Senior plc
Annual Report & Accounts 2010

senior

Delivering profitable growth through…

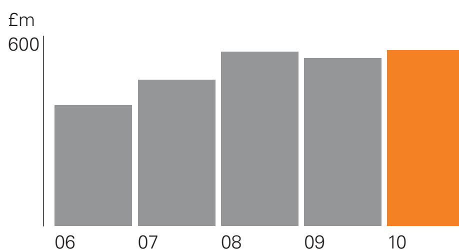
Customer-focused engineering solutions
Core manufacturing expertise
Empowered operational leadership

Structures

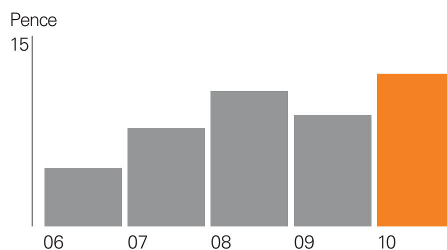
The Boeing 737 programme is Senior's most significant aircraft platform. The Group machines and assembles a range of aluminium components and fabrications at its AMT operation in Washington State, USA, including structural wing ribs and secondary structure assemblies in the wing to body join area. Other Group operations supply aluminium rings, which are used to attach the aircraft's engines to the nacelle, and air control mechanisms for aircraft engines.

Group at a Glance

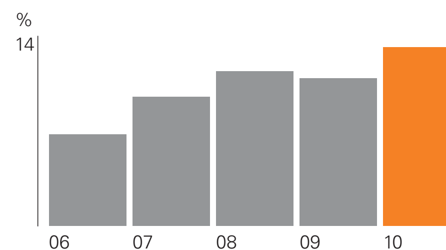
Our business 2006 to 2010 – five-year performance record



Revenue **+10% p.a.***



Adjusted earnings per share **+27% p.a.***



Return on revenue margin **+1.6ppts p.a.****

Aerospace 2010

59% of Group revenue

What we do

Fluid conveyance systems

– low-pressure ducting systems

– high-pressure ducting systems

– aerospace control bellows, sensors and assemblies

– non-aerospace control bellows and assemblies

Gas turbine engines

– fluid systems control components

– precision machined engine components

Structures

– precision machined airframe components and assemblies

– nacelle rings

– helicopter transmission components

2010 Highlights

– strong sales growth in main military programmes due to increased build rates and higher shipset content

– increased sales on large commercial aircraft narrow body programmes and Boeing 787 Dreamliner

– contraction in regional jet markets, as expected

– sales to business jet market flat with new programmes offsetting weaker market

– high level of activity in non-aerospace products, notably semi-conductor

– significant increase in operating margin driven by improved product mix and further success with operational excellence initiatives

Locations

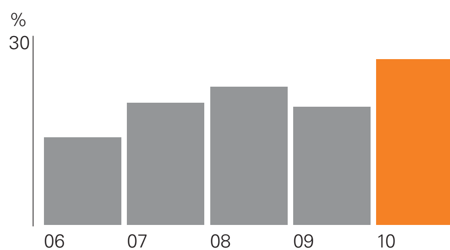
North America (ten)
United Kingdom (two)
Continental Europe (three)

£334m
Revenue **+5%**

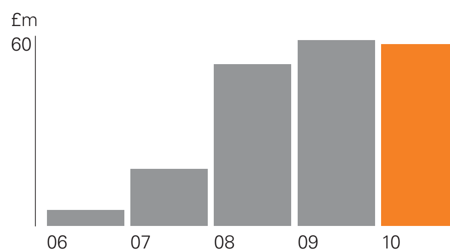
£50.0m
Adjusted operating profit **+29%**

15.0%
Adjusted operating margin **+2.8ppts**

2,555
Employees worldwide



Return on capital employed **+3.1ppts p.a.****



Free cash flow **+84% p.a.***

* Calculated as the compound annual growth rate for the period 2006 to 2010.
** ppts – percentage points.

