of the market may weaken at some point during 2010. On the other hand, growing activity is being seen in the development of products for the CHP and solar energy markets. The Group's other industrial markets are broadly stable.

Although Senior's end markets may remain challenging for some time to come, the number and extent of opportunities being seen by the Group mean the medium- and long-term prospects for Senior remain highly encouraging. The current year has started ahead of the Board's expectations and, consequently, prospects for 2010, which were previously forecast to be more difficult than in 2009, have improved and the Group's performance for 2010 is now anticipated to be broadly in line with the 2009 outcome.

Martin Clark
Chairman



Lockheed Martin / C130 / Senior Aerospace's ducting systems feature on the Lockheed Martin C-130J Super Hercules, the advanced tactical aircraft capable of combat delivery, air-to-air refuelling, special operations, disaster relief and humanitarian missions.

/ Non-executive Directors

Martin Clark /
Non-executive Chairman

David Best /
Non-executive Director

Ian Much /
Non-executive Director and Senior Independent Director

Michael Steel /
Non-executive Director

Main Board
The main Board met a total of nine times during the period 1 January 2009 and 31 December 2009.

Audit Committee
David Best (Chairman), Ian Much and Michael Steel. The Committee met three times during the year.

Nominations Committee
Martin Clark (Chairman), David Best, Ian Much and Michael Steel. The Committee met once during the year.

Remuneration Committee
Ian Much (Chairman), David Best, Martin Clark and Michael Steel. The Committee met six times during the year.

Health, Safety & Environment Committee
Mark Rollins, Mike Sheppard (Chief Executive of Flexonics), Ron Case to 5 November 2009 (Chief Executive of Aerospace Structures) and Launie Fleming (Chief Executive of Aerospace Fluid Systems). Jerry Goodwin (Chief Executive of Aerospace Structures) was appointed to the Committee in December 2009. The Committee met four times during the year. James Pomeroy, the Group HSE Manager, also attends each Committee meeting.

Apologies for non-attendance were received from Michael Steel for one Board meeting and one Audit Committee meeting, both of which were held on the same day. With these exceptions, there was full attendance at every meeting of the main Board and of the Committees of the Board during the year.

Non-executive directors
Martin Clark Non-executive Chairman
Joined the Board in 2001 and is also a non-executive director of Shepherd Building Group Ltd. 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.

David Best Non-executive Director
Joined the Board in 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.

Ian Much Non-executive Director and Senior Independent Director
Joined the Board in 2005 and is also non-executive director of Chemring Group plc. 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.

Michael Steel Non-executive Director
Joined the Board in 2008. He was previously President of the Mechanical Systems business of GE Aviation Systems (formerly Smiths Aerospace). The Board considers Michael Steel to be independent.

/ Executive Directors

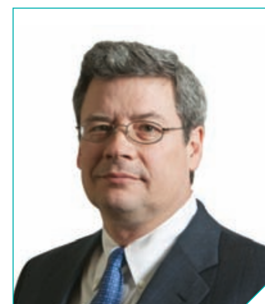
/ Executive Committee

Mark Rollins /
Group Chief Executive

Simon Nicholls /
Group Finance Director

Launie Fleming /

Jerry Goodwin /



Mike Sheppard /

Executive Directors

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 & Environment Committee, in March 2008. He is a non-executive director of WSP Group plc.

Simon Nicholls Group Finance Director
A Chartered Accountant, he joined the Group and was appointed to the Board in 2008. He was previously Chief Financial Officer for Hanson plc's North American operations.

Executive Committee

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

The purpose of the Executive 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.

At the year-end, the Committee comprised two members of the Board: Mark Rollins and Simon Nicholls, together with Launie Fleming (Chief Executive of Aerospace Fluid Systems), Jerry Goodwin (Chief Executive of Aerospace Structures), appointed in December 2009, and Mike Sheppard (Chief Executive of Flexonics). Biographies of the Committee members are set out below. Bindi Foyle, Group Financial Controller, acts as Secretary to this Committee.

Launie Fleming A US citizen, he has worked for the Group for more than 10 years. He 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.

Jerry Goodwin A US citizen, he joined the Group in June 2007 as the Chief Executive of Senior Aerospace AMT. He was appointed Chief Executive of Aerospace Structures in December 2009. Prior to joining Senior, Jerry served as Vice President and General Manager at C & D Zodiac, a composites aerospace manufacturing company.

Ron Case, formerly Chief Executive of Aerospace Structures, left the Group on 5 November 2009.

Mike Sheppard A US citizen, he has worked for the Group for more than 20 years. He stepped down from the Board on 31 July 2009 in order to focus all of his time on his continuing role as Chief Executive of the Flexonics Division.

The Directors present their Report and supplementary reports, together with the audited Financial Statements for the year ended 31 December 2009.

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 22. Its Principal Group Undertakings are shown on page 86 and comments on Divisional results and activities in 2009 are included in the OFR. The OFR also 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

There were no acquisitions or disposals during the year.

Results and Dividends

The results for the year are shown in the Consolidated Income Statement on page 42.

An interim dividend of 0.90 pence per share (2008 – 0.90 pence) has already been paid and the Directors recommend a final dividend of 1.70 pence per share (2008 – 1.70 pence). The final dividend, if approved, will be payable on 28 May 2010 to shareholders on the register at the close of business on 30 April 2010. This would bring the total dividend for the year to 2.60 pence per share (2008 – 2.60 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 2009 were:

Shares in issue at 1 January 2009	398,323,948
Senior plc Long Term Incentive Plan	1,099,451
Senior plc Executive Share Option Plan	239,894
Shares in issue at 31 December 2009	399,663,293

Further share capital details are given in Note 25 to the Financial Statements on page 72. Details of employee share plans are set out on pages 77 and 78.

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. The Senior plc Employee Benefit Trust holds 1,044,859 shares in the Company and typically votes in favour of shareholder resolutions.

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 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, shareholder approval is sought 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 67 to 70 contains disclosures on Financial Instruments.

Directors

Details of the Directors who served throughout the year can be found on pages 6 and 7. 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.

Martin Clark, Non-executive Chairman (since May 2007), joined the Board in 2001. He retires by rotation in accordance with Article 77 (ii) and (iii), having been a non-executive Director for a continuous period of nine years; being eligible, he offers himself for re-election.

Directors' Indemnities

Qualifying third-party indemnity provisions for the benefit of the Directors were renewed by the Company during the year and remain in force at the date of this Report.

Research and Development

In 2009, the Group incurred £9.7m (2008 – £8.6m) on research and development, before recoveries from customers of £1.4m (2008 – £1.2m). Product development and improving manufacturing techniques represent the primary focus of the Group's research and development activities.

Charitable and Political Donations

During the year, the Group made charitable donations amounting to £43,000 (2008 – £35,000), principally to local charities serving the communities in which the Group operates. No political donations were made during the year.

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 14 days (2008 – 22 days). Typical payment terms adhered to by the Company are estimated to be approximately 30 days.

Major Shareholdings

At 26 February 2010, the Company had been notified that the following shareholders were interested in 3% or more of the issued share capital of the Company:

BlackRock	12.28%
Scottish Widows Investment Partnership	8.50%
Henderson Global Investors	7.40%
Legal & General Investment Management	6.39%
JP Morgan Asset Management	3.78%
Aegon Asset Management	3.19%
Rathbone Investment Management	3.15%

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 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 23 April 2010.

Annual General Meeting

The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held on Friday 23 April 2010 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 24 April 2009, to make market purchases of the Company's shares up to an aggregate nominal amount of £3.98m, which represented approximately 10% of the issued share capital of the Company. A resolution to renew this authority will be proposed at the forthcoming Annual General Meeting.

Auditor

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 Auditor is 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 Auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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

By Order of the Board

Andrew Bodenham
Secretary
26 February 2010

Mark Rollins / Group Chief Executive

"In 2009, the Group delivered a robust trading performance in challenging market conditions, with excellent free cash flow generation."

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 objectives and strategies and the potential for these 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 have been 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" and its recently published "Rising to the Challenge", a review of narrative reporting by UK Listed Companies.

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 and Business Model
/ Long-term Strategy, Business Objectives and Key Performance Indicators
/ Financial Review
/ Divisional Review
/ Outlook
/ Risks and Uncertainties
/ Resources
/ Corporate Social Responsibility

Operations and Business Model

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 principal underlying market demand drivers for the Group are global passenger air miles, air freight demand, large commercial and regional and business jet build rates, military aerospace programme spending (in particular by the US Government), passenger vehicle sales in North America, Europe and Brazil, heavy duty diesel truck sales in North America and capital project spending in the global petrochemical and power generation industries. Many of the Group's products are used to satisfy the growing need for emission control and environmental solutions in its principal end markets.

The Group aims to be a market-leading engineering solutions provider for its customers, delivering quality products on time, utilising its design and manufacturing engineering capabilities to optimise customer value and working responsively to fulfil customer needs.

The Group has a flat organisational structure, with only two layers of management between the Group CEO and local operational management, in order to enhance flexibility and promote quick decision making. The Group's culture is based around empowerment of its autonomous operations within a well-defined control framework (including strong financial controls), whilst also promoting collaboration to support sharing of best practice and provide more complete customer programme solutions where appropriate.

The Group fully embraces the concepts and principles of the Lean Manufacturing methodology, striving at all times for continuous improvement and the elimination of non-value-added activities and processes.

All Group operations are required to maintain a strong focus on cash generation, in particular concentrating on tight controls over discretionary expenditure and improved efficiencies in working capital management. This requires a clear understanding that the working capital cycle begins when a customer places an order and only ends when cash is collected at the end of the process. The Group has made excellent progress with this initiative in recent years, which has been a principal driver of its consistently strong free cash flow generation.

The Group initially aims to utilise its available funding capacity to invest in organic growth and operational improvement opportunities, aligning its improvement initiatives with the key value drivers within the business. Once net debt has been reduced to an appropriate level, the Group also plans to target a small number of acquisitions to accelerate growth and enhance the overall asset portfolio. The Group aims to be consistent in its approach to all stakeholders. This means meeting every commitment that is made, at all times acting with integrity and in an ethical manner, complying with all legal and regulatory requirements and being a responsible member of each community within which it operates.

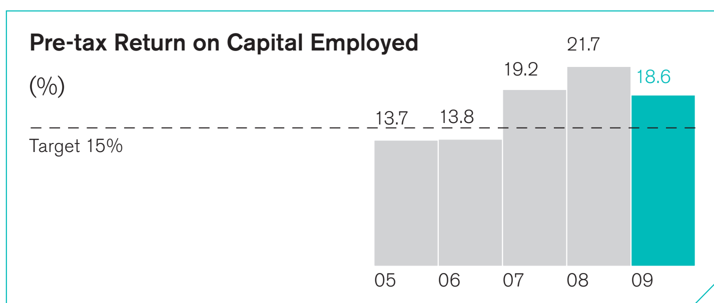
The Group is split into two Divisions, Aerospace and Flexonics.

Aerospace

The Aerospace Division consists of 14 operations. These are located in the USA (nine), the United Kingdom (two), and continental Europe (three). In 2009, this Division accounted for 59% of total Group revenue. Its main products were engine structures and mounting systems (27% of Divisional sales), metallic ducting systems (23%), airframe and other structural parts (19%), composite ducting systems (7%), helicopter machined parts (7%) and fluid control systems (5%). The remaining 12% of Divisional sales were to non-aerospace, but related, technology markets. The Division's largest customers include Boeing, representing 13% of 2009 Divisional sales, United Technologies (10% of Divisional sales), Spirit AeroSystems, Goodrich, Bombardier, Airbus, Rolls-Royce, GKN and GE.

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 2009, the Flexonics Division accounted for 41% of total Group revenue. This Division's sales comprised flexible mechanisms for vehicle exhaust systems (19% of Divisional sales), cooling and emission control components (17%), diesel fuel distribution pipework (14%), and sales of industrial components, principally expansion joints, control bellows and hoses (50%). The industrial components were supplied to power and boiler markets (17% of Divisional sales), oil and gas and chemical processing industries (12%), HVAC and solar markets (11%) and other industrial markets (10%). The Division's largest individual end users are land vehicle customers, including Cummins (representing 12% of Divisional sales), PSA and Ford (each representing 8%) and General Motors (5%). The percentage of Divisional sales coming from the automotive market fell again in 2009 to 32% (2008 – 37%) with sales to the heavy duty diesel engine market (e.g. Cummins and Caterpillar) growing to 18% (2008 – 16%).



Long-term Strategy, Business Objectives and Key Performance Indicators

There are four key elements to Senior's strategy for accelerating growth and creating long-term, sustainable 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 are subject to strict financial and commercial criteria, their long-term outlook and the Group's anticipated funding position; and
- creating an entrepreneurial culture within a strong control framework, continuously striving for improvements amongst its operating businesses whilst operating in a safe and socially responsible manner.

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 spite of very challenging market conditions in 2009, two of the Group's financial objectives were met: i) the Group generated a record level of free cash flow of £60.1m to support future growth and its dividend policy, and; ii) achieved a return on capital employed of 18.6%. Three of the Group's financial performance objectives were not met in 2009, as above inflation increases in organic sales and adjusted earnings per share were not achieved, due to the underlying market demand reductions experienced in the period. Consequently, the Group's return on revenue margin did not increase. However, over the five-year period to 2009 the Group has achieved above inflation increases in sales and adjusted earnings per share as well as increasing its return on revenue margin to 11.0%, from 5.2% in 2004.

The Group exceeded its improvement target for recordable injury and illness cases, recording a lost time injury frequency rate of 1.61 days per 100 employees (2008 – 1.94 days). In addition, further improvements were made in the level of carbon dioxide emissions, with an emission level of 99m tonnes per £1m of sales (a 13% reduction since 2006) achieved in the year. The Group remains on track to meet its four-year target to reduce emissions by 15%.

A summary of the year-on-year movements in these Key Performance Indicators ("KPIs") is set out in the table below:

	2009	2008
Organic revenue growth (1)	**–16%**	+5%
Adjusted earnings per share (2)	**8.91p**	10.63p
– growth	**–16%**	+38%
Return on revenue margin (3)	**11.0%**	11.5%
Return on capital employed (4)	**18.6%**	21.7%
CO_2 emissions/£m revenue (5)	**99 tonnes**	104 tonnes
Lost time injury frequency rate (6)	**1.61**	1.94

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

Financial Review

Summary

A summary of the Group's operating results is set out in the table below. Further detail on the performance of each Division is included in the section entitled "Divisional Review" on pages 17 and 18.

	Revenue	
	2009 £m	2008 £m
Aerospace	**319.2**	312.9
Flexonics	**221.3**	250.1
Inter-segment sales	**(0.4)**	(0.6)
Group total	**540.1**	562.4

	Adjusted operating profit (1)	
	2009 £m	2008 £m
Aerospace	**38.8**	44.3
Flexonics	**26.2**	25.9
Central costs	**(5.6)**	(5.7)
Group total	**59.4**	64.5

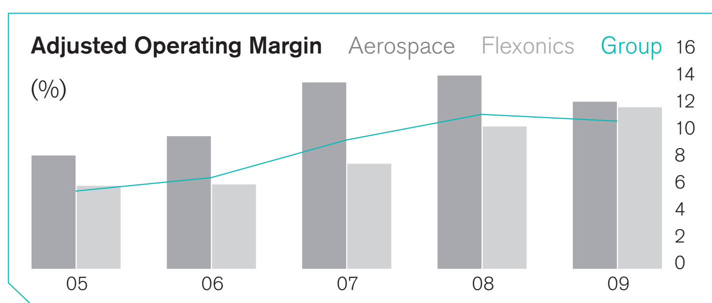
(1) Adjusted operating profit is the profit before interest and tax and before the loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and an exceptional pension gain.

	Margin	
	2009 %	2008 %
Aerospace	**12.2**	14.1
Flexonics	**11.8**	10.4
Group total	**11.0**	11.5

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

	2009 £m	2008 £m
Operating profit per Financial Statements	**61.0**	59.8
Loss on sale of fixed assets	**0.1**	–
Exceptional pension gain	**(6.3)**	–
Amortisation of intangible assets from acquisitions	**4.6**	4.7
Adjusted operating profit	**59.4**	64.5

Including the positive impact of foreign exchange movements, Group revenue decreased by 4% in 2009 (16% excluding the impact of foreign exchange), as the Group experienced a significant contraction in volumes in a number of its end markets during the year. Military aerospace and the industrial petrochemical and power generation markets showed resilience but the consequences of the global credit crisis had a significant negative impact on demand in many other markets. Volume reductions of between 40% and 50% were experienced in land vehicle and regional and business jet markets in the first half of the year and, whilst build rates of large commercial aircraft remained stable, many of the Group's major aerospace customers implemented de-stocking measures that had a negative effect on demand. Demand in other industrial markets, including HVAC, semi-conductor and medical markets also declined significantly in the period. Demand patterns generally stabilised in the second half of the year and some growth was experienced, in particular in land vehicle markets, in the fourth quarter.



Stirling Energy Systems / Suncatcher™ /
Senior Flexonics has an increasing presence in the renewable energy markets, manufacturing products for solar farms including the revolutionary Suncatcher™, a Concentrated Solar Power solar dish.

Simon Nicholls / Group Finance Director

The Group acted quickly, in the first quarter, to implement a series of cost reduction plans aimed at mitigating the operational impact of the decreases in market demand, including a necessary reduction in headcount of 700 people. This, together with the headcount reductions already implemented in the fourth quarter of 2008, brought the total headcount reduction to 1,180 people (20%) in the nine month period from 1 October 2008 to 30 June 2009. Despite the cost reduction and rationalisation measures implemented, adjusted operating profit decreased by 8% (22% excluding the impact of foreign exchange) in 2009. Operating margins achieved were a healthy 11.0% (2008 – 11.5%).

The Group's free cash flow and net debt for 2009 and the prior year were:

	2009 £m	2008 £m
Free cash flow	**60.1**	52.4
Net debt	**102.3**	174.5

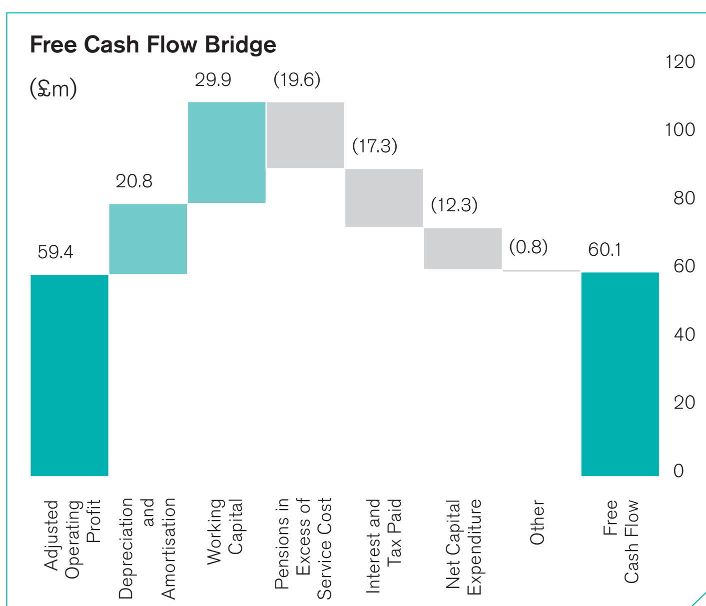
Free cash flow is the total net cash flow generated by the Group prior to corporate activity such as acquisitions, disposals, financing and transactions with shareholders; it is calculated as follows:

	2009 £m	2008 £m
Net cash from operating activities	**69.8**	74.6
Interest received	**2.6**	1.7
Proceeds on disposal of tangible fixed assets	**0.3**	0.6
Purchases of tangible fixed assets	**(12.3)**	(23.8)
Purchases of intangible assets	**(0.3)**	(0.7)
Free cash flow	**60.1**	52.4

The Group generated significant free cash flow of £60.1m in 2009 (2008 – £52.4m), an excellent increase of 15% over the prior year.