Flexonics 2010
41% of Group revenue

What we do

Land vehicle emission control
- exhaust gas recycling coolers and heat exchangers
- flexible exhaust connectors
- diesel fuel distribution pipework

Industrial process control
- expansion joints, dampers and diverters
- hoses, flexes, control bellows
- fuel cell heat exchangers, vacuum seal bellows and rotation joints

2010 Highlights
- year-on-year increase in demand in all land vehicle markets:
  - North American and European truck
  - European, Brazilian, North American and Indian passenger vehicles
- North American industrial weaker, particularly petrochemical, although quote activity better later in year
- acquisition of WahlcoMetroflex, Inc. in August 2010 enhances industrial process control capabilities
- increased demand in European industrial markets and for medical and renewable energy applications
- improved product mix and positive impact of increased volumes on lower cost base drove excellent increase in operating margin

Locations
North America (three)
United Kingdom (two)
Continental Europe (three)
South Africa (one)
India (one)
Brazil (one)

£234m
Revenue **+6%**

£31.6m
Adjusted operating profit **+21%**

13.5%
Adjusted operating margin **+1.7ppts**

2,360
Employees worldwide

Financial Highlights

£566.9m
Revenue
(2009 – £540.1m)

13.3%
Adjusted operating margin*
(2009 – 11.0%)

£65.3m
Adjusted profit before tax*
(2009 – £48.0m)

£52.1m
Profit before tax
(2009 – £49.6m)

12.01p
Adjusted earnings per share*
(2009 – 8.91p)

10.11p
Basic earnings per share
(2009 – 9.79p)

3.12p
Dividends per share**
(2009 – 2.60p)

26.1%
Return on capital employed
(2009 – 18.6%)

£58.8m
Free cash flow***
(2009 – £60.1m)

£63.7m
Net debt***
(2009 – £102.3m)

* Adjusted figures are stated before profit on disposal of fixed assets of £0.2m (2009 – £0.1m loss), a £4.6m charge for amortisation of intangible assets acquired on acquisition (2009 – £4.6m), an £8.7m charge for impairment of goodwill (2009 – £nil), acquisition costs of £0.1m (2009 – £nil) and an exceptional pension gain of £nil (2009 – £6.3m). Adjusted earings per share takes account of the tax impact of these items.
** Paid and proposed.
*** See Notes 33(b) and 33(c) for derivation of free cash flow and of net debt, respectively.

Group revenue	+5%
Adjusted profit before tax	+36%
Adjusted operating margin	+2.3ppts
Dividends per share	+20%
Net debt	£39m better
Return on capital employed	+7.5ppts

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Market Overview

Senior is 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.

Aerospace

Fluid conveyance systems

Delivery of air, hydraulic fluids and fuel to critical airborne system functions. Capability for "end to end" delivery systems in a range of composite and metallic materials. Design of maintenance-free product solutions for harsh environments that are subject to high temperatures, pressures and vibration levels.

- principal military aircraft, regional jet and business jet markets are stable
- group is increasingly successful where it has product design content
- excellent content on new programmes such as Bombardier's CSeries, next generation regional jets and the Lockheed Martin Joint Strike Fighter will provide a foundation for future growth
- exploiting technologies in allied non-aerospace applications, such as in the medical and semi-conductor industries

Gas turbine engines

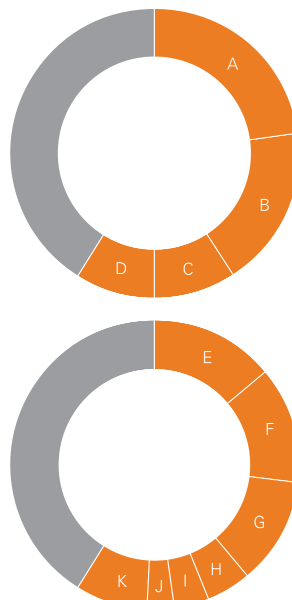
Manufacture of precision engineered products that operate in a mission-critical, harsh environment. Provision of engine core, ancillary systems and related structural products to major engine manufacturers. Adding value through the development of advanced manufacturing processes.

- market forecasted to grow at a healthy rate, driven by increasing aircraft build rates
- new technologies in development, aimed at improving fuel efficiency, will provide growth opportunities
- major engine manufacturers are undertaking outsourcing exercises, providing further opportunities
- emphasis on operational excellence, as customers generally own product designs
- nature of these products generally require higher than average capital investment

Structures

Focus on precision machined products and assemblies for airframe structures and systems. Ability to replace complex assemblies with single piece monolithic parts. Adding value by kitting and assembling for original equipment manufacturers.

- heavy bias towards large commercial aircraft in North America and the Sikorsky Black Hawk helicopter
- healthy outlook in all major programmes with forecast for increase in build rates to drive organic revenue growth
- ramp-up of Boeing 787 production will be beneficial
- strong customer relationships provide access to new programme opportunities
- increased outsourcing by major customers (e.g. Boeing, Rolls-Royce, Spirit and Sikorsky) provides additional opportunities for increased market share



Markets
A Large commercial aircraft **23%**
B Military and defence **18%**
C Regional and business jets **9%**
D Other **9%**

Products
E Engine structures and mountings **14%**
F High-pressure ducting **13%**
G Airframe structural parts **12%**
H Helicopter machined parts **5%**
I Low-pressure ducting and other composites **4%**
J Fluid control systems **3%**
K Non-aerospace **8%**

Flexonics

Land vehicle emission control

Focus on development of emission control products for the truck and off-highway transport sector as well as select passenger vehicle applications. Adding value through design of engineered products for customers to meet an increasingly stringent regulatory environment.

- key truck markets in North America and Europe are showing initial signs of recovery
- passenger vehicle market outlook satisfactory with strength in Brazil, the USA growing steadily but Europe likely to weaken in the short term
- consistent tightening of emission legislation in all developed markets will continue to drive increased demand for the Group's existing products and technological development expertise
- customers increasingly sourcing globally
- combining centres of excellence for product development with manufacture in low-cost countries to meet customer requirements

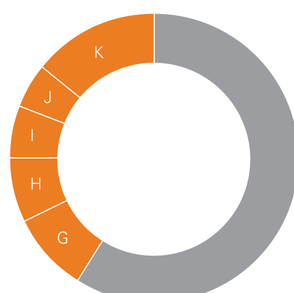
Industrial process control

Design and manufacture of fluid conveyance products for a range of industrial process control applications mainly in the petrochemical and power generation industries. Significant exposure to maintenance and upgrade requirements including provision of on-site services. Increasing development of heat exchanger technologies for increased fuel efficiency and to meet tightening emission standards.

- market growth largely determined by global GDP
- tightening emission legislation (e.g. carbon reduction requirements for coal- fired power stations) assists demand for the Group's products
- group has a leading presence in large expansion joints and dampers/diverters in the USA, and also services global markets
- investment is occurring in new products to meet the increasing need for alternative energy solutions, such as concentrated solar power and fuel cell technology
- increases in emerging market demand are likely to drive the requirement for additional production capabilities in these markets

Markets
A Passenger vehicles **14%**
B Truck **8%**
C Power and energy **6%**
D Heating, ventilation and solar **5%**
E Petrochemical **4%**
F Other industrial **4%**

Products
G Exhaust flexes **9%**
H Emission control **7%**
I Fuel distribution **6%**
J HVAC ducting **5%**
K Expansion joints, dampers, diverters, bellows **14%**



Key Growth Drivers

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.

Global GDP

Growth in global GDP will have a direct impact on a number of the Group's global and regional market demand drivers. The most notable of these are global passenger air miles flown, which will support higher demand for new commercial aircraft, and increased consumer demand which will result in increased sales of trucks and passenger vehicles as well as higher energy usage. Medium-term forecast trends in these areas are positive, which can be expected to underpin further increases in Group revenue.