The principal drivers of this strong performance were the quick and decisive actions taken to implement cost reduction measures early in the year in response to deteriorating market conditions, sustained tight controls over discretionary expenditure (including capital expenditure) and continued good progress with the Group's Lean Manufacturing initiatives that resulted in exceptionally strong working capital inflows from reduced inventory.

As a result of its strong free cash flow performance, the Group was able to contribute £19.6m in excess of service costs into its defined benefit pension plans in the UK and the US, £13.2m of which was voluntary, and still achieve a significant reduction in net debt of £72.2m during the year (including foreign exchange gains of £21.9m). Net debt at the year-end was £102.3m (2008 – £174.5m).



Revenue

Group revenue decreased by £22.3m (4%) to £540.1m (2008 – £562.4m). There were no acquisitions in the period. If the effect of a year-on-year beneficial exchange impact of £82.5m is excluded, then underlying revenue fell by 16% on a constant currency basis. In 2009, 66% of Group sales originated from North America, 10% from the United Kingdom, 17% from the Rest of Europe and 7% from the Rest of the World.

Operating profit

Group operating profit increased by 2% to £61.0m (2008 – £59.8m), including the positive impact of a £6.3m exceptional pension curtailment gain which arose following the implementation of a cap on future pensionable salary increases in the Group's UK defined benefit pension plan. Excluding this exceptional gain Group operating profit declined by 9%, principally due to the underlying market demand reductions experienced in the year.

Adjusted operating profit decreased by £5.1m (8%) to £59.4m (2008 – £64.5m). Adjusted operating profit is that before finance costs, loss on disposal of fixed assets of £0.1m (2008 – £nil), amortisation of intangible assets arising on acquisitions of £4.6m (2008 – £4.7m) and the exceptional pension gain of £6.3m (2008 – £nil). The Group benefited from favourable foreign currency movements of £11.2m, and, if these are excluded, then underlying adjusted operating profit decreased by 22% on a constant currency basis.

Finance costs

Finance costs, net of investment income of £1.2m (2008 – £2.7m), increased to £11.4m (2008 – £8.5m). Net interest costs on borrowings increased to £7.2m (2008 – £6.8m) mainly due to foreign exchange movements in the year. Pension related charges also increased, to £4.2m in 2009 (2008 – £1.7m), principally as a result of higher interest costs relating to the unwinding of discounted liabilities and the reduced level of assets in the Group's pension plans at the start of the year.

Profit before tax

Adjusted profit before tax decreased by 14% to £48.0m (2008 – £56.0m). Reported profit before tax decreased to £49.6m (2008 – £51.3m).

Tax charge

The total tax charge decreased to £10.6m (2008 – £12.1m), due to the decrease in the Group's taxable profits. Net tax benefits, arising on the loss on sale of fixed assets and amortisation of intangible assets from acquisitions totalled £1.9m (2008 – £1.9m). If these are added back, then the resultant tax charge of £12.5m (2008 – £14.0m) represented an underlying rate of 26.0% (2008 – 25.0%) on the adjusted profit before tax of £48.0m (2008 – £56.0m). The increase in the underlying tax rate was mainly due to the increased proportion of the Group's profits being generated in both the USA and South Africa (where the Group's effective tax rate is approximately 35%).

Earnings per share

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 398.3 million (2008 – 395.0 million). Adjusted earnings per share decreased by 16% to 8.91 pence (2008 – 10.63 pence). Basic earnings per share decreased by 1% to 9.79 pence (2008 – 9.92 pence).

Dividends

A final dividend of 1.70 pence per share is proposed for 2009, unchanged from last year, which would cost £6.8m (2008 final dividend – £6.8m). This would bring the full-year dividend to 2.60 pence per share, the same level as the prior year. The cash outflow incurred during 2009 in respect of the final dividend for 2008 and the interim dividend for 2009, was £10.4m (2008 – £10.3m).

Research and development

The Group's expenditure on research and development increased to £9.7m during 2009 (2008 – £8.6m). 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

Capital expenditure decreased by 49% in 2009 to £12.6m (2008 – £24.5m), principally in response to the significant demand reductions experienced by the Group's operations. The Group's operations remain well capitalised. Disposal of assets no longer required raised £0.3m (2008 – £0.6m). A higher level of capital expenditure is anticipated for 2010, although this will be dependent on the Group securing the expected new programme wins in both Divisions.

Capital structure

The Group's Consolidated Balance Sheet at 31 December 2009 may be summarised as follows:

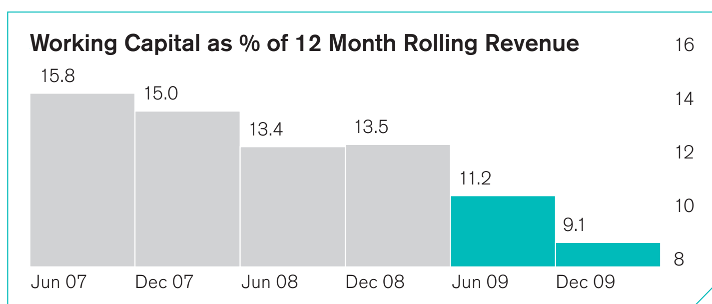
	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	118.0	–	118.0
Goodwill and intangible assets	180.3	–	180.3
Current assets and liabilities	144.6	(100.2)	44.4
Other non-current assets and liabilities	0.8	(8.3)	(7.5)
Post-retirement obligations	–	(48.1)	(48.1)
Total before net debt	443.7	(156.6)	287.1
Net debt	20.4	(122.7)	(102.3)
Total at 31 December 2009	**464.1**	**(279.3)**	**184.8**
Total at 31 December 2008	549.4	(373.2)	176.2

Net assets increased by 5% in the year to £184.8m (2008 – £176.2m), in the main as a result of retained profits of £39.0m offset by adverse total foreign exchange movements of £5.8m. Net assets per share increased by 5% to 46.2p (2008 – 44.2p). There were 399.7 million ordinary shares in issue at the end of 2009 (2008 – 398.3 million). Post-retirement obligations decreased to £48.1m (2008 – £51.2m), with the decrease in deficit arising principally due to an increase in returns on invested assets, increased voluntary cash contributions in excess of service cost of £19.6m and a curtailment gain arising as a result of a cap on future pensionable salary increases in the UK, which were largely offset by the adverse impact of a lower rate of 5.70% being used to discount the UK pension plan liabilities (2008 – 6.40%) and an increase in the inflation assumption from 2.8% to 3.5%.

Cash flow

The Group's free cash flow, whose derivation is set out in the table below, increased by 15% to £60.1m (2008 – £52.4m). The main drivers of this improvement were a significant inflow from working capital of £29.9m (2008 – £12.2m) and a reduction in capital expenditure to £12.6m (2008 – £24.5m). These were offset by additional discretionary pension payments of £13.2m (2008 – £nil) and an increase in tax payments of £2.4m to £11.2m in the year. In addition, included within operating profit in 2009 is a non-cash exceptional pension gain of £6.3m (2008 – £nil) relating to the implementation of a cap on future pensionable salary increases in the UK pension plan from 2010.

	2009 £m	2008 £m
Operating profit	**61.0**	59.8
Depreciation and amortisation	**25.4**	23.4
Working capital movement	**29.9**	12.2
Pension payments above service cost	**(6.4)**	(5.2)
Additional discretionary pension payments	**(13.2)**	–
Exceptional pension gain	**(6.3)**	–
Other items	**(0.7)**	1.7
Cash generated from operations	**89.7**	91.9
Interest paid (net)	**(6.1)**	(6.8)
Tax paid	**(11.2)**	(8.8)
Capital expenditure	**(12.6)**	(24.5)
Sale of fixed assets	**0.3**	0.6
Free cash flow	**60.1**	52.4
Dividends	**(10.4)**	(10.3)
Acquisitions and deferred consideration received	**0.5**	(43.6)
Share issues	**0.1**	1.3
Foreign exchange variations	**21.9**	(79.5)
Opening net debt	**(174.5)**	(94.8)
Closing net debt	**(102.3)**	(174.5)



Net debt

Net debt decreased by £72.2m in the year to £102.3m (2008 – £174.5m). The principal reasons for the decrease were: tight controls over discretionary expenditure imposed across the Group early in the year, which helped to preserve cash profits; a reduction in the level of capital expenditure in the year to 61% of depreciation (2008 – 131% of depreciation); exceptionally strong cash inflows from working capital during the year of £29.9m; and favourable foreign exchange rate movements of £21.9m, most notably due to an appreciation in the value of Pound Sterling against the US dollar from £1:US$1.44 at 31 December 2008 to £1:US$1.61 at 31 December 2009. At the year-end, net debt comprised gross borrowings of £122.7m, with 94% of the Group's gross borrowings in US dollars (31 December 2008 – 85%), and cash and cash equivalents of £20.4m.

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 2009 the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 10.6x (31 December 2008 – 12.0x) and the ratio of net debt to EBITDA was 1.3x (31 December 2008 – 2.1x).

Liquidity

As at 31 December 2009, the Group's gross borrowings were £121.4m (2008 – £150.8m). 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	1.1	–
In the second year	0.9	12.4
In years three to five	26.2	101.7
After five years	93.2	93.2
	121.4	207.3

[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. Unrealised forward foreign exchange contract losses of £nil (2008 – £33.9m) are included in the calculation of net debt.

At the year-end the Group had committed facilities of £207.3m, with a weighted average maturity of 5.4 years. The Group is in a strong funding position with the next material refinancing not due until July 2012.

Going concern basis

The Group's business activities, performance and position are set out in the Operations Review above and the Divisional Review below. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described within this Operating and Financial Review. In addition, a review of the principal risks and uncertainties that are likely to affect the Group's future development is set out below, together with a summary of the Group's policies and processes in respect of capital and financial risk management including foreign exchange, 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 borrowing. At 31 December 2009, 97% of the Group's gross debt was financed via revolving credit and private placement facilities, with an average maturity of 5.4 years. The Group is well funded 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 and the exchange rate between the Pound Sterling and the US dollar. This is important to the Group's financial performance given that around 80% of the Group's profits in 2009 were earned in the US and 94% of its gross borrowings at 31 December 2009 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 well within the level of its current committed borrowing facilities and banking covenants under all reasonably foreseeable scenarios. As a consequence, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Board has continued to adopt the going concern basis in preparing the Group's Annual Report & Accounts 2009.

Changes in accounting policies

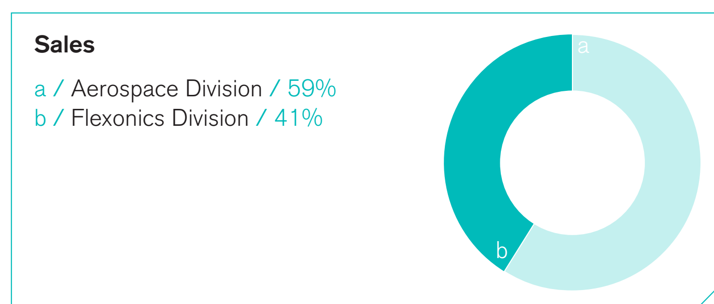
The accounting policies adopted in the Financial Statements are consistent with those followed in the preparation of the Group's Annual Report & Accounts 2008, except for the adoption of Standards and Interpretations that are effective for the current financial year; these are highlighted in Note 2 of the Financial Statements, and do not have a material impact on the presentation of the Group's results.

Related party transactions

The Group's related party transactions are between the Company and its subsidiaries and have been eliminated on consolidation.

Divisional Review

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that the results for 2008 have been translated using 2009 average exchange rates in order to make appropriate comparisons at constant currency.



Aerospace Division

	2009 £m	2008 £m	Change
Revenue	**319.2**	361.5[1]	–12%
Adjusted operating profit	**38.8**	51.4[1]	–25%
Operating margin	**12.2%**	14.2%	–

[1] 2008 results translated using 2009 average exchange rates.

The revenue of the Aerospace Division fell by £42.3m (12%) to £319.2m (2008 – £361.5m at constant currency). The Division's sales in the large commercial aircraft market (41% of Divisional sales) were broadly stable during 2009. Although aircraft deliveries increased by 14% to 979 (2008 – 858), as there was no repeat of the 2008 machinists strike at Boeing, demand for the Group's products in this market was impacted by de-stocking initiatives implemented by most customers in response to deteriorating macroeconomic conditions. The 2009 Boeing and Airbus combined net order intake was 413 aircraft, which was 42% of the level of deliveries, a significant decline from recent years' order intakes, and a reflection of the impact of the global financial crisis. However, the combined order book still stood at 6,863 aircraft at the year-end (representing approximately seven years of deliveries at current build rates). This order book includes 851 orders for the Boeing 787 aircraft where Senior has between US$600k and US$1,100k of content per aircraft depending on engine configuration. This continues to represent a solid foundation for the Group's future.

Military markets remained robust overall, with increased volumes of helicopter parts delivered to Sikorsky and to the growing C130 transport aircraft programme. Stable demand was experienced in other US Government programmes. However, regional and business jet markets declined significantly in 2009. Combined deliveries of 185 aircraft by the principal regional jet manufacturers, Embraer (125 aircraft) and Bombardier (60 aircraft), were 17% lower than the combined total of 222 achieved in 2008. The business jet market was also very weak for the whole year, with 870 deliveries being some 34% lower than in 2008 (1,315 deliveries), although demand levels within this market stabilised in the second half of the year.

As a result of the volume declines experienced in the regional and business jet markets, the Aerospace Division's adjusted operating profit (before profit/loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions) decreased by £12.6m (25%) to £38.8m (2008 – £51.4m at constant currency). The Division's operating margin decreased by 2.0 percentage points to 12.2% (2008 – 14.2%).

Capital expenditure for the Aerospace Division decreased to £9.0m in 2009 (2008 – £17.1m), in response to the general market contraction. However, this also reflects the fact that the Aerospace Division is well capitalised, since the Group's rate of capital expenditure in this Division in recent years has been well above the rate of depreciation, as production capacity has been increased to meet the demands of both existing and future major programmes, such as the C130 military transport plane, the Boeing 787 and the Joint Strike Fighter. Total capital expenditure in this Division represented 0.8x depreciation (2008 – 1.9x).

Flexonics Division

	2009 £m	2008 £m	Change
Revenue	**221.3**	284.1[1]	–22%
Adjusted operating profit	**26.2**	30.2[1]	–13%
Operating margin	**11.8%**	10.6%	–

[1] 2008 results translated using 2009 average exchange rates.

Revenue for the Flexonics Division decreased by £62.8m (22%) to £221.3m (2008 – £284.1m at constant currency). The Division benefited from sustained strength in demand for large industrial expansion joints (oil refining, power generation and chemical processing) with the Group's Pathway operation based in Texas performing well, although other industrial market demand was weak. Industrial markets accounted for 50% of this Division's sales in 2009.

Demand in land vehicle markets, representing the remaining 50% of the Flexonics Division's sales, fell dramatically in the first half of the year, before recovering some ground in the second half. The recovery in passenger vehicle markets was largely driven by various government-backed incentive schemes. After an extremely weak first half, the Group enjoyed an increase in demand for its heavy duty diesel products in North America in the second half of the year, as a result of an engine pre-build in advance of new tighter emission regulations that came into force on 1 January 2010. Overall, sales of medium and heavy duty trucks in North America were 244,000 in 2009, a decline of 37% compared to the 386,000 sold in 2008. Light vehicle sales in North America fell by 3.2 million vehicles (20%) to 12.6 million and in Europe were down by 0.9 million vehicles (5%) to 15.9 million.

In response to the significant volume declines experienced in land vehicle markets late in 2008, profit preservation plans were implemented at all affected operations during the fourth quarter of 2008; this continued in the first half of 2009. In total, the Division's workforce was reduced by 680 people (24%) in this period. Despite these measures, the Flexonics Division's adjusted operating profit for 2009 decreased by 13% to £26.2m (2008 – £30.2m at constant currency). However, the Division's operating margin for 2009 increased by a very satisfactory 1.2 percentage points to 11.8% (2008 – 10.6%), due to an improved product mix in industrial operations, and the positive leverage effect on operating profit from the increase in volumes experienced in land vehicle markets late in the fourth quarter on the much reduced cost base.

Capital expenditure for the Division decreased to £3.5m or 0.4x depreciation in 2009 (2008 – £7.4m or 0.8x depreciation), reflecting the weak 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.

Adjusted Operating Profit

a / Aerospace Division / 60%
b / Flexonics Division / 40%

Outlook

A detailed outlook statement is included in the Chairman's Statement on page 4.

Demand conditions in the Aerospace Division are strongest in the military and defence sector. Large commercial aircraft build rates are currently stable, but regional jet demand continues to decline. Demand for business jets now appears to have stabilised at a relatively low level, by historical standards, with little prospect of any significant recovery in the immediate future. Within Flexonics, order books in the Group's major industrial markets (petrochemical and power generation) remain relatively robust. In addition, positive momentum from the increased level of sales in passenger vehicle markets late in 2009 has been sustained to date, although it appears likely that there may be some slowdown in demand in 2010 in Europe when government incentive schemes end. The outlook for heavy duty diesel demand in North America is weak in the short term, although there is the prospect of a recovery once fleet owners become more confident of future economic conditions.

Against this backdrop the Group remains cash generative, continues to operate well within its bank covenants and does not have a major banking facility renewal 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. The principal risks and uncertainties are set out below. Overall, the Group's risk profile has moderated during 2009 principally due to: a stabilisation of key market demand; increased confidence in the outlook compared to a year ago; and a significant increase in the Group's level of funding headroom which has been driven by very strong free cash flow generation during the year.

Global financial crisis

The potential adverse impact on the Group of the global financial crisis remains significant, but has receded during the year. The Group suffered a significant reduction in demand in almost all of its key markets in the first half of 2009, and had to implement profit preservation plans that resulted in a reduction in the total workforce of 20% in the nine month period ended 30 June 2009. Market demand conditions generally stabilised during the second half of the year and the Group even enjoyed some volume uplift in land vehicle markets. Customer financing issues have also lessened, as credit markets have become more liquid and the North American car industry has been restructured.

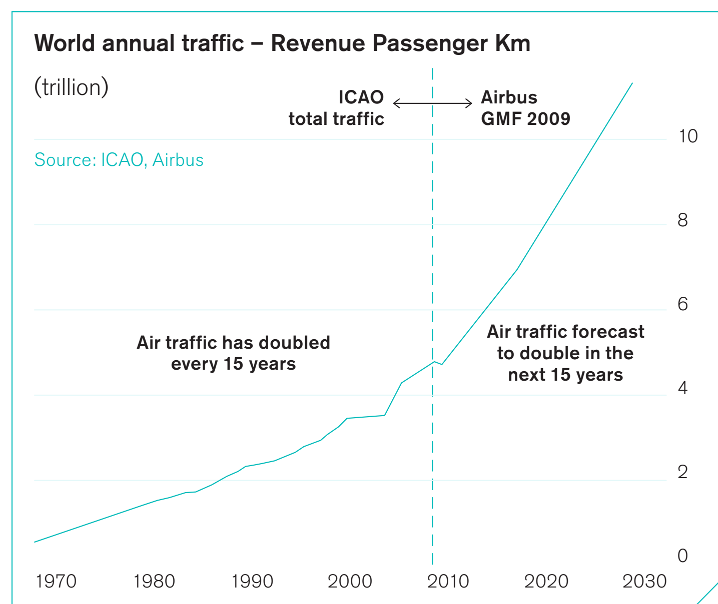
The Group's financing position, which has been reported earlier in this Operating and Financial Review, improved significantly in the year due to very strong free cash flow generation. Therefore, Senior is well placed to be able to withstand any further potential negative consequences that may arise from any residual global credit market issues.

Markets and customers

Long-term growth in demand, including participation in future development programmes 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 land based vehicle and industrial markets, where increasingly stringent legislation will ensure that long-term demand for the Group's products remains healthy. To ensure that the Group retains its position and is well placed to take advantage of new market growth opportunities, the senior management team has recently been strengthened through the recruitment of a Head of Business Development, a newly created role.

The Group maintains close relationships with its key customers in both Divisions. Innovative customer solutions and quality products delivered on time, fully in line with specifications, are critical components of customer value that ensure continued participation in existing and future development programmes, and these underpin the Group's long-term growth aspirations. Provision of superior customer value is a top priority within the Group.

The Group derived 59% of its sales in 2009 from the aerospace market with the most significant element attributable to the large commercial aircraft sector which accounted for 24% of Group sales. Whilst the commercial aerospace market is expected to be strong in the long term (driven by sustained growth in global passenger air miles), and build rates for wide-bodied commercial aircraft are anticipated to remain broadly stable in 2010, 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 well-balanced portfolio of aerospace customers, nearly all of whom are financially strong with the largest, Boeing, representing only 8% of 2009 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.

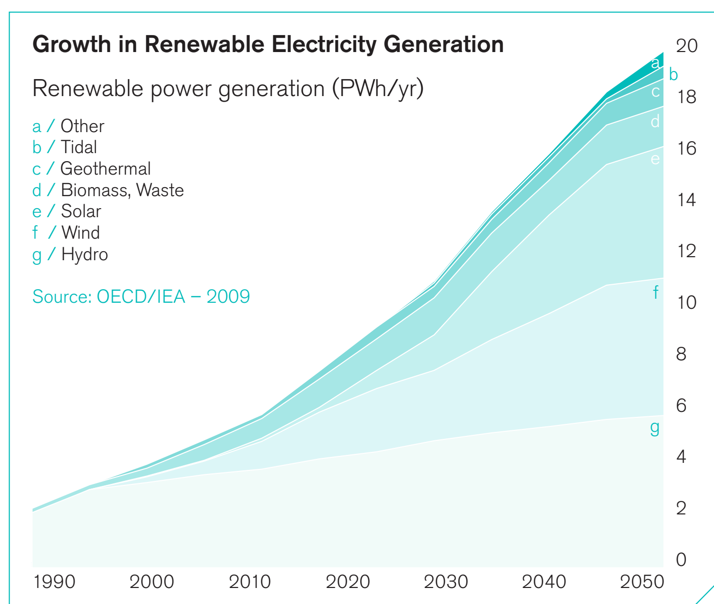
The Group's industrial markets are diverse and fragmented, with the largest single customer representing only 2% of 2009 Group sales. The failure of any single industrial customer is, therefore, unlikely to have a material effect on the Group.

The long-term potential economic viability of North American and European automotive manufacturers improved in 2009, but nevertheless remains uncertain, despite industry restructuring and significant recent government support. It is therefore possible that one of the larger US automotive manufacturers may again 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 as seen in the last year, 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 automotive manufacturer accounted for around 3% of 2009 Group sales, both to the manufacturer directly and/or to its supplier base.

Competitors

The Group operates in competitive market sectors. The aerospace supply base is today 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.

An additional threat relates to the increasing pressure, principally on the part of customers, to move the manufacture of certain aerospace components to operations in low-cost countries. In response, some years ago the Group set up an operation in Mexico and is actively engaged in new programme bids to expand this facility. Other low-cost country alternatives will also be considered at the appropriate time.



In the Flexonics Division, development of the Group's products is increasingly being driven by more stringent environmental and land vehicle emission legislation. The industrial markets in which the Group operates (50% of 2009 Divisional sales) are diverse both geographically and in nature, with engineering skills, technical qualifications and service levels being the key to competing successfully in these markets. Again, the markets are competitive but no single competitor represents a material threat to the Group. In the land vehicle markets, the Group's 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; the Group therefore maintains appropriate resources close to customers' locations in these cases. However, there are other land vehicle based products where competition is fiercer and price more the defining factor. Where this is the case, the Group is increasingly 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, whilst retaining commercial and engineering expertise close to the customers' locations.

Defined benefit pension plans

The Group operates a number of defined benefit pension plans, with the largest being a UK plan, as well as a number of geographically based defined contribution and government-sponsored arrangements. The primary liability for funding the UK defined benefit pension plan rests with the participating employer, Senior plc.

The Group's combined pension deficits at 31 December 2009 were £48.1m (31 December 2008 – £51.2m). The Group has experienced an increase in the combined deficits in recent years, principally due to underperformance in expected asset returns and adverse movements in discount rates applied to the plans' future liabilities, much of which is beyond the control of the Trustees of the plans.

The Group continues to work with the Trustees of the defined benefit pension plans to implement measures to reduce the level of volatility and risk in the plans, with the ultimate aim of eliminating the Group's pension deficit. The significant actions taken to date include the closure of all non-union plans to new members, increases in contribution rates, a cap on future increases in pensionable salary of 2% implemented in the UK in 2009, and implementation of liability-driven investment strategies in all defined benefit pension plans.

A 10-year funding plan was approved by the UK Pensions Regulator, based on the actuarial valuation of the UK pension plan undertaken in April 2007. Under this funding plan the Group is committed to contributing an additional £5m per annum above service cost for 10 years. However, given the Group's very strong cash generation in 2009, additional discretionary payments of £10m were made into this scheme. The Group also made additional voluntary contributions to the smaller US plans of approximately £3.2m in 2009 to help improve their funding positions.

Recruitment and retention of key employees

Capable, empowered and highly engaged individuals are a key asset of the business. There is a risk that the Group's performance will deteriorate if it is unable to attract and retain high quality key employees. The Group has had considerable recent success in attracting highly experienced senior executives from within the industry, in part attributable to the culture of the Group as described in the Operations and Business Model section of this Operating and Financial Review. The Group's commitment to training and development has also increased through the introduction of a management development programme. Senior management turnover ratios remain low, a further indication of success in this very important area.

Capital risk management

The Group manages its capital structure to safeguard its ability to continue as a going concern whilst 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. 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 2009 net debt was 1.3x the Group's level of EBITDA (31 December 2008 – 2.1x). 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 2009 EBITDA was 10.6x the level of net interest (31 December 2008 – 12.0x). Therefore, the Group currently has considerable funding headroom.

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 2009 was 55% (2008 – 99%). The decrease in 2009 is attributable to a combination of the strong free cash flow generation during the year and foreign exchange gains arising mainly from an appreciation in the value of the Pound Sterling against the US dollar.

Financial risk management

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

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

Interest rate risk management

The Group has a policy of maintaining approximately 60% of its borrowing costs at fixed interest rates. The Group generally borrows long-term in fixed rates but at times may borrow at floating rates and swap into fixed depending on credit market conditions. Occasionally a portion of fixed debt interest is swapped into floating rates. The combination of maintaining an acceptable balance of fixed and floating rate debt, and the Group's policy of borrowing in foreign currency in proportion to its generation of foreign currency earnings, provides an effective hedge against the impact of interest rate and foreign currency volatility on total interest costs.

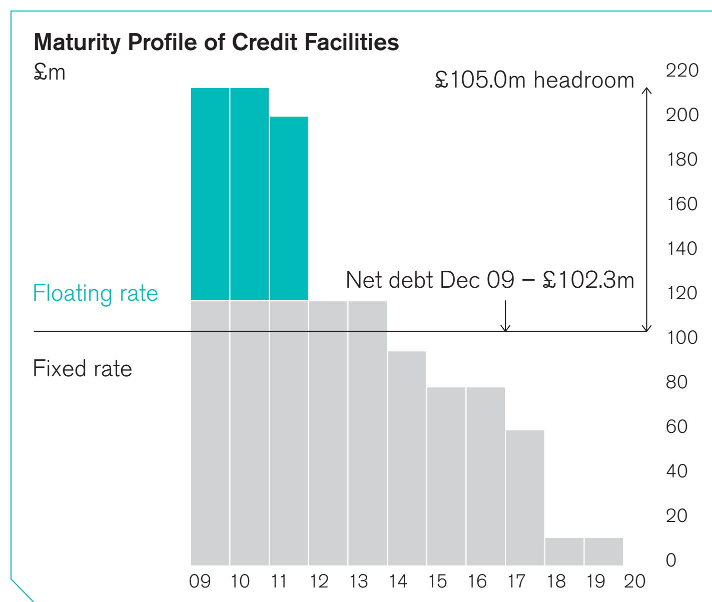
Credit risk management

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 leases of two buildings in the UK, which arose on the disposal of former Group owned subsidiaries in 2001 and 2004.

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 capacity planning and scenario analysis, to ensure that bank covenant and liquidity targets will be met. The Board also regularly assesses 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 ongoing global recession presents a potential risk to the Group's funding status. Those 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 Operating and Financial Review. In summary, the Group has had considerable success in 2009 in paying down its level of debt through effective cost controls, implementation of necessary workforce reductions and tight control over working capital and discretionary expenditure. As a result, the Group is currently in a well-funded position, with significant headroom under its committed borrowing facilities and no major renewal of borrowing facilities 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, should this 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.

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. Where commented on below, the 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 52% related to operations in the USA. 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 decided not to hedge this translation risk. In addition, the majority of assets are denominated in foreign currency, particularly in US dollars. In order to provide a hedge against volatility in the value of these assets compared to the Group's earnings, and hence provide a natural hedge against the Group's principal borrowing covenant (the ratio of net debt to EBITDA), the Group aims to borrow in foreign currencies in similar proportions to its generation of foreign currency EBITDA, where practical and economic. After taking account of these policies, a 10% appreciation (or depreciation) of the US dollar against the Pound Sterling would have increased (or decreased) 2009 Group operating profit by £4.4m and would have increased (or decreased) net equity by £13.7m.

Transaction risk

The Group has a number of transaction-related foreign currency exposures, particularly between the Euro and the South African Rand, and between the US dollar and the Pound Sterling. The Group seeks to hedge around 80% of transaction-related exposures for 15 months forward and applies 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, all transaction-related foreign currency exposures after hedging in existence at 31 December 2009 are immaterial.

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 2009 was 4,873 (2008 – 5,822). Of these 4,075 were in production-related roles, 56 in distribution, 307 in sales and 435 in administration. Senior is an international group operating in 11 countries. At the end of 2009 the Group employed a total of 4,764 people, with 49% located in North America, 15% in the United Kingdom, 21% in the rest of Europe and 15% in the Rest of the World.

Engineering capability and manufacturing technology

A key strength of the Group is its engineering capability and manufacturing technology. The Group possesses significant product design and manufacturing engineering capabilities, which are essential to support the development of precision components for customers and improve production processes to 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 2009 the Group spent £12.6m (2008 – £24.5m) on capital expenditure to strengthen the Group's manufacturing capability, as well as its production capacity. This expenditure was 0.6x the depreciation level (2008 – 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 12.3% of the shares of the Company. As at 31 December 2009, the Company's share price was 75.0p, giving it a market capitalisation of around £300m.

In respect of debt financing, at the end of 2009, the Group had committed borrowing facilities totalling £207.3m, of which £122.7m was being utilised. The Group held £20.4m in cash and hence net debt was £102.3m. The committed facilities at this time consisted of US$35m (£21.7m) of loan notes due in 2014, US$25m (£15.5m) of loan notes due in 2015, US$30m (£18.6m) of loan notes due in 2017, US$75m (£46.7m) of loan notes due in 2018, US$20m (£12.4m) of loan notes due in 2020, an £80.0m multi-currency revolving credit facility maturing in 2012 and a US$20m (£12.4m) bilateral facility maturing in 2011.

Corporate Social 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. 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.

Versatile / 535 / Senior Flexonics designed and manufactures an exhaust gas recycling cooler which helps Buhler Industries Inc.'s Versatile 535 tractor to comply with stringent 2010 US emissions regulations.

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 June 2008 Combined Code on Corporate Governance ("Combined Code").

Statement of Compliance with the Combined Code

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

Application of the Principles of the Combined Code

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

a) Directors

The Board is structured under a non-executive Chairman, and includes two executive Directors, and three other independent non-executive Directors, who were selected for appointment because of their wide industrial and commercial experience; prior to Mike Sheppard's retirement from the Board on 31 July 2009, the Board included three executive Directors. In addition, there is an Executive Committee, chaired by the Group Chief Executive, comprising 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 the running of the Board and the running of the Group's businesses.

The Board is responsible for strategic decisions affecting the Group, including the setting of commercial strategy and the 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 2009); in addition there were three meetings of the Audit Committee in 2009, together with six meetings of the Remuneration Committee, one meeting of the Nominations Committee and four meetings of the HSE Committee. There was full attendance at every Board meeting and Committee of the Board during the year with the exception noted on page 6. Other committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from all Committee meetings are available to the Board.

Procedures are in place to ensure that the Directors are properly briefed, so that 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 basis; social and ethical issues, the 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 planning. It also makes recommendations to the Board on all new Board appointments and re-appointments. The Committee, which consists entirely of non-executive Directors, is chaired by Martin Clark, and its composition is shown on page 6, 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 an appropriate external recruitment consultant. 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 the shortlisted 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 duties as a non-executive Director.

There were no new appointments to the Board in 2009.

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. Ian Much, in consultation with the 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 all members 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 of Association, Directors submit themselves for re-election at the Annual General Meeting following their appointment and thereafter at intervals of no more than three years. As Martin Clark has been a non-executive Director for a continuous period of nine years, he will submit himself for re-election on an annual basis.

b) Directors' remuneration

The Remuneration Report on pages 28 to 35 describes the Board's approach 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 auditor.

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 employees with an alternative channel of communication to resolve issues if they have a concern that the Chairman, Group Chief Executive or Group Finance Director have failed to resolve these, or where such contact is not 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 preliminary full-year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2009, the Company's non-executive Chairman also attended the preliminary full-year and interim results announcements to analysts, in March and August respectively. No shareholders requested a meeting with any non-executive Directors 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 makes constructive use of its 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 2009 were passed on a show of hands. Details of the proxy voting received by the Company for the AGM 2009 resolutions are set out in the table below.

The total issued share capital as at 27 February 2009 (the date of the Notice of the AGM 2009), was 398.3 million ordinary shares of 10 pence each.

The total number of proxy votes received for the AGM 2009 represented approximately 66.2% (2008 – 57.8%) 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 AGM 2010.

Proxy voting for the AGM 2009 resolutions

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	263,424,439	210,585	178,263	1,700	263,814,987
2. To approve Directors' Remuneration Report	259,961,317	618,021	185,354	3,050,295	263,814,987
3. To declare a Final Dividend	263,633,894	1,604	179,489	0	263,814,987
4. To re-elect Ian Much as a Director	263,348,693	247,620	213,777	4,897	263,814,987
5. To elect Simon Nicholls as a Director	263,290,531	293,782	226,777	3,897	263,814,987
6. To elect Michael Steel as a Director	263,341,121	236,588	231,777	5,501	263,814,987
7. To re-elect Deloitte LLP as auditor	263,333,089	94,441	247,977	139,480	263,814,987
8. To increase the authorised share capital	263,047,363	377,769	340,289	49,566	263,814,987
9. Authority to allot shares	261,941,142	1,568,269	240,506	65,070	263,814,987
10. Disapplication of pre-emption rights	263,148,244	349,051	242,706	74,986	263,814,987
11. Authority to buy back shares	263,452,994	94,098	209,849	58,046	263,814,987
12. To retain the 14-day notice period	262,117,820	1,453,512	236,289	7,366	263,814,987

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;
- overseeing the process for selecting the external auditor and making appropriate recommendations for its appointment;
- considering (if appropriate) the degree of any work undertaken by the external auditor for the Group other than the statutory audit;
- assessing annually the independence and objectivity of the external auditor, taking into account the provision, if any, of non-audit services;
- reviewing the half-year and annual Financial Statements before submission to the Board and reporting 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 effectiveness of the internal audit function, to consider the major findings of internal audit investigations and management's response, to ensure co-ordination between the Group and the external auditor 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. 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;
- the key aspects of the Group's operations, including corporate policies, Group financing, products and systems of internal control;
- the 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 roles 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 auditor 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 internal and external auditor 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 Annual Report 2008, and the Interim Report issued in August 2009, 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 auditor on the audit of the Annual Report 2008 and the work carried out on the Interim Report 2009;
- reviewed the effectiveness of the Group's risk management and internal control systems and disclosures made in the Annual Report 2008;
- reviewed and agreed the scope of the audit work to be undertaken by the external auditor;
- agreed the fees to be paid to the external auditor for the audit of the 2009 Accounts and review of the Interim Report 2009;
- reviewed its own effectiveness;
- carried out an evaluation of the performance of the external auditor;
- agreed a programme of work for the Group Internal Auditor; 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 Auditor

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 auditor's independence, objectivity and compliance with regulatory requirements.

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

The Audit Committee reviews the scope, cost and timing of the work of the external auditor, 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 auditor. In 2009, £0.2m (2008 – £0.2m) was paid in fees to the external auditor for non-audit work; these fees related 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 monitor the nature and level of such non-audit work, in order to balance the maintenance of objectivity and value for money.

To assess the effectiveness of the external auditor, the Committee reviewed the external auditor's performance during the year and its fulfilment of the agreed audit plan.

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

/ the changes in key external audit staff: a new Audit Partner took over the role by rotation in 2009, following completion of the audit of the 2008 Financial Statements. The new Audit Partner is located in a different geographic office to the previous Audit Partner;
/ a report from the external auditor describing the arrangements that had been made to identify, report and manage any conflicts of interest and to maintain their independence;
/ the overall extent of non-audit services provided by the external auditor; and
/ the FRC's Audit Inspection Unit public report on Deloitte LLP.

The Audit Committee is satisfied with the effectiveness and independence of the external auditor. As a consequence of its satisfaction with the results of the activities of the external auditor, the Audit Committee has recommended to the Board that Deloitte LLP is re-appointed.

Internal control

The Company has a well-established and ongoing process, which was in place for the full year and up to the date of these 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 strengthened during the year. The process continues to be aligned 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 Executive Committee. This information is presented to the Board for it to assess the effectiveness of the Group's risk management and internal control systems. 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 the Group's internal control systems, the Board takes into consideration the following:

/ that senior management of each business has devoted sufficient time to 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 had 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 included 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 co-ordinated the submission of Financial Integrity Declarations and entity-level control self-assessment questionnaires, a summary of which is reviewed by the Group Finance Director and reported to the Audit Committee with appropriate follow-up actions agreed;
/ the results of internal audit visits were reported to the Audit Committee, along with those from the external auditor; 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, relevant 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 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 auditor. The Chairman of the Audit Committee will be available at the AGM 2010 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
26 February 2010

The Directors present their Remuneration Report for the year ended 31 December 2009 in accordance with Regulation 11 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the 2008 Regulations") and the relevant provisions of the Listing Rules of the Financial Services Authority. The Report also describes how the Board has applied the Combined Code's principles in relation to Directors' Remuneration.

The 2008 Regulations require the external auditor 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 2008 Regulations.

The Remuneration Report has therefore been divided into separate sections for unaudited and audited information.

Unaudited Information

Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors. Ian Much (Chairman), David Best, Martin Clark and Michael Steel were members of the Committee throughout the year.

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 170 other senior managers. The Terms of Reference of the Remuneration Committee may be found on the Company's website. During 2009, the Committee met six times. There was full attendance at all of these meetings.

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 and other senior managers, the Remuneration 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. These performance-related elements are designed to align the Directors' 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 during the year, 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 2009 salaries and share plan awards of the executive Directors and senior managers.

a) Service agreements

Each executive Director has a service agreement providing for a rolling notice period 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 notice 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's appointment commenced in December 2005 for an initial three-year term. In December 2008, the Board extended 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 by 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 by the Company or non-executive Director on 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, for which he received and retained non-executive directorship fees of £35,000 in 2009.

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

In 2009, Mark Rollins' salary was £350,000. He was appointed to the role of Group Chief Executive in March 2008 on an annual salary of £320,000. Simon Nicholls' salary was £230,000. He was appointed Group Finance Director on 1 April 2008 and to the Board on 1 May 2008, with an annual salary of £220,000.

As a result of the annual review of the executive Directors' remuneration, the Remuneration Committee recommended that the base salaries for the executive Directors for 2010 remain unchanged from 2009.