Environmental Legislation

Demand for the majority of the Group's products is linked either directly or indirectly to the increasingly stringent global requirements for reduced carbon emissions. This arises either through environmental regulation, principally evident today in the formof reduction targets for emissions from industrial process plants and from land vehicles, or through the drive for cost savings via increased fuel efficiency in engines that power aircraft, trucks and passenger vehicles. These regulatory factors and cost-reduction motives are expected to increase in the coming years, which in turn should support increased demand for the Group's existing products and its product development portfolio, such as fuel cell and heat exchanger technologies.

Large Commercial and Military Aircraft Build Rates

The Group has healthy shipset content on most key aerospace growth platforms in the large commercial, regional jet and military aircraft markets. The most significant existing platforms for the Group in the near to medium term are the Boeing 737 and 777, the Airbus A320 series, Lockheed Martin's C-130 military transport aircraft and Sikorsky's Black Hawk helicopter. Additional new aircraft platforms that are anticipated to become increasingly meaningful include the Boeing 787 Dreamliner, Bombardier's CSeries aircraft, Lockheed Martin's F35 Joint Strike Fighter and the Airbus A350 XWB. Medium-term forecasts are for meaningful growth in all of the above platforms.

Content on New Programmes

Securing programme wins, in particular content on new aircraft or land vehicle programmes, is an essential component that drives sustained long-term growth in the Group's revenue and profits. The Group has developed strong relationships with its key customers to ensure that it is well placed to bid on new programmes as they emerge and can provide genuinely effective and timely customer solutions. The best examples of recent success in this area are the significant content that the Group has secured on the new Boeing 787 Dreamliner, its largest shipset content ever, and the successful development of heat exchanger technology used in the Group's exhaust gas recycling coolers supplied to the new generation of Cummins heavy-duty diesel engines.

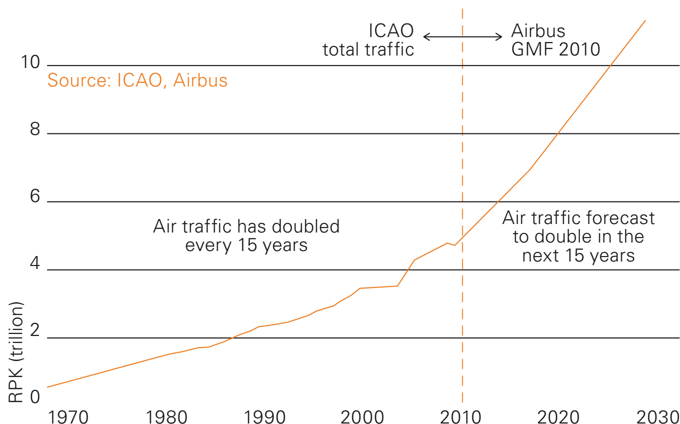
Market Share

Provision of market-leading engineering solutions and high-technology components in its chosen market sectors are key Group strategic objectives. The Group also places significant emphasis on operational excellence, driven by Lean Manufacturing techniques, as an essential component of delivering relative performance that is consistently ahead of its peers. In combination, achievement of these objectives is a key driver of market share gains, evidenced by increasing shipset content on a number of major platforms achieved in recent years that will continue to support future growth.

Acquisitions

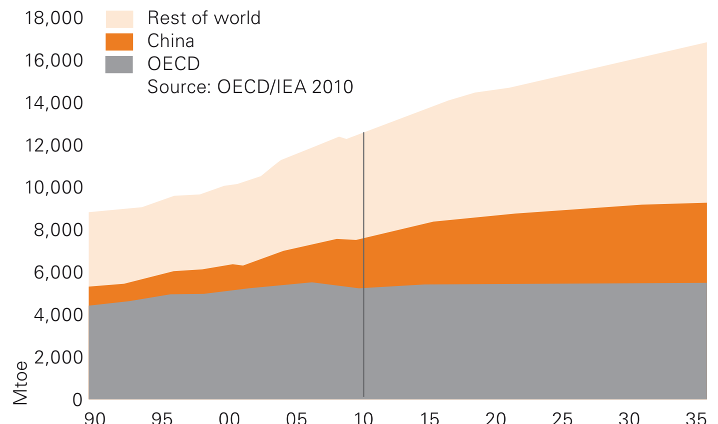
The Group has a good track record of acquiring and successfully integrating new businesses, utilising an acquisition framework that has been developed as part of the strategic planning process. Significant balance sheet capacity has been generated in the last two years through very strong free cash flow generation. This can now be utilised to support a targeted and complementary acquisition programme, aiming to build further on the Group's capabilities in both the Aerospace and Flexonics Divisions.