The 2009 fees for the non-executive Directors, which shall also remain unchanged in 2010, 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), and Michael Steel – £35,000.

	Cash flow target		Earnings per share target		
	Interim %	Full year %	Internal target %	Year-on-year growth %	Total %
Maximum possible award for 2008	6.0	9.0	20.0	25.0	60.0
2008 bonus paid	6.0	9.0	20.0	25.0	60.0
Maximum possible award for 2009	10.0	15.0	20.0	20.0	65.0
2009 bonus paid	10.0	15.0	0.0	0.0	25.0

c) Annual performance bonus scheme

Under the annual performance bonus scheme, bonuses up to 65% (2008 – 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 internal targets in respect of underlying earnings per share and cash flow.

Given the importance of safeguarding the Group's cash position in the current economic environment, the Committee believes it was appropriate to amend the structure of the performance-related bonus scheme 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 earnings per share element of the bonus scheme was reduced by 5% in order to partially offset the increase to the cash flow target. Overall, the 2009 scheme provided a maximum bonus potential of 65% of salary (2008 – 60%).

The 2009 bonus award for the executive Directors delivered a bonus of 25% of salary as the Group exceeded both the Interim and Full-year maximum cash flow targets – Interim: £16.62m, Full-year: £40.18m. In the year, the Group reduced net debt by £72.2m. No bonus was delivered in relation to the earnings per share targets.

Given the difficult time faced by many of the Group's employees in 2009, Mark Rollins chose to waive, in full, his entitlement to his 2009 performance bonus. Following this decision, the Board decided to donate £87,500, an amount that Mark Rollins would have received as bonus had it not been waived, to charities chosen by the Group's employees. It is envisaged that the charitable donations will be made in the first half of 2010.

The above table provides details of the maximum possible awards for the executive Directors, together with details of the bonuses paid as a percentage of their salaries. 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 served as a Director of the Company throughout 2008, in addition to his role as Chief Executive of the Flexonics Division, his bonus for that year was 80% dependent on the operating profits and cash flow performance of the Flexonics Division and 20% on Group performance. In 2009, he earned a bonus of 26.6% of salary (2008 – 60.0%) consisting of 21.6% for Divisional performance and 5% for Group performance.

The structure of the annual performance-related bonus scheme in place for 2010 is unchanged from that of the 2009 scheme, although targets and thresholds have been updated.

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 Company, and to align their interests with those of the Company's shareholders.

The Company complies with the dilution guidelines contained within "Executive Remuneration – ABI Guidelines on Policies and Practices". At 31 December 2009, 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 7.12% of the issued ordinary share capital of the Company. At 31 December 2009, awards outstanding and shares issued in the previous 10 years under executive (discretionary) plans (the 1999 Plan and the 2005 LTIP) amounted to 3.48% 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 eligible to participate in the following share plans:

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

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 award worth up to 100% of annual salary (or 200% of salary in the case of recruitment) can be made to executive Directors and other senior managers. The awards made to the executive Directors in 2009 under the 2005 LTIP were limited to 40% of salary (2008 – 75% of salary for Mark Rollins and 100% of salary for Simon Nicholls upon his appointment). 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. For 2005 LTIP awards made prior to 2009, there were two performance conditions: total shareholder return ("TSR") performance and earnings per share ("EPS") growth targets as detailed below. In each case, performance is measured over a three-year performance period beginning on the first day of the financial year in which the award is made.

TSR Performance Condition

The vesting of one half of each of the awards granted in 2005, 2006 and 2007 has depended on the Company's TSR performance compared to that of the members of the FTSE Small Cap Index (excluding investment trusts).

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, 2009 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 vesting of the TSR-related half of the awards is determined on the following basis:

Ranking of Company's TSR against comparator group of companies	Vesting percentage – TSR half of an award
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 is averaged over three months prior to the start and end of the performance period.

EPS Performance Condition

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%

2009 LTIP award

When making the 2009 LTIP awards the Remuneration Committee concluded that, in the prevailing economic environment, the adoption of the EPS performance target (RPI + 5% to +12%pa) above the 2008 EPS was unrealistic and potentially demotivating to the recipients of the LTIP awards. The Committee therefore considered alternative performance conditions.

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.

The Remuneration Committee received independent advice from Hewitt New Bridge Street, consulted with major investors and shareholder representative bodies, and had regard to current best practice, when considering how best to retain and motivate senior executives.

For the 2009 LTIP award, the Remuneration Committee 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 was not to be implemented, the Committee restricted the maximum 2009 LTIP award to half that level. Having given due consideration to all the facts, the Committee made the actual 2009 LTIP awards to the executive Directors based on 40% of their salary.

2010 LTIP award

The Remuneration Committee is currently considering the 2010 LTIP awards. It continues to believe that the mixture of EPS- and TSR-related performance conditions provides the best 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.

Therefore, the Remuneration Committee has decided to reinstate the EPS-related performance condition over one half of the LTIP award, with the TSR-related condition applying to the other half. Given the uncertainty surrounding the outlook for UK inflation, the Remuneration Committee has given consideration to removing the RPI element of the EPS performance condition for the 2010 LTIP award. Having taken advice, and consulted major investors and shareholder representative bodies, the Committee has determined that the vesting of the EPS-related half of the 2010 LTIP award will be calculated on the following basis:

Growth in adjusted EPS over three-year performance period	Vesting percentage – EPS half of an award
Less than 10%	0%
10%	25%
25%	100%
Between 10% and 25%	Pro rata on a straight-line basis between 25% and 100%

The Remuneration Committee encourages Directors to own shares in the Company and, in support of this policy, it expects executive 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.

ii) 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 share option plans.

e) Retirement benefits

Mark Rollins' and Simon Nicholls' pension arrangements are provided by the Group's UK final salary pension plan and are based upon their pensionable salaries up to the HMRC "cap". Mark Rollins and Simon Nicholls both contribute 9% of salary up to the "cap". From 6 April 2006 (A-Day), the Group's UK pension plan adopted its own earnings "cap", which has been calculated on the same basis as the HMRC pre-A-Day "cap".

If the executive Directors and other senior UK managers do not wish to continue in the final salary section of the Group's UK pension plan, they are able to participate in the Senior plc Group Flexible Retirement Plan ("Senior GFRP"), a contract-based GPP arrangement with Standard Life. No salary cap would be applied in the calculation of Senior GFRP contribution rates for executive Directors. As an alternative to the provision of final salary or Senior GFRP pension benefits, executive Directors would be able to choose a salary supplement of 15% of uncapped salary.

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	2009 Total £000's	2008 Total £000's
Executive Directors					
Mark Rollins	**350**	–[(1)]	**16**	**366**	505
Simon Nicholls (from 1 April 2008)	**240**	**58**	**1**	**299**	260
Mike Sheppard (to 31 July 2009)	**132**	**35**	**10**	**177**	310
Graham Menzies (to 25 April 2008)	–	–	–	–	191
Non-executive Directors					
Martin Clark	**90**	–	–	**90**	90
David Best	**45**	–	–	**45**	45
Ian Much	**38**	–	–	**38**	38
Michael Steel (from 1 May 2008)	**35**	–	–	**35**	23
	930	**93**	**27**	**1,050**	1,462

(1) Mark Rollins chose to waive, in full, his entitlement to his 2009 performance bonus.

Bonuses as shown above are payable to the executive Directors under the annual performance-related 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. Mike Sheppard's emoluments have been stated on a time pro-rated basis for the period to 31 July 2009, when he retired from the Board. The balance of his 2009 emoluments are included within the senior managers' emoluments table on page 32 as he remains Chief Executive of the Flexonics Division.

Aggregate remuneration

	2009 £000's	2008 £000's
Emoluments	**1,050**	1,462
Gains on exercise of share options and incentives (see Awards under the Senior plc LTIP)	**79**	3,203
Money purchase pension contributions	**9**	8
Total	**1,138**	4,673

In addition to setting the remuneration of the executive Directors, the Remuneration Committee oversees the remuneration of more than 170 other senior managers. The table below shows the cumulative benefits of Mike Sheppard (from 1 August 2009) together with 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 Divisional Director roles, created in 2008, have been included in full for 2008.

Senior managers' emoluments

	2009 £000's	2008 £000's
Short-term employee benefits	**1,513**	1,501
Post-employment benefits	**137**	99
Share-based payments	**142**	192
Total	**1,792**	1,792

Directors' Interests

At 31 December 2009 the Directors who had interests (which are all beneficial), including family interests, in the 10 pence ordinary shares of the Company were as follows:

Shares

	Shares 2009	Shares 2008
Mark Rollins	**550,000**	450,000
Simon Nicholls	**20,000**	20,000
Martin Clark	**90,000**	90,000
David Best	**40,195**	40,195
Ian Much	**20,000**	20,000
Michael Steel	**20,000**	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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Awards under the Senior plc 2005 LTIP

	Date of award	At 31.12.08	Awarded 2009	Vested 2009	Date of vesting	Market price on vesting 2009	Gains on vesting 2009	Forfeited 2009	Lapsed 2009	At 31.12.09	Maturity date
Mark Rollins	15.03.06	146,706		138,065	16.03.09	£0.2971	£41,019		8,641	–	Mar 09
	08.03.07	130,435								130,435	Mar 10
	13.03.08	252,631								252,631	Mar 11
	12.03.09		491,228							491,228	Mar 12
Simon Nicholls	02.04.08	217,821								217,821	Mar 11
	12.03.09		322,807							322,807	Mar 12
Mike Sheppard	15.03.06	134,572		126,645	16.03.09	£0.2971	£37,626		7,927	–	Mar 09
(to 31 July 2009)	08.03.07	104,571								104,571	Mar 10
	13.03.08	133,785								133,785	Mar 11
	12.03.09		361,702							361,702	Mar 12

Awards under the Senior plc Savings-Related Share Option Plan

	Date of grant	At 31.12.08	Granted 2009	Exercised 2009	Date of exercise /vesting	Market price on exercise 2009	Gains on exercise 2009	Forfeited 2009	Lapsed 2009	At 31.12.09	Exercise period/ maturity date	Option price pence
Simon Nicholls	08.04.09		27,376							27,376	6 months to 31.12.12	25.00p

Details of the share schemes referred to in the above table may be found on pages 30 and 31.

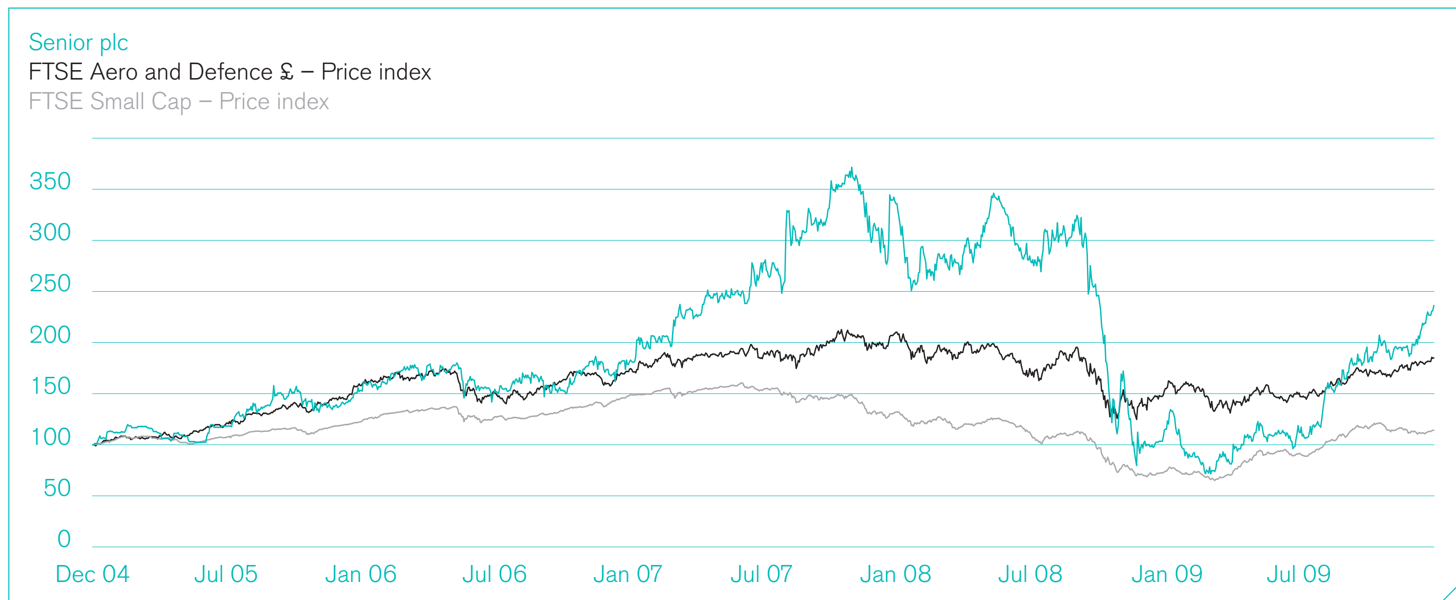
The Company's share price (adjusted where applicable for the effect of the rights issue) on the dates of the awards made under the 2005 LTIP are as follows:

Year of grant	15.03.06	08.03.07	09.08.07	13.03.08	02.04.08	12.03.09
Market price of Company's shares (on date of award)	65.86p	80.75p	104.00p	99.75p	103.50p	28.50p

At 31 December 2009, 1,044,859 ordinary shares (2008 –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 2009 was £783,644 (2008 – £407,495). 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.

The closing middle market price of the shares at 31 December 2009 was 75.00p (2008 – 39.00p). During 2009, the shares traded in the range of 24.25p to 75.00p.



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

Directors' Pension Entitlements

At 31 December 2009 the Directors had accrued entitlements under defined benefit plans as follows:

	Gross increase in accrued pension (A) £000's	Increase in accrued pension net of inflation (B) £000's	Total accrued pension at 31.12.09 (C) £000's	Value of net increase in accrual over period (D) £000's	Change in transfer value during period (E) £000's	Transfer value of accrued pension at 31.12.09 (F) £000's	Transfer value of accrued pension at 31.12.08 (G) £000's
Mark Rollins	**5**	**5**	**37**	**56**	**64**	**488**	413
Simon Nicholls	**4**	**4**	**7**	**37**	**36**	**80**	33
Mike Sheppard	**4**	**2**	**53**	**7**	**22**	**149**	142
Total	**13**	**11**	**97**	**100**	**122**	**717**	588

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 2009.

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 2009 have been calculated in accordance with the Regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) Regulations 1996. Where applicable, the transfer values as at 31 December 2008 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 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.

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

7. Transfer values are rounded to the thousand pounds.

8. Mike Sheppard's pension benefit will be payable in US dollars. For the disclosures in respect of Mike Sheppard, an exchange rate of £1:US$1.56 has been used for figures relating to increases in accrued pension over 2009 and £1:US$1.61 for year-end figures, and US consumer price inflation, where relevant, of 2.7% over 2009. Due to the strengthening of the Pound Sterling against the US dollar over 2009, in Pound Sterling terms the total accrued pension (C) for Mike Sheppard has reduced by £2,214 p.a.

   Mike Sheppard ceased to be a member of the Board from 31 July 2009, however the above table shows his pension benefits for the full year. The figures quoted above for Mike Sheppard are in respect of the defined benefit element of his pension only. In addition, he has a defined contribution arrangement, to which he paid US$7,900 and the Company paid US$13,600 during the period to 31 July 2009.

Shareholder Approval for the Remuneration Report

The Company is proposing an ordinary resolution for its shareholders to approve this Remuneration Report at the AGM 2010 to be held on 23 April 2010.

This Report was approved by the Board on 26 February 2010 and signed on its behalf by:

Ian Much
Chairman of the Remuneration Committee

Organisation and Responsibilities

Senior plc is committed to maintaining the highest standards of ethics and integrity in the conduct of its business throughout the world. In doing so, it seeks to take account of all of its stakeholders, including shareholders, employees, customers, suppliers, governments, as well as the environment.

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. 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.

All members of the Board and a number of Group Executive Officers visit the Group's operations each year; these visits provide a valuable opportunity to discuss and reinforce the Group's commitment to health and safety performance. The Group endeavours to ensure that all Executive Officers visiting a business are briefed on the relevant HSE matters and include the subject within their agendas discussing activity, performance and improvement plans.

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 reporting structures in place 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 on as part of the Group's risk management process, as described in the Corporate Governance Report.

All of the Group's operations are expected to adopt local policies in keeping with the Group's corporate social responsibility principles and policies outlined below, and to make arrangements to put them into practice.

Principles

It is a policy of the Board to create shareholder value in an ethically 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. Senior plc's Code of Business Conduct (the "Code") applies to Senior plc and to all of its subsidiary operations; additional policies and guidelines, for example on health and safety matters, supplement the Code. All employees of the Group are required to follow the principles in the Code when performing their day-to-day duties or where they are representing Senior. A copy of the Code is issued to employees, and to agents acting on behalf of the Group, who are similarly required to abide by it.

Policies

a) Business ethics

The Code of Business Conduct outlined above promotes a commitment to maintaining the highest standard of ethics and integrity. This Code includes requirements covering specifically: conflicts of interest, business gifts, and bribery and corruption. Senior plc does not permit its operations to make contributions to political parties or organisations, or to candidates standing for public office.

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

Group policy is that employment-related decisions are based on relevant aptitudes, skills and abilities, and promote a policy of equal opportunity in employment, without unlawful consideration of sex, race, nationality, age, disability, religion or any other category protected by law. In the event of employees becoming disabled, the Group's aim is to ensure continued employment where possible, and to arrange appropriate training and career development.

b) Health, safety and the environment

Health and safety

The Group operates a Health, Safety & Environment ("HSE") Committee, as outlined on page 6; its Terms of Reference can be found on the Senior plc website. The HSE Committee 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 health and safety performance of all of the Group's operations is also reviewed by the Senior plc Board of Directors throughout the year.

The HSE Committee produced a Group Environment, Health and Safety Charter ("the Charter") to guide its operations. The Charter incorporates a set of principles and practices that each operation should adopt, and establishes minimum standards and defines core programmes that each entity must operate. These principles form the basis of the HSE internal audit programme under which each operation is regularly reviewed.

The Board and Executive Committee, 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. For example, having identified a disproportionate amount of musculoskeletal injuries that were occurring at one operation, local management incorporated an ergonomics initiative into its business plan; whereas another operation introduced a programme of measures to reduce the levels of airborne contaminants that its employees were exposed to.

Improving HSE performance continues to be a priority for the Group, and the past year 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 alterations to workstations; and
- improvements have been made to methods of internal communication and knowledge sharing, with the enhancement of the Group's HSE intranet for hosting tools and templates, incident alerts and best practices.

The Group maintains a strong focus on identifying and reducing risks within its manufacturing processes, and has an ongoing risk assessment programme at all operations; this programme is aimed at identifying and reducing risks at an early stage before an accident can occur.

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

Health and safety performance indicators
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 third consecutive year this has been exceeded, with the DACR falling 17% from 1.94 in 2008 to 1.61 in 2009. Since 2006, the number of accidents incurring absence has been reduced by 42%.

Since the Group's HSE initiative was launched in 2006 the Group has seen significant year-on-year reductions in the number and severity of accidents occurring. In 2010, the Group will continue to focus on reducing the frequency and severity of the main injury types experienced, namely lacerations and strains, by further improving workplace ergonomics and enhancing the safety and efficiency of tasks.

The environment
Many of the Group's products help to improve the environmental impact 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 to reduce environmental impact, principally through reduced carbon emissions in aerospace, land vehicle and industrial markets. This has been done by way of reducing fossil fuel consumption, engine exhaust emissions, noise and the use of raw materials.

The Group's positive impact on the environment is described above; its potential negative 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; solvent and VOC releases. The management of potential environmental impacts is undertaken in conformity with local regulatory requirements. In addition, each operation considers the possible environmental impact of new products and processes, and the Board considers environmental issues during acquisitions and divestments, as described above.

Environmental impact performance indicators
Outlined below are details of the Group's environmental impact performance; this data should be considered in the light of the environmental benefits achieved by many of its products.

i. Waste
In 2009 the level of recycling improved compared to prior years as a result of ISO 14001 initiatives, with several operations finding alternative uses for materials previously sent to landfill, and introducing new technology to treat liquid waste on-site.

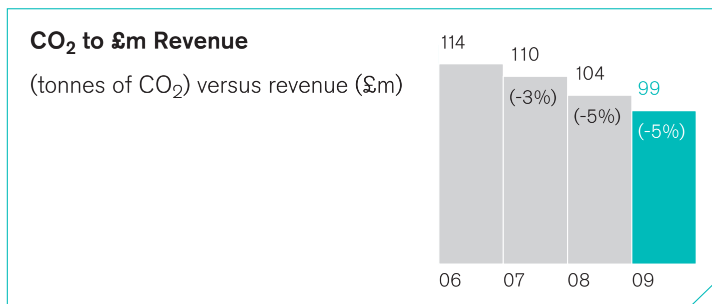
The total amount of waste generated by the Group increased in 2009 to 15,074 tonnes (2008: 13,075 tonnes), however, 60% of this related to metals and packaging which was recycled.

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 for these processes, for example by reducing the flow rates of cleaning lines, recycling rinse water, and substituting air for water on equipment cooling, Senior reduced its water consumption in 2009 by 30% to 251 megalitres (2008 – 367 megalitres).

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; however, these 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. In 2009 the Group emitted 99 tonnes of CO_2 for each £1m of revenue (2008: 104 tonnes). This represents a reduction of 13% from the 2006 level and indicates that the Group remains on track to achieve its original target as planned in 2010. The Group's main sources of CO_2 emissions during the year were: electricity consumption (40,069 tonnes) and natural gas consumption (9,868 tonnes).



Regulatory compliance

There were no significant regulatory breaches reported in 2009. As a result of the 12 regulatory audits conducted within the Group's businesses during the year, there was one minor citation which has now been closed.

Audit and verification

All operations are audited by the Group HSE Manager, who measures performance against the Charter, and issues recommendations for improvement. The operations incorporate these recommendations into their HSE plans and report progress against audit findings monthly. The 25 operations that operate a formalised HSE management programme (2008: 23) undergo an additional annual audit, ensuring compliance with local regulation and good management practice.

In addition to the HSE audits, each operation undergoes a property risk management survey by an independent specialist, typically every two years. The results of both of these audit programmes demonstrated a substantial improvement at each operation during 2009.

c) Stakeholder relations

The Group's operations are encouraged to form close and long-term relationships with their stakeholders, particularly their customers, suppliers and employees. Generally, these relationships are managed at a local level, with Divisional support. 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. The management of each operation is also aware of the importance of being a good neighbour in its community and is encouraged to build relationships with local organisations; an example of this is Senior Aerospace AMT's fund-raising activities for its local community in 2009. Senior Aerospace AMT ("AMT") has a long-standing relationship with the United Way of Snohomish County, USA. United Way is a non-profit-making organisation that organises fund-raising events to help those in need. AMT's employees volunteer their time, money and efforts each year to help those less fortunate within the community. In 2009, AMT's campaign raised over US$113,000 in total for its local community; 74% of AMT employees participated in the campaign and donated over US$83,500, with an additional US$30,000 donated by the business itself. The campaign was a huge success and serves to demonstrate the commitment that AMT and the Group have towards supporting local communities.

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

Company law requires the Directors to prepare such Financial Statements for each financial year. Under the law the Directors are required to prepare Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company Financial Statements under IFRS as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are 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; and
/ make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' Responsibility Statement

We confirm that, 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 that they face.

By order of the Board

Mark Rollins
Group Chief Executive
26 February 2010

Simon Nicholls
Group Finance Director
26 February 2010

Independent Auditor's Report to the Members of Senior plc

We have audited the Financial Statements of Senior plc for the year ended 31 December 2009 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related Notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 Auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement contained within the Operating and Financial Review in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Gregory Culshaw (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading
United Kingdom
26 February 2010

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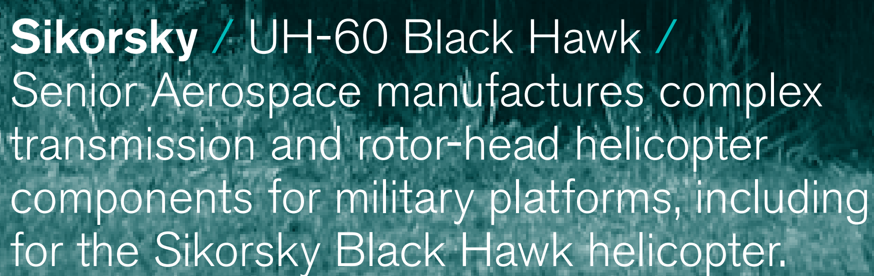
Other Information



Sikorsky / UH-60 Black Hawk /
Senior Aerospace manufactures complex transmission and rotor-head helicopter components for military platforms, including for the Sikorsky Black Hawk helicopter.

Consolidated Income Statement / For the year ended 31 December 2009

	Notes	**Year ended 2009 £m**	Year ended 2008 £m
Continuing operations			
Revenue	3	**540.1**	562.4
Trading profit	5	**61.1**	59.8
Loss on sale of fixed assets		**(0.1)**	–
Operating profit[(1)]		**61.0**	59.8
Investment income	7	**1.2**	2.7
Finance costs	8	**(12.6)**	(11.2)
Profit before tax[(2)]		**49.6**	51.3
Tax	10	**(10.6)**	(12.1)
Profit for the period	5	**39.0**	39.2
Attributable to:			
Equity holders of the parent		**39.0**	39.2
Earnings per share			
Basic	12	**9.79p**	9.92p
Diluted	12	**9.58p**	9.78p
[(1)] Adjusted operating profit	9	**59.4**	64.5
[(2)] Adjusted profit before tax	9	**48.0**	56.0

Consolidated Statement of Comprehensive Income / For the year ended 31 December 2009

	Year ended 2009 £m	Year ended 2008 £m
Profit for the period	**39.0**	39.2
Other comprehensive income:		
Gains/(losses) on cash flow hedges during the period	**5.1**	(9.0)
Reclassification adjustments for losses included in profit or loss	**1.7**	3.2
Gains/(losses) on cash flow hedges	**6.8**	(5.8)
Gains/(losses) on revaluation of financial instruments	**8.0**	(44.4)
Exchange differences on translation of foreign operations	**(20.6)**	59.9
Actuarial losses on defined benefit pension schemes	**(20.0)**	(15.0)
Other comprehensive income	**(25.8)**	(5.3)
Tax relating to components of other comprehensive income	**4.4**	0.5
Other comprehensive income for the period, net of tax	**(21.4)**	(4.8)
Total comprehensive income for the period	**17.6**	34.4
Attributable to:		
Equity holders of the parent	**17.6**	34.4

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

	Notes	**Group Year ended 2009 £m**	Group Year ended 2008 £m	Group Year ended 2007 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Non-current assets						
Goodwill	13	**169.3**	184.0	114.3	**–**	–
Other intangible assets	14	**11.0**	17.6	11.9	**–**	–
Investments in subsidiaries	15	**–**	–	–	**179.0**	179.0
Property, plant and equipment	16	**118.0**	138.4	93.6	**0.1**	0.1
Deferred tax assets	22	**0.2**	0.4	0.1	**–**	–
Trade and other receivables	19	**0.6**	3.3	3.5	**58.4**	48.2
Total non-current assets		**299.1**	343.7	223.4	**237.5**	227.3
Current assets						
Inventories	17	**65.0**	99.6	79.4	**–**	–
Construction contracts	18	**0.5**	1.5	2.9	**–**	–
Trade and other receivables	19	**79.1**	92.7	78.7	**61.5**	58.3
Cash and cash equivalents	32c	**20.4**	11.9	8.7	**2.5**	1.1
Total current assets		**165.0**	205.7	169.7	**64.0**	59.4
Total assets		**464.1**	549.4	393.1	**301.5**	286.7
Current liabilities						
Trade and other payables	24	**95.6**	151.8	92.5	**68.5**	4.0
Current tax liabilities		**4.6**	8.0	9.0	**–**	–
Obligations under finance leases	23	**0.2**	0.2	0.2	**–**	–
Bank overdrafts and loans	20	**1.1**	1.2	41.5	**–**	1.4
Total current liabilities		**101.5**	161.2	143.2	**68.5**	5.4
Non-current liabilities						
Trade and other payables	24	**–**	–	–	**–**	–
Bank and other loans	20	**120.3**	149.6	58.3	**114.9**	139.1
Retirement benefit obligations	35	**48.1**	51.2	36.3	**39.6**	37.3
Deferred tax liabilities	22	**7.8**	8.8	3.3	**–**	–
Obligations under finance leases	23	**1.1**	1.5	1.3	**–**	–
Others		**0.5**	0.9	0.8	**–**	–
Total non-current liabilities		**177.8**	212.0	100.0	**154.5**	176.4
Total liabilities		**279.3**	373.2	243.2	**223.0**	181.8
Net assets		**184.8**	176.2	149.9	**78.5**	104.9
Equity						
Issued share capital	25	**39.9**	39.8	39.1	**39.9**	39.8
Share premium account	26	**12.1**	12.0	11.3	**12.1**	12.0
Equity reserve	27	**1.9**	1.7	1.6	**1.9**	1.7
Distributable reserve	28	**19.4**	19.4	19.4	**19.4**	19.4
Hedging and translation reserve	29	**1.6**	6.3	(4.4)	**(0.3)**	(0.3)
Retained earnings	30	**111.3**	98.4	84.3	**6.9**	33.7
Own shares	31	**(1.4)**	(1.4)	(1.4)	**(1.4)**	(1.4)
Equity attributable to equity holders of the parent		**184.8**	176.2	149.9	**78.5**	104.9
Total equity		**184.8**	176.2	149.9	**78.5**	104.9

The Financial Statements of Senior plc (registered number 282772) were approved by the Board of Directors and authorised for issue on 26 February 2010. They were signed on its behalf by:

Martin Clark, Director Simon Nicholls, Director

a) Group

	All equity is attributable to equity holders of the parent							
	Issued share capital £m	Share premium account £m	Equity reserve £m	Distributable reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1 January 2008	39.1	11.3	1.6	19.4	(4.4)	84.3	(1.4)	149.9
Profit for the year 2008	–	–	–	–	–	39.2	–	39.2
Losses on cash flow hedges	–	–	–	–	(5.8)	–	–	(5.8)
Losses on revaluation of financial instruments	–	–	–	–	(44.4)	–	–	(44.4)
Exchange differences on translation of foreign operations	–	–	–	–	59.9	–	–	59.9
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(15.0)	–	(15.0)
Tax relating to components of other comprehensive income	–	–	–	–	1.0	(0.5)	–	0.5
Total comprehensive income for the period	–	–	–	–	10.7	23.7	–	34.4
Issue of share capital	0.7	0.7	(0.1)	–	–	–	–	1.3
Share-based payment charge	–	–	0.9	–	–	–	–	0.9
Transfer to retained earnings	–	–	(0.7)	–	–	0.7	–	–
Dividends paid	–	–	–	–	–	(10.3)	–	(10.3)
Balance at 31 December 2008	39.8	12.0	1.7	19.4	6.3	98.4	(1.4)	176.2
Profit for the year 2009	–	–	–	–	–	39.0	–	39.0
Gains on cash flow hedges	–	–	–	–	6.8	–	–	6.8
Gains on revaluation of financial instruments	–	–	–	–	8.0	–	–	8.0
Exchange differences on translation of foreign operations	–	–	–	–	(20.6)	–	–	(20.6)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(20.0)	–	(20.0)
Tax relating to components of other comprehensive income	–	–	–	–	1.1	3.3	–	4.4
Total comprehensive income for the period	–	–	–	–	(4.7)	22.3	–	17.6
Issue of share capital	0.1	0.1	(0.1)	–	–	–	–	0.1
Share-based payment charge	–	–	0.8	–	–	–	–	0.8
Tax relating to share-based payments	–	–	–	–	–	0.5	–	0.5
Transfer to retained earnings	–	–	(0.5)	–	–	0.5	–	–
Dividends paid	–	–	–	–	–	(10.4)	–	(10.4)
Balance at 31 December 2009	**39.9**	**12.1**	**1.9**	**19.4**	**1.6**	**111.3**	**(1.4)**	**184.8**

b) Company

	All equity is attributable to equity holders of the Company							
	Issued share capital £m	Share premium account £m	Equity reserve £m	Distributable reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1January 2008	39.1	11.3	1.6	19.4	(0.6)	56.7	(1.4)	126.1
Loss for the year 2008	–	–	–	–	–	(3.4)	–	(3.4)
Losses on cash flow hedges	–	–	–	–	(0.3)	–	–	(0.3)
Exchange differences on translation of foreign operations	–	–	–	–	0.6	–	–	0.6
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(10.0)	–	(10.0)
Total comprehensive income for the period	–	–	–	–	0.3	(13.4)	–	(13.1)
Issue of share capital	0.7	0.7	(0.1)	–	–	–	–	1.3
Share-based payment charge	–	–	0.9	–	–	–	–	0.9
Transfer to retained earnings	–	–	(0.7)	–	–	0.7	–	–
Dividends paid	–	–	–	–	–	(10.3)	–	(10.3)
Balance at 31 December 2008	39.8	12.0	1.7	19.4	(0.3)	33.7	(1.4)	104.9
Profit for the year 2009	–	–	–	–	–	3.4	–	3.4
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(20.3)	–	(20.3)
Total comprehensive income for the period	–	–	–	–	–	(16.9)	–	(16.9)
Issue of share capital	0.1	0.1	(0.1)	–	–	–	–	0.1
Share-based payment charge	–	–	0.8	–	–	–	–	0.8
Transfer to retained earnings	–	–	(0.5)	–	–	0.5	–	–
Dividends paid	–	–	–	–	–	(10.4)	–	(10.4)
Balance at 31 December 2009	**39.9**	**12.1**	**1.9**	**19.4**	**(0.3)**	**6.9**	**(1.4)**	**78.5**

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	Notes	**Group Year ended 2009 £m**	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Net cash from/(used in) operating activities	32a	**69.8**	74.6	**(23.5)**	(14.3)
Investing activities					
Interest received		**2.6**	1.7	**6.7**	7.5
Deferred consideration received		**0.5**	0.1	**–**	–
Proceeds on disposal of property, plant and equipment		**0.3**	0.6	**–**	–
Purchases of property, plant and equipment		**(12.3)**	(23.8)	**(0.1)**	–
Purchases of intangible assets		**(0.3)**	(0.7)	**–**	–
Acquisition of Capo Industries		**–**	(44.1)	**–**	–
Acquisition of Sterling Machine		**–**	0.4	**–**	–
Net cash (used in)/from investing activities		**(9.2)**	(65.8)	**6.6**	7.5
Financing activities					
Dividends paid		**(10.4)**	(10.3)	**(10.4)**	(10.3)
Repayment of borrowings		**(20.0)**	(85.9)	**(10.5)**	(85.9)
Repayments of obligations under finance leases		**(0.2)**	(0.2)	**–**	–
Share issues		**0.1**	1.3	**0.1**	1.3
New loans raised		**4.5**	103.4	**–**	93.7
Net loans repaid by subsidiaries		**–**	–	**40.8**	4.0
Net cash (outflow)/inflow on forward contracts		**(25.2)**	(13.0)	**(0.3)**	4.0
Net cash (used in)/from financing activities		**(51.2)**	(4.7)	**19.7**	6.8
Net increase in cash and cash equivalents		**9.4**	4.1	**2.8**	–
Cash and cash equivalents at beginning of period		**10.7**	4.9	**(0.3)**	(0.3)
Effect of foreign exchange rate changes		**(0.8)**	1.7	**–**	–
Cash and cash equivalents at end of period	32c	**19.3**	10.7	**2.5**	(0.3)

1. General Information

Senior plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 88. 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 22.

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 22. The Directors have, at the time of approving these Financial Statements, a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these Financial Statements.

In the current financial year, the Group has adopted IFRS 8 "Operating Segments", IAS 1 (Revised) "Presentation of Financial Statements", IFRS 2 (Amendment) "Share-based Payment Vesting Conditions and Cancellations", IAS 23 (Revised) "Borrowing Costs", IFRS 7 (Amendment) "Improving Disclosure about Financial Instruments" and IFRIC 18 "Transfers of Assets from Customers".

IFRS 8 replaces IAS 14 "Segment Reporting" and requires segment information to be presented on the same basis as that used for internal reporting purposes, identifying the components of the Group that are regularly reviewed by the Group's Executive Committee to allocate resources to the segments and to assess their performance. Adoption of IFRS 8 has not led to a change in the Group's reportable segments.

IAS 1 (Revised) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, Statements of Changes in Equity have been included in the primary statements, showing changes in each component of equity for each period presented.

IFRS 2 (Amendment) clarifies that for share-based payments, vesting conditions are service and performance conditions only and that all cancellations of awards, whether by the entity or by other parties, should receive the same accounting treatment. These do not represent a material impact on the Group's Financial Statements.

IAS 23 (Revised) removes the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset and instead requires these costs to be capitalised as part of the cost of that asset. Whilst this is an accounting policy change for the Group, it does not represent a material impact on the Group's Financial Statements.

IFRS 7 (Amendment) requires enhanced disclosures about fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these enhanced disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

IFRIC 18 "Transfers of Assets from Customers" addresses the accounting by recipients for transfers of property, plant and equipment from customers. It concludes that when property, plant and equipment meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of transfer, with the credit recognised in accordance with IAS 18 "Revenue". This interpretation does not represent a material impact on the Group's Financial Statements.

The following Standards and Interpretations are also effective from the current financial year, but currently do not impact the Group's Financial Statements: IFRS 1 (Amendment)/IAS 27 (Amendment) "Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate"; IAS 32 (Amendment)/IAS 1 (Amendment) "Puttable Financial Instruments and Obligations Arising on Liquidation"; IAS 39 (Amendment)/IFRS 7 (Amendment) "Reclassification of Financial Assets"; Improvements to IFRS – as published in May 2008; and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation". "Embedded Derivatives" (Amendments to IFRIC 9 and IAS 39), IFRIC 13 "Customer Loyalty Programmes" and IFRIC 15 "Agreements for the Construction of Real Estate" are currently 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) First Time Adoption of Financial Reporting Standards. Effective for periods commencing on or after 1 July 2009. Endorsed by the EU.

IFRS 1 (Amendment) Additional Exemptions for First-time Adopters. Effective for periods commencing on or after 1 January 2010.

IFRS 1 (Amendment) Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. Effective from 1 July 2010.

IFRS 2 (Amendment) Group Cash-settled Share-based Payment Transactions. Effective for periods commencing on or after 1 January 2010.

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

IFRS 9 Financial Instruments. Effective for periods commencing on or after 1 January 2013.

IAS 24 Related Party Disclosures. Effective for periods commencing on or after 1 January 2011.

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

2. Significant Accounting Policies continued

IAS 32 (Amendment) Classification of Rights Issues. Effective for periods commencing on or after 1 February 2010. Endorsed by the EU.

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

Improvements to IFRS – as published in April 2009. Effective dates vary.

IFRIC 14 (Amendment) Prepayments of a Minimum Funding Requirement. Effective for periods commencing on 1 January 2011.

IFRIC 17 Distributions of Non-cash Assets to Owners. Effective for periods commencing on or after 1 July 2009. Endorsed by the EU.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. Effective for periods commencing on or after 1 July 2010.

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 2006. 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.

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.

2. Significant Accounting Policies continued

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 it is probable that they will be recovered from the customer.

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

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

Leasing

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

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

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

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

Foreign currencies

Transactions in currencies other than the functional currency 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 at 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 on the relevant balance sheet date.

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

	Average rates 2009	Average rates 2008	**Year-end rates 2009**	Year-end rates 2008
US dollar	**1.56**	1.85	**1.61**	1.44
Euro	**1.12**	1.26	**1.13**	1.03

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 before investment income and finance costs relating to external borrowings and retirement benefit obligations.