World annual traffic – revenue passenger km



Forecast annual growth in global passenger air traffic is the key driver of demand for new commercial aircraft, and hence for many of Senior's core aerospace products.

World energy outlook 2010



Projected increases in global energy usage will drive higher revenue for Senior through increased sales of large industrial expansion joints and other emission-related products.

Structures

The Sikorsky Black Hawk helicopter is one of Senior's most important aerospace programmes. The Group machines various magnesium and titanium components at its Sterling Machine facility in Connecticut, USA that are incorporated into the Black Hawk's transmission and rotor hub assemblies.

Chairman's Statement

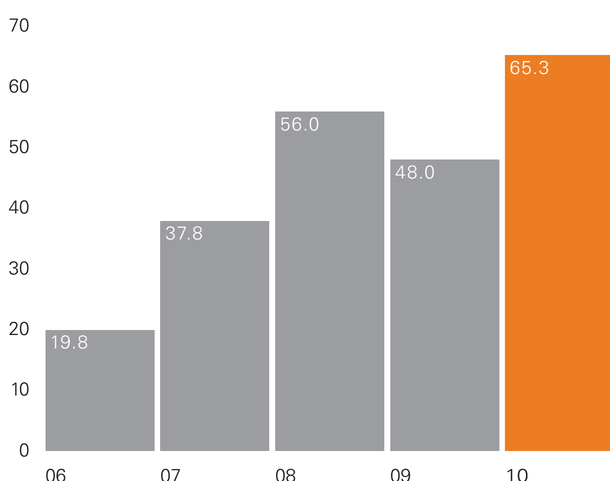
Martin Clark Chairman

Adjusted profit before tax increased by 36% to record levels, driven by significant margin improvements, and healthy operating cash flow resulted in a net debt reduction of £39m."

Group Highlights

- Increased revenues from the military and defence, land vehicle and semi-conductor markets
- Group's focus on operational efficiencies resulted in much improved margins
- Record level of adjusted profit before tax
- Continuing strong cash flow delivered a £39m reduction in net debt
- Acquisition of WahlcoMetroflex in August 2010; integration on track
- Airbus and Boeing announced significant future build rate increases for most of their aircraft
- Strengthening customer relationships leading to increased opportunities

Adjusted profit before tax (£m)



Senior has delivered an excellent set of results for 2010. Adjusted profit before tax increased by 36% to record levels, driven by significant margin improvements, and healthy operating cash flow resulted in a net debt reduction of £39m to £64m. Trading has been in line with expectations at the start of 2011 and this, combined with the strong 2010 performance and healthy long-term prospects for the Group, gives the Board the confidence to recommend a 20% increase in the full-year dividend for 2010.

Financial Results

Group revenue increased by 5% to £566.9m (2009 – £540.1m), with sales to the military and defence, land vehicle and semi-conductor markets all improving but those to the petrochemical market weakening.

A key highlight of 2010 was the improvement in the Group's adjusted operating margin from 11.0% in 2009 to 13.3% for 2010, with both the Aerospace and Flexonics Divisions contributing. This significant, and Group-wide, improvement was principally due to the Group's ongoing focus on operational improvements, a lower cost base (following actions taken in 2009) and a more favourable product mix.

Adjusted profit before tax, the measure which the Board believes most accurately reflects the true underlying performance of the business, increased by 36% to £65.3m (2009 – £48.0m). Adjusted earnings per share increased by 35% to 12.01 pence (2009 – 8.91 pence). A full derivation of adjusted profit before tax is included in the Operating and Financial Review where, as previously announced, an £8.7m impairment charge in the carrying value of goodwill held in respect of the acquisition of Capo Industries, Inc. is included as a 2010 adjusting item. Reported profit before tax was £52.1m (2009 – £49.6m).