Retirement benefit costs

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

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

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.

2. Significant Accounting Policies continued

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 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 Group's taxable profit nor its accounting profit.

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

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent 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 the 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.

2. Significant Accounting Policies continued

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

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

Financial instruments

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

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, as appropriate.

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 Policies 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.

2. Significant Accounting Policies continued

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.

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 are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. They are not discounted to present value if the effect is not material.

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 for the expected cost for warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products.

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.

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 2009 was £169.3m (2008 – £184.0m). 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 2009 of intangible assets in respect of customer relationships acquired was £9.5m (2008 – £15.7m).

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 2009 was £4.6m (2008 – £8.0m) and £7.6m (2008 – £8.4m), 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 2009 was a liability of £48.1m (2008 – £51.2m). Further details on these estimates are set out in Note 35.

3. Revenue

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

	Year ended 2009 £m	Year ended 2008 £m
Sale of goods	**532.3**	551.2
Revenue from construction contracts	**7.8**	11.2
	540.1	562.4

4. Segment Information

The Group reports its segment information as two operating Divisions according to the market segments they serve, Aerospace and Flexonics. For management purposes, the Aerospace Division is managed as two sub-divisions, Aerostructures and Fluid Systems, in order to enhance management oversight; however, these are aggregated as one reporting segment in accordance with IFRS 8. The Flexonics Division is managed as a single division.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2 and sales between segments are carried out at arm's length. Adjusted operating profit, as described in Note 9, is the key measure reported to the Group's Executive Committee for the purpose of resource allocation and assessment of segment performance. Investment income, finance costs and tax are not allocated to segments, as this type of activity is driven by the central tax and treasury function.

Segment assets include directly attributable computer software assets, property, plant and equipment, and working capital assets. Goodwill, intangible customer relationships, cash, deferred and current tax and other financial assets (except for working capital) are not allocated to segments for the purposes of reporting financial performance to the Group's Executive Committee.

Segment liabilities include directly attributable working capital liabilities. Debt, finance leases, retirement benefit obligations, deferred and current tax and other financial liabilities (except for working capital) are not allocated to segments for the purposes of reporting financial performance to the Group's Executive Committee.

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

	Aerospace Year ended 2009 £m	**Flexonics Year ended 2009 £m**	**Eliminations/ central costs Year ended 2009 £m**	**Total Year ended 2009 £m**	Aerospace Year ended 2008 £m	Flexonics Year ended 2008 £m	Eliminations/ central costs Year ended 2008 £m	Total Year ended 2008 £m
External revenue	**319.0**	**221.1**	**–**	**540.1**	312.4	250.0	–	562.4
Inter-segment revenue	**0.2**	**0.2**	**(0.4)**	**–**	0.5	0.1	(0.6)	–
Total revenue	**319.2**	**221.3**	**(0.4)**	**540.1**	312.9	250.1	(0.6)	562.4
Adjusted operating profit	**38.8**	**26.2**	**(5.6)**	**59.4**	44.3	25.9	(5.7)	64.5
Loss on sale of fixed assets	**(0.1)**	**–**	**–**	**(0.1)**	–	–	–	–
Exceptional pension gain	**–**	**–**	**6.3**	**6.3**	–	–	–	–
Amortisation of intangible assets from acquisitions	**(4.6)**	**–**	**–**	**(4.6)**	(4.7)	–	–	(4.7)
Operating profit	**34.1**	**26.2**	**0.7**	**61.0**	39.6	25.9	(5.7)	59.8
Investment income				**1.2**				2.7
Finance costs				**(12.6)**				(11.2)
Profit before tax				**49.6**				51.3
Tax				**(10.6)**				(12.1)
Profit after tax				**39.0**				39.2

4. Segment Information continued

Segment information for assets, liabilities, additions to non-current assets and depreciation and amortisation is presented below.

Assets	**Year ended 2009 £m**	Year ended 2008 £m
Aerospace	**162.3**	202.6
Flexonics	**97.7**	126.9
Corporate	**0.9**	1.6
Segment assets for reportable segments	**260.9**	331.1
Unallocated		
Goodwill	**169.3**	184.0
Intangible customer relationships	**9.5**	15.7
Cash	**20.4**	11.9
Deferred and current tax	**2.6**	1.0
Others	**1.4**	5.7
Total assets per balance sheet	**464.1**	549.4

Liabilities	**Year ended 2009 £m**	Year ended 2008 £m
Aerospace	**42.1**	54.5
Flexonics	**40.1**	50.5
Corporate	**11.2**	7.9
Segment liabilities for reportable segments	**93.4**	112.9
Unallocated		
Debt	**121.4**	150.8
Finance leases	**1.3**	1.7
Deferred and current tax	**12.4**	16.8
Retirement benefit obligations	**48.1**	51.2
Forward exchange contracts	**–**	33.9
Others	**2.7**	5.9
Total liabilities per balance sheet	**279.3**	373.2

	Additions to non-current assets Year ended 2009 £m	Additions to non-current assets Year ended 2008 £m	**Depreciation and amortisation Year ended 2009 £m**	Depreciation and amortisation Year ended 2008 £m
Aerospace	**9.0**	58.3	**15.7**	13.8
Flexonics	**3.5**	7.4	**9.6**	9.5
Subtotal continuing operations	**12.5**	65.7	**25.3**	23.3
Unallocated corporate amounts	**0.1**	–	**0.1**	0.1
Total	**12.6**	65.7	**25.4**	23.4

The Group's revenues from its major products and services is presented below:

	Year ended 2009 £m	Year ended 2008 £m
Aerospace – Structures	**158.9**	159.2
Aerospace – Fluid Systems	**160.1**	153.2
Aerospace total	**319.0**	312.4
Land vehicles	**110.5**	134.0
Industrial	**110.6**	116.0
Flexonics total	**221.1**	250.0
Group total	**540.1**	562.4

The Group does not have revenues derived from a single external customer that amounts to 10% or more of its revenue.

4. Segment Information continued

Geographical information

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 non-current assets are analysed by the geographical area in which the assets are located.

	Sales revenue Year ended 2009 £m	Sales revenue Year ended 2008 £m	**Segment non-current assets Year ended 2009 £m**	Segment non-current assets Year ended 2008 £m
USA	**278.5**	295.3	**215.7**	255.2
UK	**58.4**	55.8	**44.0**	44.4
Rest of the World	**203.2**	211.3	**39.2**	43.7
Subtotal continuing operations	**540.1**	562.4	**298.9**	343.3
Unallocated amounts	**–**	–	**0.2**	0.4
Total	**540.1**	562.4	**299.1**	343.7

The unallocated amounts on non-current assets relate to deferred tax assets.

5. Trading Profit and Profit for the Period

Trading profit for continuing operations can be analysed as follows:

	Year ended 2009 £m	Year ended 2008 £m
Revenue	**540.1**	562.4
Cost of sales	**(405.0)**	(427.9)
Gross profit	**135.1**	134.5
Distribution costs	**(3.3)**	(3.5)
Administrative expenses	**(70.7)**	(71.2)
Trading profit	**61.1**	59.8

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

	Year ended 2009 £m	Year ended 2008 £m
Net foreign exchange losses	**2.4**	1.4
Research and development costs	**9.7**	8.6
Depreciation of property, plant and equipment	**20.1**	18.1
Amortisation of intangible assets included in administration expenses	**5.3**	5.3
Cost of inventories recognised as expense	**405.0**	427.9
Net change in carrying amount of allowance for doubtful receivables	**0.4**	(0.1)
Staff costs (see Note 6)	**155.4**	162.4
Auditor's 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 (2008 – £0.2m).

Auditor's remuneration for audit services to the Company was £0.1m (2008 – £0.1m).

5. Trading Profit and Profit for the Period continued

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

	2009 £m	2009 %	2008 £m	2008 %
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 Auditor.

6. Staff Costs

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

	Group Year ended 2009 Number	Group Year ended 2008 Number
Production	**4,075**	4,984
Distribution	**56**	61
Sales	**307**	309
Administration	**435**	468
	4,873	5,822

	Year ended 2009 £m	Year ended 2008 £m
Their aggregate remuneration comprised:		
Wages and salaries	**137.3**	139.2
Social security costs	**17.9**	17.1
Other pension costs – defined contribution (see Note 35a)	**3.9**	3.4
Other pension costs – defined benefit (see Note 35e)	**1.7**	1.8
Share-based payments	**0.9**	0.9
Aggregate remuneration	**161.7**	162.4
Exceptional pension gain (see Note 35)	**(6.3)**	–
Total	**155.4**	162.4

7. Investment Income

	Year ended 2009 £m	Year ended 2008 £m
Interest on bank deposits	**0.1**	0.4
Foreign currency derivatives	**1.0**	2.1
Others	**0.1**	0.2
Total income	**1.2**	2.7

The Company earned investment income of £6.6m (2008 – £7.5m) on financial assets all of which relate to the "Loans and receivables" category.

8. Finance Costs

	Year ended 2009 £m	Year ended 2008 £m
Interest on bank overdrafts and loans	**0.7**	3.1
Interest on other loans	**7.6**	6.1
Foreign currency derivatives	**–**	0.2
Interest on obligations under finance leases	**0.1**	0.1
Net finance cost of retirement benefit obligations (Note 35e)	**4.2**	1.7
Total finance costs	**12.6**	11.2

The Company incurred finance costs of £8.5m (2008 – £8.9m) 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, an exceptional pension gain and amortisation of intangible assets acquired on acquisitions. The exceptional pension gain relates to the curtailment gain arising from the introduction of a cap on future pensionable earnings growth of 2% per annum from 6 April 2010 in the UK defined benefit plan. See Note 35.

	Year ended 2009 £m	Year ended 2008 £m
Operating profit	**61.0**	59.8
Loss on sale of fixed assets	**0.1**	–
Exceptional pension gain	**(6.3)**	–
Amortisation of intangible assets from acquisitions	**4.6**	4.7
Adjustments to operating profit	**(1.6)**	4.7
Adjusted operating profit	**59.4**	64.5
Profit before tax	**49.6**	51.3
Adjustments to profit as above before tax	**(1.6)**	4.7
Adjusted profit before tax	**48.0**	56.0

10. Tax Charge

	Year ended 2009 £m	Year ended 2008 £m
Current tax:		
UK Corporation Tax	**–**	–
Foreign tax	**4.5**	9.8
Adjustments in respect of prior periods	**1.9**	(0.2)
	6.4	9.6
Deferred tax (Note 22):		
Current year	**6.5**	3.6
Adjustments in respect of prior periods	**(2.3)**	(1.1)
	4.2	2.5
	10.6	12.1
Attributable to:		
Continuing operations	**10.6**	12.1

UK Corporation Tax is calculated at an effective rate of 28% (2008 – 28.5%) 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 2009 £m	Year ended 2009 %	Year ended 2008 £m	Year ended 2008 %
Profit before tax from continuing operations	**49.6**		51.3	
Tax at the UK Corporation Tax rate of 28% (2008 – 28.5%)	**13.9**		14.6	
Tax effect of income/expenses that are non-taxable/deductible in determining taxable profit	**(4.0)**		(0.2)	
Tax effect of unrelieved tax losses	**1.5**		0.5	
Tax effect of movements in temporary differences not previously recognised	**(0.4)**		(1.2)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**		(0.3)	
Adjustments to tax charge in respect of prior periods	**(0.4)**		(1.3)	
Tax expense and effective tax rate for the year	**10.6**	**21.4**	12.1	23.6

In addition to the amount charged to the Income Statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	Year ended 2009 £m	Year ended 2008 £m
Translation of foreign operations	**1.1**	1.0
Actuarial loss/(gain) on retirement benefit obligations	**3.3**	(0.5)
Total tax recognised directly in other comprehensive income	**4.4**	0.5
Current tax	**0.4**	2.4
Deferred tax (Note 22)	**4.0**	(1.9)
	4.4	0.5

In addition to the amount charged to the Income Statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	Year ended 2009 £m	Year ended 2008 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**0.5**	–
Total tax recognised directly in equity	**0.5**	–

11. Dividends

	Year ended 2009 £m	Year ended 2008 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2008 of 1.70p (2007 – 1.70p) per share	**6.8**	6.7
Interim dividend for the year ended 31 December 2009 of 0.90p (2008 – 0.90p) per share	**3.6**	3.6
	10.4	10.3
Proposed final dividend for the year ended 31 December 2009 of 1.70p (2008 – 1.70p) per share	**6.8**	6.8

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 2009 million	Year ended 2008 million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**398.3**	395.0
Effect of dilutive potential shares:		
Share options	**9.0**	6.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**407.3**	401.0

	Year ended 2009		Year ended 2008	
Earnings and earnings per share	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period	**39.0**	**9.79**	39.2	9.92
Adjust:				
Loss on sale of fixed assets net of tax of £0.1m (2008 – £nil)	**–**	**–**	–	–
Exceptional pension gain	**(6.3)**	**(1.58)**	–	–
Amortisation of intangible assets from acquisitions net of tax of £1.8m (2008 – £1.9m)	**2.8**	**0.70**	2.8	0.71
Adjusted earnings after tax	**35.5**	**8.91**	42.0	10.63
Earnings per share				
– basic		**9.79p**		9.92p
– diluted		**9.58p**		9.78p
– adjusted		**8.91p**		10.63p
– adjusted and diluted		**8.72p**		10.47p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2008 – £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
- exceptional pension gain
- amortisation of intangible assets acquired on acquisitions.

13. Goodwill

	Group Year ended 2009 £m	Group Year ended 2008 £m
Cost		
At 1 January	**184.0**	114.3
Exchange differences	**(14.7)**	39.8
Recognised on acquisition of subsidiaries	**–**	29.8
Other changes	**–**	0.1
At 31 December	**169.3**	184.0
Accumulated impairment losses		
At 1 January and at 31 December	**–**	–
Carrying amount at 31 December	**169.3**	184.0

The amount shown for other changes in 2008 represents an increase in respect of Absolute Manufacturing acquired in December 2007.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. As noted in the OFR on pages 10 to 22, the Aerospace Division consists of 14 operations and the Flexonics Division consists of 11 operations. Each of these operations is considered to be a separate CGU. Goodwill has been allocated to 15 of these individual CGUs – 10 in Aerospace and five 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 principally on the same key assumptions.

	Group Year ended 2009 £m	Group Year ended 2008 £m
Aerospace		
– Capo Industries	**36.6**	40.9
– AMT	**33.4**	37.4
– Jet Products	**16.0**	17.9
– Sterling Machine	**13.0**	14.5
– BWT	**15.0**	15.0
– Bird Bellows	**12.0**	12.0
– Other Aerospace CGUs	**16.5**	17.2
	142.5	154.9
Flexonics		
– Pathway	**16.7**	18.7
– Other Flexonics CGUs	**10.1**	10.4
	26.8	29.1
Total	**169.3**	184.0

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The 2009 goodwill impairment review was undertaken as at 31 December 2009. 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, where appropriate, take account of the current economic environment as set out in the OFR on pages 10 to 22. 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 10.6%. 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. As noted in the OFR on pages 10 to 22, aircraft deliveries in the business jet market declined 34% in the year, adversely impacting profitability in the Aerospace Division. This decline had a similar impact at Capo Industries, which operates mainly in the business jet market. Taking this into consideration, projections for the initial forecast period have been expanded a further four years to reflect the medium-term plan of management to recover from this downturn in the market. Cash flows are projected to grow at a compound annual growth rate of 5% over this seven-year period and 2.5% per annum thereafter as noted above. This results in Capo Industries' recoverable amount exceeding its carrying value by £8m. However, if only a 2% annual growth rate in the forecast cash flows are achieved, then this would result in the recoverable amount reducing to a level comparable with its carrying value. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying amount of 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 the 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 and through most of 2009. 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 2009 (2008 – £nil).

14. Other Intangible Assets

	Group Year ended 2009 Customer relationships £m	**Group Year ended 2009 Computer software £m**	**Group Year ended 2009 Total £m**	Group Year ended 2008 Customer relationships £m	Group Year ended 2008 Computer software £m	Group Year ended 2008 Total £m	**Company Year ended 2009 Computer software £m**	Company Year ended 2008 Computer software £m
Cost								
At 1 January	**28.0**	**8.4**	**36.4**	15.2	5.5	20.7	**0.1**	0.1
Additions	**–**	**0.3**	**0.3**	–	0.7	0.7	**–**	–
Acquired on acquisition of subsidiaries	**–**	**–**	**–**	5.1	–	5.1	**–**	–
Exchange differences	**(3.0)**	**(0.6)**	**(3.6)**	7.7	2.2	9.9	**–**	–
At 31 December	**25.0**	**8.1**	**33.1**	28.0	8.4	36.4	**0.1**	0.1
Amortisation								
At 1 January	**12.3**	**6.5**	**18.8**	4.5	4.3	8.8	**0.1**	0.1
Charge for the year	**4.6**	**0.7**	**5.3**	4.7	0.6	5.3	**–**	–
Exchange differences	**(1.4)**	**(0.6)**	**(2.0)**	3.1	1.6	4.7	**–**	–
At 31 December	**15.5**	**6.6**	**22.1**	12.3	6.5	18.8	**0.1**	0.1
Carrying amount at 31 December	**9.5**	**1.5**	**11.0**	15.7	1.9	17.6	**–**	–

The carrying amount of the Group's customer relationships includes an amount of £5.7m (2008 – £9.8m) and £3.8m (2008 – £5.7m) 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 1.8 years (2008 – 2.8 years) and 3.0 years (2008 – 4.0 years), respectively.

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 86.

	Company Year ended 2009 £m	Company Year ended 2008 £m
At 1 January and 31 December	**179.0**	179.0

16. Property, Plant and Equipment

a) Group

	Year ended 2009 Freehold land and buildings £m	**Year ended 2009 Leasehold land and buildings £m**	**Year ended 2009 Plant and equipment £m**	**Year ended 2009 Total £m**	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
Cost or valuation								
At 1 January	**65.3**	**2.0**	**274.6**	**341.9**	46.6	1.4	193.4	241.4
Additions	**0.4**	**–**	**11.9**	**12.3**	3.5	0.2	20.1	23.8
Acquired on acquisition	**–**	**–**	**–**	**–**	0.5	–	5.7	6.2
Exchange differences	**(5.7)**	**(0.2)**	**(22.6)**	**(28.5)**	15.6	0.4	63.4	79.4
Disposals	**(0.3)**	**–**	**(8.7)**	**(9.0)**	(0.9)	–	(8.0)	(8.9)
At 31 December	**59.7**	**1.8**	**255.2**	**316.7**	65.3	2.0	274.6	341.9
Accumulated depreciation and impairment								
At 1 January	**15.0**	**1.3**	**187.2**	**203.5**	10.7	0.9	136.2	147.8
Charge for the year	**1.7**	**0.1**	**18.3**	**20.1**	1.4	0.1	16.6	18.1
Exchange differences	**(1.4)**	**(0.2)**	**(14.7)**	**(16.3)**	3.4	0.3	42.2	45.9
Eliminated on disposals	**(0.2)**	**–**	**(8.4)**	**(8.6)**	(0.5)	–	(7.8)	(8.3)
At 31 December	**15.1**	**1.2**	**182.4**	**198.7**	15.0	1.3	187.2	203.5
Carrying amount at 31 December	**44.6**	**0.6**	**72.8**	**118.0**	50.3	0.7	87.4	138.4

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £2.3m (2008 – £2.6m) 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 2009, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.4m (2008 – £5.8m).

16. Property, Plant and Equipment continued

b) Company

	Year ended 2009 Plant and equipment £m	Year ended 2008 Plant and equipment £m
Cost		
At 1 January	**0.4**	0.5
Additions	**0.1**	–
Disposals	**–**	(0.1)
At 31 December	**0.5**	0.4
Accumulated depreciation		
At 1 January	**0.3**	0.3
Charge for the year	**0.1**	0.1
Eliminated on disposals	**–**	(0.1)
At 31 December	**0.4**	0.3
Carrying amount at 31 December	**0.1**	0.1

17. Inventories

	Group Year ended 2009 £m	Group Year ended 2008 £m
Raw materials	**20.0**	33.2
Work-in-progress	**30.3**	45.2
Finished goods	**14.7**	21.2
	65.0	99.6

Inventory write-downs and provisions reduced by £0.3m in the year (2008 – increased by £0.9m).

18. Construction Contracts

	Group Year ended 2009 £m	Group Year ended 2008 £m
Contracts in progress at 31 December:		
Amounts due from contract customers included in current assets	**0.5**	1.5
Amounts due to contract customers included in trade and other payables	**–**	–
	0.5	1.5
Current costs incurred plus recognised profits less recognised losses to date	**8.8**	11.2
Less: progress billings	**(8.3)**	(9.7)
	0.5	1.5

At 31 December 2009, retentions held by customers for contract work amounted to £0.4m (2008 – £0.4m). Advances received from customers for contract work amounted to £nil (2008 – £nil).

At 31 December 2009, amounts of £nil (2008 – £nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

19. Trade and Other Receivables

Trade and other receivables at 31 December comprise the following:

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Non-current assets				
Deferred consideration on disposal of Hose operations	**–**	2.5	**–**	–
Trade receivables	**–**	–	**–**	–
Other receivables	**0.6**	0.8	**–**	–
Due from subsidiaries	**–**	–	**58.4**	48.2
	0.6	3.3	**58.4**	48.2
Current assets				
Trade receivables	**70.3**	83.4	**–**	–
Current tax recoverable	**2.4**	0.6	**5.3**	2.6
Value added tax	**0.5**	1.0	**0.1**	0.1
Currency derivatives	**1.1**	0.4	**–**	7.2
Prepayments and accrued income	**4.4**	6.9	**0.7**	1.0
Other receivables	**0.4**	0.4	**0.4**	0.4
Due from subsidiaries	**–**	–	**55.0**	47.0
	79.1	92.7	**61.5**	58.3
Total trade and other receivables	**79.7**	96.0	**119.9**	106.5

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 22.

19. Trade and Other Receivables continued

The average credit period taken on sales of goods is 57 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £2.3m (2008 – £1.9m). 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 in excess of the allowance for doubtful receivables.

	Group Year ended 2009 £m	Group Year ended 2008 £m
Movements in allowance for doubtful receivables:		
At 1 January	**1.9**	2.0
Provision for impairment	**1.7**	1.2
Amounts written off as uncollectible	**(0.1)**	(0.2)
Amounts recovered	**(1.1)**	(1.5)
Exchange differences	**(0.1)**	0.4
At 31 December	**2.3**	1.9
Ageing analysis of past due but not impaired trade receivables:		
Up to 30 days past due	**9.2**	9.3
31 to 60 days past due	**1.1**	2.4
61 to 90 days past due	**0.7**	1.0
91 to 180 days past due	**0.5**	0.8
Total past due but not impaired	**11.5**	13.5
Not past due	**58.8**	69.9
Total trade receivables	**70.3**	83.4
Less: non-current trade receivables	**–**	–
Current trade receivables	**70.3**	83.4

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 (2008 – £nil).

20. Bank Overdrafts and Loans

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Bank overdrafts	**1.1**	1.2	**–**	1.4
Bank loans	**4.5**	20.2	**–**	10.6
Other loans	**115.8**	129.4	**114.9**	128.5
	121.4	150.8	**114.9**	140.5
The borrowings are repayable as follows:				
On demand or within one year	**1.1**	1.2	**–**	1.4
In the second year	**0.9**	–	**–**	–
In the third to fifth years inclusive	**26.2**	20.2	**21.7**	10.6
After five years	**93.2**	129.4	**93.2**	128.5
	121.4	150.8	**114.9**	140.5
Less: amount due for settlement within 12 months (shown under current liabilities)	**(1.1)**	(1.2)	**–**	(1.4)
Amount due for settlement after 12 months	**120.3**	149.6	**114.9**	139.1

Analysis of borrowings by currency:

31 December 2009

	Total £m	**Pound Sterling £m**	**Euros £m**	**US dollars £m**	**Others £m**
Bank overdrafts	**1.1**	**–**	**–**	**–**	**1.1**
Bank loans	**4.5**	**–**	**4.5**	**–**	**–**
Other loans	**115.8**	**–**	**0.9**	**114.9**	**–**
	121.4	**–**	**5.4**	**114.9**	**1.1**

An analysis of the Company's borrowings is as follows: Other loans – US dollars £114.9m.

31 December 2008

	Total £m	Pound 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 – Pound Sterling £1.4m; Bank loans – Euros £1.6m, and Pound Sterling £9.0m; and Other loans – US dollars £128.5m.

The weighted average interest rates paid were as follows:

	Year ended 2009 %	Year ended 2008 %
Bank overdrafts	**2.90**	5.40
Bank loans	**1.90**	4.76
Other loans	**6.46**	6.46

20. Bank Overdrafts and Loans continued

Bank loans and overdrafts of £5.6m (2008 – £21.4m) 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. No interest rate swaps were taken out in 2008 or 2009.

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

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Bank overdrafts	**1.1**	1.2	**–**	1.4
Bank loans	**4.5**	20.2	**–**	10.6
Other loans	**120.3**	121.2	**119.4**	120.3
	125.9	142.6	**119.4**	132.3

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, 2009 £74.6m (2008 – £83.3m) 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, 2009 £18.6m (2008 – £20.8m) 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, 2009 £21.7m (2008 – £24.4m) 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, 2009 £nil (2008 – £nil) 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 $20m single bank (£12.4m) facility maturing in August 2011. As at 31 December 2009, £4.5m was drawn by the Group under the first facility, comprising €5.0m. No amounts were drawn by the Company at 31 December 2009. 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).

There were no amounts drawn under the second facility as at 31 December 2009 or 31 December 2008.

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 2009, the Group had available £87.9m (2008 – £75.8m) 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 22.

Categories of financial instruments

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Carrying value of financial assets:				
Cash and cash equivalents	**20.4**	11.9	**2.5**	1.1
Deferred consideration receivable	**–**	2.5	**–**	–
Trade receivables	**70.3**	83.4	**–**	–
Other receivables	**1.0**	1.2	**0.4**	0.4
Due from subsidiaries	**–**	–	**113.4**	95.2
Loans and receivables at amortised cost	**91.7**	99.0	**116.3**	96.7
Currency derivatives used for hedging	**1.1**	0.4	**–**	–
Currency derivatives at fair value through profit and loss	**–**	–	**–**	7.2
Total financial assets	**92.8**	99.4	**116.3**	103.9
Carrying value of financial liabilities:				
Bank overdrafts and loans	**121.4**	150.8	**114.9**	140.5
Obligations under finance leases	**1.3**	1.7	**–**	–
Trade payables	**41.1**	49.2	**0.2**	0.3
Other payables	**48.0**	53.4	**3.8**	3.5
Due to subsidiaries	**–**	–	**63.7**	–
Other financial liabilities at amortised cost	**211.8**	255.1	**182.6**	144.3
Currency derivatives used for hedging	**0.3**	41.2	**–**	–
Currency derivatives at fair value through profit and loss	**–**	0.1	**0.7**	0.1
Total financial liabilities	**212.1**	296.4	**183.3**	144.4
Undiscounted contractual maturity of other financial liabilities:				
Amounts payable:				
On demand or within one year	**102.6**	132.8	**75.1**	24.1
In the second to fifth years inclusive	**52.7**	35.7	**50.8**	33.2
After five years	**115.6**	161.2	**115.4**	160.9
	270.9	329.7	**241.3**	218.2
Less: future finance charges	**(59.1)**	(74.6)	**(58.7)**	(73.9)
Other financial liabilities at amortised cost	**211.8**	255.1	**182.6**	144.3

Amounts drawn under the committed syndicated multi-currency facility, which matures in 2012, are drawn on a short-term basis and are therefore shown as payable within one year in the above contractual maturity analysis. 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 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Notional amounts:				
Foreign exchange contracts – cash flow hedges	**33.4**	57.9	**–**	–
Foreign exchange contracts – net investment hedges	**–**	140.9	**–**	–
Foreign exchange contracts – held for trading	**0.4**	1.4	**18.4**	49.3
Total	**33.8**	200.2	**18.4**	49.3
Less: amounts maturing within 12 months	**(28.2)**	(187.4)	**(18.4)**	(49.3)
Amounts maturing after 12 months	**5.6**	12.8	**–**	–
Contractual maturity:				
Cash flow hedges balances due within one year:				
Outflow	**27.9**	42.7	**–**	–
Inflow	**29.0**	39.6	**–**	–
Cash flow hedges balances due between one and two years:				
Outflow	**5.6**	12.6	**–**	–
Inflow	**5.6**	11.3	**–**	–
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	**–**	–
Inflow	**–**	109.4	**–**	–
Held for trading balances due within one year:				
Outflow	**0.4**	1.4	**19.1**	42.1
Inflow	**0.4**	1.3	**18.4**	49.2
Fair values:				
Foreign exchange contracts – cash flow hedges	**0.8**	(7.8)	**–**	–
Foreign exchange contracts – net investment hedges	**–**	(31.8)	**–**	–
Foreign exchange contracts – held for trading	**–**	(0.1)	**(0.7)**	7.1
Total asset/(liability)	**0.8**	(39.7)	**(0.7)**	7.1

These fair values are based on market values of equivalent instruments at the balance sheet date, comprising £1.1m (2008 – £1.6m) assets included in trade and other receivables, of which £nil (2008 – £1.2m) is within prepayments and accrued income, and £0.3m (2008 – £41.3m) is included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £0.8m gain (2008 – £6.3m loss) has been deferred in equity. The fair values for the Company comprise £nil (2008 – £7.2m) assets included in trade and other receivables and £0.7m (2008 – £0.1m) included in trade and other payables.

The Group revised its hedging policy relating to net asset foreign currency translation exposures during the year. As a result, the Group does not have any net investment hedges at 31 December 2009. Instead, foreign exchange exposures are hedged by matching borrowings in the same currencies and proportions as profits are generated.

21. Financial Instruments continued

Fair values

The following table presents an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1–3 based on the degree to which the fair value is observable:

Level 1 those fair values derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 those fair values derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 those fair values derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

a) Group

31 December 2009	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Foreign exchange contracts – cash flow hedges	–	1.1	–	1.1
Total assets	–	1.1	–	1.1
Liabilities				
Foreign exchange contracts – cash flow hedges	–	0.3	–	0.3
Total liabilities	–	0.3	–	0.3

b) Company

31 December 2009	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through profit or loss:				
Foreign exchange contracts – held for trading	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Financial liabilities at fair value through profit or loss:				
Foreign exchange contracts – held for trading	–	0.7	–	0.7
Total liabilities	–	0.7	–	0.7

21. Financial Instruments continued

An amount of £1.7m loss (2008 – £3.2m loss) 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. An amount of £nil (2008 – £0.1m loss) has been recognised in the Income Statement in respect of foreign exchange contracts held for trading. For the Company, a net loss of £8.1m (2008 – £10.6m net gain) 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 items affect net profit or loss, which is generally within 12 months from the balance sheet date.

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 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 other comprehensive income	–	–	–	–	1.9	–	1.9
Exchange differences	3.3	–	1.7	(0.1)	(3.3)	(0.8)	0.8
At 1 January 2009	12.9	2.8	6.4	(0.5)	(9.9)	(3.3)	8.4
Charge/(credit) to income	–	–	2.2	1.5	(0.1)	0.6	4.2
Credit to other comprehensive income	–	(0.7)	–	(3.3)	–	–	(4.0)
Credit directly to equity	–	–	–	–	(0.5)	–	(0.5)
Exchange differences	(1.2)	0.3	(0.7)	–	0.8	0.3	(0.5)
As 31 December 2009	**11.7**	**2.4**	**7.9**	**(2.3)**	**(9.7)**	**(2.4)**	**7.6**

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 2009 £m	Group Year ended 2008 £m
Deferred tax liabilities	**7.8**	8.8
Deferred tax assets	**(0.2)**	(0.4)
	7.6	8.4

At the balance sheet date, the Group has unused tax losses of £20.9m (2008 – £26.0m) available for offset against future profits. A deferred tax asset has been recognised in respect of £8.8m (2008 – £10.3m) of such losses. No deferred tax asset has been recognised in respect of the remaining £12.1m (2008 – £15.7m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £nil (2008 – £0.4m) that will expire within five years (2008 – five 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 £90.6m (2008 – £225.5m). 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 £40.0m (2008 – £47.1m), share-based payments of £2.1m (2008 – £0.6m), accelerated book depreciation of £3.6m (2008 – £4.4m) and other temporary differences of £0.4m (2008 – £8.9m). The Company has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £39.6m (2008 – £37.3m), share-based payments of £1.0m (2008 – £0.3m), accelerated book depreciation of £0.5m (2008 – £0.5m) and other temporary differences of £0.9m (2008 – £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 (2008 – £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 (2008 – £14.4m) of unused capital losses, as reduced by gains rolled over, 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 (2008 – £15.6m) of such unused capital losses.

23. Obligations Under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2009 £m	Group Year ended 2008 £m	**Group Year ended 2009 £m**	Group Year ended 2008 £m
Amounts payable under finance leases:				
Within one year	**0.3**	0.3	**0.2**	0.2
In the second to fifth years inclusive	**1.1**	1.5	**0.9**	1.2
After five years	**0.2**	0.3	**0.2**	0.3
	1.6	2.1	**1.3**	1.7
Less: future finance charges	**(0.3)**	(0.4)	**–**	–
Present value of lease obligations	**1.3**	1.7	**1.3**	1.7
Less: amount due for settlement within 12 months (shown under current liabilities)			**(0.2)**	(0.2)
Amount due for settlement after 12 months			**1.1**	1.5

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 74% (2008 – 76%) of the Group's obligations, expires in 2014. For the year ended 31 December 2009, the average effective borrowing rate was 6.2% (2008 – 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 £1.0m (2008 – £1.3m) and US dollars £0.3m (2008 – £0.4m).

24. Trade and Other Payables

Trade and other payables at 31 December comprise the following:

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Non-current liabilities	**–**	–	**–**	–
Current liabilities				
Trade payables	**41.1**	49.2	**0.2**	0.3
Social security and PAYE	**5.7**	7.1	**0.1**	0.1
Value Added Tax	**0.5**	0.8	**–**	–
Currency derivatives	**0.3**	41.3	**0.7**	0.1
Other payables and accruals	**48.0**	53.4	**3.8**	3.5
Due to subsidiaries	**–**	–	**63.7**	–
	95.6	151.8	**68.5**	4.0
Total trade and other payables	**95.6**	151.8	**68.5**	4.0

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

The average credit period taken for trade purchases is 54 days.

25. Share Capital

	Group and Company	
	Year ended 2009 £m	Year ended 2008 £m
Authorised:		
500 million ordinary shares of 10p each	**50.0**	50.0
Issued and fully paid:		
399.7 million ordinary shares of 10p each	**39.9**	39.8

At 31 December 2008, the issued and fully paid up share capital was 398.3 million ordinary shares of 10p each.

239,894 shares were issued during 2009 at an average price of 21.97p per share under share option plans raising £0.1m. 1,099,451 shares were issued during 2009 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 2009 £m	Year ended 2008 £m
Balance at 1 January	**12.0**	11.3
Movement in year	**0.1**	0.7
Balance at 31 December	**12.1**	12.0

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27. Equity Reserve

	Group and Company	
	Year ended 2009 £m	Year ended 2008 £m
Balance at 1 January	**1.7**	1.6
Transfer to retained earnings reserve	**(0.5)**	(0.7)
Movement in year	**0.7**	0.8
Balance at 31 December	**1.9**	1.7

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 £0.8m (2008 – £0.9m) in respect of the share-based payment charge for the year, and £0.1m (2008 – £0.1m) 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 2009 £m	Year ended 2008 £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 2009 £m	**Translation reserve Year ended 2009 £m**	**Total Year ended 2009 £m**	Hedging reserve Year ended 2008 £m	Translation reserve Year ended 2008 £m	Total Year ended 2008 £m
Balance at 1 January	**(51.4)**	**57.7**	**6.3**	(1.2)	(3.2)	(4.4)
Exchange differences on translation of overseas operations	**–**	**(20.6)**	**(20.6)**	–	59.9	59.9
Change in fair value of hedging derivatives	**14.8**	**–**	**14.8**	(50.2)	–	(50.2)
Tax on items taken directly to equity	**–**	**1.1**	**1.1**	–	1.0	1.0
Balance at 31 December	**(36.6)**	**38.2**	**1.6**	(51.4)	57.7	6.3

b) Company

	Hedging reserve Year ended 2009 £m	**Translation reserve Year ended 2009 £m**	**Total Year ended 2009 £m**	Hedging reserve Year ended 2008 £m	Translation reserve Year ended 2008 £m	Total Year ended 2008 £m
Balance at 1 January	**–**	**(0.3)**	**(0.3)**	0.3	(0.9)	(0.6)
Exchange differences on translation	**–**	**–**	**–**	–	0.6	0.6
Change in fair value of hedging derivatives	**–**	**–**	**–**	(0.3)	–	(0.3)
Balance at 31 December	**–**	**(0.3)**	**(0.3)**	–	(0.3)	(0.3)

30. Retained Earnings

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Balance at 1 January	**98.4**	84.3	**33.7**	56.7
Dividends paid	**(10.4)**	(10.3)	**(10.4)**	(10.3)
Net profit/(loss) for the year	**39.0**	39.2	**3.4**	(3.4)
Pension actuarial loss	**(20.0)**	(15.0)	**(20.3)**	(10.0)
Transfer from equity reserve	**0.5**	0.7	**0.5**	0.7
Tax on deductible temporary differences	**3.8**	(0.5)	**–**	–
Balance at 31 December	**111.3**	98.4	**6.9**	33.7

In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income, including the Income Statement and related Notes.

31. Own Shares

	Group and Company	
	Year ended 2009 £m	Year ended 2008 £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 34).

32. Notes to the Cash Flow Statement

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

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Operating profit/(loss) from continuing operations	**61.0**	59.8	**2.7**	(3.4)
Adjustments for:				
Depreciation of property, plant and equipment	**20.1**	18.1	**0.1**	0.1
Amortisation of intangible assets	**5.3**	5.3	**–**	–
Share options	**0.9**	0.9	**0.3**	0.4
Loss on disposal of property, plant and equipment	**0.1**	–	**–**	–
Exceptional pension gain	**(6.3)**	–	**(6.3)**	–
Pension payments in excess of service cost	**(19.6)**	(5.2)	**(15.4)**	(5.0)
Operating cash flows before movements in working capital	**61.5**	78.9	**(18.6)**	(7.9)
Decrease in inventories	**26.8**	7.6	**–**	–
Decrease in receivables	**11.5**	10.0	**0.2**	0.3
(Decrease)/increase in payables	**(8.4)**	(5.4)	**0.3**	(0.4)
Decrease in receivables from subsidiaries	**–**	–	**0.4**	0.7
Working capital currency movements	**(1.7)**	0.8	**–**	–
Cash generated by operations	**89.7**	91.9	**(17.7)**	(7.3)
Income taxes (paid)/received	**(11.2)**	(8.8)	**2.8**	1.1
Interest paid	**(8.7)**	(8.5)	**(8.6)**	(8.1)
Net cash from/(used in) operating activities	**69.8**	74.6	**(23.5)**	(14.3)

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 2009 £m	Group Year ended 2008 £m
Net cash from operating activities	**69.8**	74.6
Interest received	**2.6**	1.7
Proceeds on disposal of property, plant and equipment	**0.3**	0.6
Purchases of property, plant and equipment – cash	**(12.3)**	(23.8)
Purchase of intangible assets	**(0.3)**	(0.7)
Free cash flow	**60.1**	52.4

32. Notes to the Cash Flow Statement continued
c) Analysis of group net debt

	At 1 January 2009 £m	Cash flow £m	Exchange movement £m	**At 31 December 2009 £m**
Cash	11.9	9.3	(0.8)	**20.4**
Overdrafts	(1.2)	0.1	–	**(1.1)**
Cash and cash equivalents	10.7	9.4	(0.8)	**19.3**
Debt due within one year	–	–	–	**–**
Debt due after one year	(149.6)	15.5	13.8	**(120.3)**
Finance leases	(1.7)	0.2	0.2	**(1.3)**
Forward exchange contract losses	(33.9)	25.2	8.7	**–**
Total	(174.5)	50.3	21.9	**(102.3)**

The forward exchange contract losses shown above are reported as £nil (2008 – £33.9m) in current liabilities within trade and other payables.

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Cash and cash equivalents comprise:				
Cash	**20.4**	11.9	**2.5**	1.1
Bank overdrafts	**(1.1)**	(1.2)	**–**	(1.4)
Total	**19.3**	10.7	**2.5**	(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.

33. Operating Lease Arrangements
The Group and the Company as lessee

	Group Year ended 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	**6.3**	5.1	**0.2**	0.2

The Group also received £0.5m under a sub-lease recognised in the Consolidated Income Statement for the year.

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 2009 £m	Group Year ended 2008 £m	**Company Year ended 2009 £m**	Company Year ended 2008 £m
Within one year	**5.3**	5.2	**0.2**	0.2
In the second to fifth years inclusive	**14.3**	15.7	**0.2**	0.4
After five years	**11.4**	11.7	**–**	–
	31.0	32.6	**0.4**	0.6

The total of future minimum sub-lease payments expected to be received by the Group under non-cancellable sub-leases at the end of 2009 was £4.2m.

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 64% (2008 – 59%) of the Group's commitment, (excluding sub-leases) respectively expire in 2018 (with rentals fixed for 3.5 years), in 2026 (with rentals fixed for two years) and in 2019.

The Company has guaranteed £1.4m (2008 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

34. Share-based Payments

The Group recognised total expenses of £0.9m (2008 – £0.9m) related to share-based payments, of which £0.8m (2008 – £0.9m) related to equity-settled share-based payments, and £0.1m (2008 – £nil) related to social security costs on share-based payments. At 31 December 2009, the Group had a liability of £0.2m (2008 – £0.1m) arising from share-based payments of which £0.2m (2008 – £0.1m) related to social security costs. The Company recognised total expenses of £0.3m (2008 – £0.4m) related to equity-settled share-based payments. At 31 December 2009 the Company had a liability of £0.1m (2008 – £nil) 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 ("1999" 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 2009 and 2008:

	Year ended 2009		Year ended 2008	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**239,894**	**21.97p**	5,830,853	21.97p
Granted	**–**	**–**	–	–
Exercised	**(239,894)**	**21.97p**	(5,590,959)	21.97p
Forfeited	**–**	**–**	–	–
Expired	**–**	**–**	–	–
Outstanding at 31 December	**–**	**–**	239,894	–
Exercisable at 31 December	**–**	**–**	239,894	21.97p

The weighted average share price at the date of exercise for share options exercised during the period was 25.04p (2008 – 97.42p).

There were no equity-settled options outstanding at 31 December 2009. 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.

Cash-Settled Share Option Plans

Under the 1999 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 exercise price and the then market value of the shares in relation to which the shadow option is exercised. The 1999 Plan is closed for new awards.

The weighted average share price at the date of exercise for share options exercised during the period was nil (2008 – 95.15p). There were no shadow share options outstanding at 31 December 2009 and 31 December 2008.

34. Share-based Payments continued

b) 2005 Long Term Incentive Plan

2,965,380 and 123,198 shares were awarded under the 2005 Long Term Incentive Plan on 12 March 2009 and 9 April 2009 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 awards made during the year are subject to a TSR performance condition only, as opposed to previous years where a mixture of EPS and TSR conditions have applied. The estimated fair values for the awards granted in the year with TSR conditions are 13.00p and 14.50p per share, reflecting an adjustment of 61% to the fair value of the awards if the TSR condition was excluded.

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 28.50p and 31.75p respectively, a risk-free interest rate of 1.7% per annum, expected volatility of 60.0% per annum, net dividend yield of 9.1% 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 2009 and 2008:

	Year ended 2009 Number of shares	Year ended 2008 Number of shares
Outstanding at 1 January	**4,062,410**	4,045,048
Granted	**3,088,578**	1,815,944
Exercised	**(1,099,451)**	(1,676,231)
Forfeited	**(751,153)**	(122,351)
Outstanding at 31 December	**5,300,384**	4,062,410

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. Savings-Related Share Options were last awarded on 8 April 2009.

The estimated fair value for the award granted during the year was 5.71p. This fair value was calculated by applying a Black-Scholes option pricing model. The model inputs at the date of the grant were the share price of 25.00p, a risk-free interest rate of 2.17% per annum, expected volatility of 58.20% per annum and a net dividend yield of 10.40%. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years.

The following options were outstanding as at 31 December 2009 and 2008:

	Year ended 2009		Year ended 2008	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**1,537,845**	**79.50p**	2,207,693	73.21p
Granted	**11,098,072**	**25.00p**	–	–
Exercised	**–**	**–**	(251,158)	24.18p
Forfeited	**(1,905,218)**	**57.53p**	(418,690)	79.50p
Expired	**–**	**–**	–	–
Outstanding at 31 December	**10,730,699**	**27.03p**	1,537,845	79.50p
Exercisable at 31 December	**–**	**–**	–	–

The weighted average share price at the date of exercise for share options exercised during the period was nil (2008 – 96.95p). The options outstanding at 31 December 2009 had exercise prices of 25.00p and 79.50p per share, and a weighted average remaining contractual life of 2.9 years. 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.

35. 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. A change to the Rules of the Plan was implemented prior to 31 December 2009 to introduce a cap on future pensionable earnings growth of 2% per annum from 6 April 2010. 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 2009.

In addition, the Group operates two defined benefit schemes in the USA, one of which was closed to future accrual from October 2009. 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 £3.9m (2008 – £3.4m).

b) Defined benefit schemes
The amount included in the Balance Sheet arising from the Group's obligations in respect of its defined benefit schemes is set out below.

The Company's defined benefit scheme obligations are set out in the "UK plans funded" column below.

	31 December 2009				31 December 2008			
	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	**(188.8)**	**(30.0)**	**(4.7)**	**(223.5)**	(162.8)	(31.1)	(4.6)	(198.5)
Fair value of plan assets	**149.2**	**26.2**	**–**	**175.4**	125.5	21.8	–	147.3
Plan deficit per balance sheet	**(39.6)**	**(3.8)**	**(4.7)**	**(48.1)**	(37.3)	(9.3)	(4.6)	(51.2)

35. Retirement Benefit Schemes continued

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

	31 December 2009				31 December 2008			
	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	**162.8**	**31.1**	**4.6**	**198.5**	172.8	21.3	3.8	197.9
Current service costs	**0.9**	**0.7**	**0.1**	**1.7**	1.2	0.5	0.1	1.8
Interest cost	**10.2**	**1.7**	**0.3**	**12.2**	10.1	1.4	0.1	11.6
Contributions by plan participants	**0.7**	**–**	**–**	**0.7**	0.7	–	–	0.7
Actuarial losses/(gains)	**28.9**	**1.0**	**0.4**	**30.3**	(14.9)	0.3	(0.5)	(15.1)
Benefits paid	**(8.4)**	**(1.2)**	**(0.1)**	**(9.7)**	(7.1)	(0.9)	(0.2)	(8.2)
Curtailment gain	**(6.3)**	**–**	**–**	**(6.3)**	–	–	–	–
Exchange differences	**–**	**(3.3)**	**(0.6)**	**(3.9)**	–	8.5	1.3	9.8
At 31 December	**188.8**	**30.0**	**4.7**	**223.5**	162.8	31.1	4.6	198.5

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

	31 December 2009				31 December 2008			
	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	**125.5**	**21.8**	**–**	**147.3**	142.3	19.3	–	161.6
Expected return on plan assets	**6.5**	**1.5**	**–**	**8.0**	8.3	1.6	–	9.9
Actuarial gains/(losses)	**8.6**	**1.7**	**–**	**10.3**	(24.9)	(5.2)	–	(30.1)
Contributions from employer	**16.3**	**4.9**	**–**	**21.2**	6.2	0.6	–	6.8
Contributions by plan participants	**0.7**	**–**	**–**	**0.7**	0.7	–	–	0.7
Benefits paid	**(8.4)**	**(1.2)**	**–**	**(9.6)**	(7.1)	(0.9)	–	(8.0)
Exchange differences	**–**	**(2.5)**	**–**	**(2.5)**	–	6.4	–	6.4
At 31 December	**149.2**	**26.2**	**–**	**175.4**	125.5	21.8	–	147.3

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

	31 December 2009				31 December 2008			
	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	**0.9**	**0.7**	**0.1**	**1.7**	1.2	0.5	0.1	1.8
Curtailment gain	**(6.3)**	**–**	**–**	**(6.3)**	–	–	–	–
(Credit)/charge included within operating profit	**(5.4)**	**0.7**	**0.1**	**(4.6)**	1.2	0.5	0.1	1.8
Interest cost	**10.2**	**1.7**	**0.3**	**12.2**	10.1	1.4	0.1	11.6
Expected return on plan assets	**(6.5)**	**(1.5)**	**–**	**(8.0)**	(8.3)	(1.6)	–	(9.9)
Included within finance costs	**3.7**	**0.2**	**0.3**	**4.2**	1.8	(0.2)	0.1	1.7
Amount recognised in the Income Statement	**(1.7)**	**0.9**	**0.4**	**(0.4)**	3.0	0.3	0.2	3.5

Of the current service cost for the year, £1.0m (2008 – £1.0m) has been included in cost of sales, and £0.7m (2008 – £0.8m) has been included in administrative expenses. The curtailment gain of £6.3m (2008 – £nil) has been included in administrative expenses.

Actuarial losses of £20.0m (2008 – £15.0m) have been recognised in the Statements of Comprehensive Income. The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income as at 31 December 2009 is £36.9m (2008 – £16.9m).

35. Retirement Benefit Schemes continued

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Fair value of plan assets				
Equities and active currency	**62.5**	53.9	**9.1**	7.6
Bonds	**52.1**	47.3	**16.0**	13.8
Gilts	**33.1**	24.2	**–**	–
Properties and other	**1.5**	0.1	**1.1**	0.4
Total	**149.2**	125.5	**26.2**	21.8
Actual return on plan assets	**15.1**	(16.6)	**3.2**	(3.6)
Major assumptions (per annum %)				
Inflation	**3.5%**	2.8%	**n/a**	n/a
Increase in salaries	**2.0%**	3.8%	**4.0%**	4.0%
Increase in pensions	**3.4%**	2.7%	**0.0%**	0.0%
Increase in deferred pensions	**3.5%**	2.8%	**0.0%**	0.0%
Rate used to discount plan liabilities	**5.7%**	6.4%	**5.9%**	6.1%
Expected return on assets at 31 December	**5.6%**	5.1%	**7.5%**	7.5%
Life expectancy of a male aged 65 in 2009	**20.5**	20.8	**17.7**	17.7
Life expectancy of a male aged 65 in 2029	**22.4**	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.

35. Retirement Benefit Schemes continued

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

	2009 %	2008 %
Equities and active currency	**7.4**	6.6
Bonds	**4.8**	4.5
Gilts	**3.6**	3.1
Cash	**3.9**	3.3
Total	**5.6**	5.1

For the UK plan, the estimated impact on the plan deficit at 31 December 2009 for changes in assumptions is as follows:

	Increase in plan deficit £m
0.5% decrease in the discount rate	15.0
One-year increase in life expectancy	5.0
0.5% increase in inflation	8.0

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 2010 to the UK plan is £6.3m (£4.9m of which is to fund the past service deficit) and to the USA funded plans is £1.8m (£1.4m of which is discretionary).

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £2.8m (2008 – £2.7m), unfunded closed pension and post-retirement healthcare plans in the USA £0.5m (2008 – £0.5m) and provision for post-retirement payments in France of £1.4m (2008 – £1.4m).

The closed pension and post-retirement healthcare plans in the US have been valued on a projected unit method with the following assumptions: discount rate 5.9%, and annual healthcare cost trend rate of 8.7%, 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 5.3%, 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	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	**(188.8)**	(162.8)	(172.8)	(172.1)	(165.7)
Fair value of plan assets	**149.2**	125.5	142.3	141.3	134.4
Plan deficit	**(39.6)**	(37.3)	(30.5)	(30.8)	(31.3)
Experience gain/(loss) on plan liabilities	**0.6**	0.1	12.8	(2.2)	0.3
Experience gain/(loss) on plan assets	**8.6**	(24.9)	(5.2)	0.7	11.1

US plan funded	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	**(30.0)**	(31.1)	(21.3)	(21.8)	(23.2)
Fair value of plan assets	**26.2**	21.8	19.3	18.6	18.3
Plan deficit	**(3.8)**	(9.3)	(2.0)	(3.2)	(4.9)
Experience (loss)/gain on plan liabilities	**(0.3)**	0.1	0.3	0.1	(0.1)
Experience gain/(loss) on plan assets	**1.7**	(5.2)	(0.4)	1.4	(0.1)

Unfunded plans	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	**(4.7)**	(4.6)	(3.8)	(3.5)	(3.7)
Fair value of plan assets	**–**	–	–	–	–
Plan deficit	**(4.7)**	(4.6)	(3.8)	(3.5)	(3.7)
Experience gain/(loss) on plan liabilities	**–**	–	–	–	–

36. Related Party Transactions

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

	Year ended 2009 £m	Year ended 2008 £m
Transactions in year		
Management charges	**0.4**	0.5
Pension recharges	**0.4**	0.2
(Loss)/gains on foreign exchange contracts held for trading	**(8.1)**	10.7
Interest receivable	**6.6**	7.5
Interest payable	**(0.7)**	(0.4)
Balances at year-end		
Investments in subsidiaries	**179.0**	179.0
Amounts due from subsidiaries	**113.4**	95.2
Fair value of currency derivative (liabilities)/assets	**(0.7)**	7.2
Amounts due to subsidiaries	**(63.7)**	–

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.

Group income statement	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Revenue					
Continuing operations	**540.1**	562.4	470.7	387.9	338.6
Adjusted operating profit					
Continuing operations	**59.4**	64.5	45.0	26.2	19.8
Loss on sale of fixed assets	**(0.1)**	–	(0.7)	(0.4)	(0.2)
Release of provision from previous acquisition	**–**	–	0.5	–	–
Exceptional pension gain	**6.3**	–	–	–	–
Amortisation of intangible assets from acquisitions	**(4.6)**	(4.7)	(3.3)	(1.3)	–
Operating profit	**61.0**	59.8	41.5	24.5	19.6
Investment income/finance costs, net	**(7.2)**	(6.8)	(6.4)	(5.6)	(3.9)
Net finance cost of retirement benefit obligations	**(4.2)**	(1.7)	(0.8)	(0.8)	(1.1)
Profit before tax	**49.6**	51.3	34.3	18.1	14.6
Tax	**(10.6)**	(12.1)	(6.4)	(2.9)	(2.5)
Profit for the year	**39.0**	39.2	27.9	15.2	12.1

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Depreciation and amortisation of intangibles	**25.4**	23.4	17.9	13.9	12.0
Gross capital expenditure (including finance lease assets)	**12.6**	24.5	19.5	20.7	16.6
Basic earnings per share	**9.79p**	9.92p	7.17p	4.35p	3.75p
Diluted earnings per share	**9.58p**	9.78p	7.00p	4.25p	3.69p
Adjusted earnings per share	**8.91p**	10.63p	7.71p	4.65p	3.82p
Dividends in respect of year – per share	**2.600p**	2.600p	2.400p	2.000p	1.905p
– value	**10.4**	10.4	9.4	7.5	6.4

Group balance sheets	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Non-current assets	**299.1**	343.7	223.4	217.5	158.2
Net current assets	**63.5**	44.5	26.5	42.4	44.4
Non-current liabilities	**(177.8)**	(212.0)	(100.0)	(132.8)	(110.3)
Net assets	**184.8**	176.2	149.9	127.1	92.3
Net borrowings	**(102.3)**	(174.5)	(94.8)	(96.7)	(62.4)

Group cash flow	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Net cash from operating activities	**69.8**	74.6	35.3	22.3	16.5
Interest received	**2.6**	1.7	0.8	1.3	1.4
Proceeds from disposal of property, plant and equipment	**0.3**	0.6	1.9	2.2	0.9
Purchase of property, plant and equipment – cash	**(12.3)**	(23.8)	(19.0)	(20.1)	(16.3)
– finance leases	**–**	–	–	–	–
Purchase of intangible assets	**(0.3)**	(0.7)	(0.5)	(0.6)	(0.3)
Free cash flow	**60.1**	52.4	18.5	5.1	2.2
Dividends paid	**(10.4)**	(10.3)	(8.1)	(6.5)	(6.1)
Acquisitions less disposals	**0.5**	(43.6)	(8.1)	(79.7)	(0.1)
Share issues	**0.1**	1.3	0.2	34.8	0.5
(Decrease)/increase in loans	**(15.5)**	17.5	(5.1)	46.0	6.1
Decrease in finance leases	**(0.2)**	(0.2)	(0.2)	(0.2)	(0.3)
Cash (outflow)/inflow on forward contracts	**(25.2)**	(13.0)	0.4	(0.2)	(0.2)
Increase/(decrease) in cash and cash equivalents	**9.4**	4.1	(2.4)	(0.7)	2.1

Airbus Industries / A320 / Senior Aerospace provides significant content on the market leading A320 family of short- to medium-range, narrow-bodied, commercial passenger aircraft manufactured by Airbus Industries.

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 Flexonics 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 Flexonics Bartlett	Bartlett, Illinois
	Senior Flexonics Pathway	New Braunfels, Texas
Senior Aerospace Bosman B.V. (incorporated in the Netherlands)	Senior Aerospace Bosman	Rotterdam, Netherlands
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 Flexonics Cape Town	Cape Town, South Africa
Senior Berghofer GmbH (incorporated in Germany)	Senior Flexonics Kassel	Kassel, Germany
Senior India Private Limited (incorporated in India)	Senior Flexonics 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 FlexonicsSão Paulo	São Paulo, Brazil
Senior Operations (Canada) Limited (incorporated in Canada)	Senior Flexonics Canada	Brampton, Ontario

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.

Analysis of Shareholders at 31 December 2009

	Shareholders		Issued shares	
	Number	%	Millions	%
By category				
Corporate bodies	805	21.27	380.72	95.26
Other shareholders	2,980	78.73	18.94	4.74
	3,785	100.00	399.66	100.00
By range of holdings				
1 – 24,999	3,315	87.58	14.56	3.64
25,000 – 49,999	148	3.91	4.99	1.26
50,000 – 249,999	165	4.36	18.04	4.51
250,000 – 499,999	40	1.06	13.67	3.42
500,000 – 999,999	33	0.87	23.14	5.79
1,000,000 – and over	84	2.22	325.26	81.38
	3,785	100.00	399.66	100.00

The number of shares in issue at 31 December 2009 was 399,663,293.

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 88, 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 23 April 2010 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.

2010 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.

1 March
Preliminary announcement of the 2009 Annual Results.

12 March
Publication of Annual Report & Accounts 2009.

21 April
Interim Management Statement.

23 April
Annual General Meeting.

28 April
Shares ex-dividend for 2009 final dividend.

30 April
Record date for shareholders on the register to receive the 2009 final dividend.

28 May
Payment of 2009 final dividend.

28 June
Pre-Close Trading Statement.

2 August
Preliminary announcement of the 2010 Interim Results.

6 August
Publication of Interim Report 2010.

18 October
Interim Management Statement.

27 October
Shares ex-dividend for 2010 interim dividend.

29 October
Record date for shareholders on the register to receive the 2010 interim dividend.

29 November
Payment of 2010 interim dividend.

15 December
Pre-Close Trading Statement.

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