The Group once again demonstrated its strongly cash-generative nature, delivering free cash flow of £58.8m (2009 – £60.1m) with the result that net debt reduced by £38.6m to £63.7m by the year-end (31 December 2009 – £102.3m). This level of net debt represents 0.7 times (31 December 2009 – 1.3 times) earnings before interest, tax, depreciation and amortisation ("EBITDA"), being well within the Group's principal banking covenant requirement that net debt to EBITDA is less than 3.0 times.

The excellent results and the financial strength of the Group leave it well placed to grow organically and through acquisition over the coming years. In this regard, the Group acquired WahlcoMetroflex, Inc., located in Maine, USA, during August 2010 for £8.9m. The business, which manufactures dampers and expansion joints for a variety of global industrial markets, makes an excellent strategic fit with the Group's successful Senior Flexonics Pathway business.

The Group's 2010 financial performance is discussed in greater detail in the Operating and Financial Review which follows this Statement.

Dividend

The Board is recommending a final dividend of 2.12 pence per share (2009 – 1.70 pence), bringing the total dividend for the year to 3.12 pence (2009 – 2.60 pence), a 20% increase over 2009. At the level recommended, the full-year dividend would be covered 3.8 times (2009 – 3.4 times) by adjusted underlying earnings per share. The final dividend, if approved, will be paid on 31 May 2011 to shareholders on the register at close of business on 6 May 2011.

Markets and Operations

Senior reports as two Divisions – Aerospace, consisting of 15 operations and representing 59% of 2010 Group revenue, and Flexonics, consisting of 11 operations and representing 41% of Group revenue. All Group operations are focused on manufacturing components and systems for original equipment manufacturers. Senior's products are typically single sourced, highly engineered and require advanced manufacturing processes for their production.

The Group operates in five strategic market sectors: three in Aerospace – Structures, Fluid Conveyance Systems and Gas Turbine Engines; and two in Flexonics – Land Vehicle Emission Control and Industrial Process Control. Each of these market sectors is expected to provide healthy and accessible growth opportunities for Senior and strategic objectives have been developed by the Group to exploit them. At the Group level, and applicable to all the market sectors, there are four key elements to Senior's strategy: optimising the value of the Group's existing portfolio of businesses; investment in new product development, technologies and geographic regions; portfolio enhancement through acquisitions and disposals; and creating an entrepreneurial culture, within a strong control framework, throughout the Group. The Group's overall strategy, as well as the specific strategic objectives applying to each of the five market sectors, is set out in more detail in the Operating and Financial Review.

Aerospace Division

The market for commercial aircraft (54% of 2010 divisional sales) saw a slight decline in 2010: production of large commercial aircraft (39% of divisional sales) and business jets (9%) were broadly unchanged whilst those of regional jets (6%) continued to fall. More importantly, Airbus and Boeing announced increases in the build rates for most of their aircraft over the next three years of typically 20% to 25%. This is highly encouraging for the future prospects of Senior, given that the large commercial aircraft market is already the most important end market for the Group.

Boeing and Airbus collectively delivered 972 wide-bodied commercial aircraft in 2010, very similar to the prior year's record level of 979 aircraft, and saw a strong recovery in order activity with their combined net order intake increasing to 1,104 aircraft (2009 – 413). Their combined order book consequently increased to 6,995 aircraft at the year-end (2009 – 6,863), a healthy seven-year order book at current build rates. Of these orders, 847 are for the Boeing 787 aircraft, on which Senior has an average of US$750k of content per aircraft. The test programme for the 787 is well advanced and Boeing is confident that, after a number of delays, deliveries of the 787 to customers will start in the third quarter of 2011. Production is expected to increase steadily thereafter to a rate of 120 aircraft per annum by the end of 2013.

After a tough 2009, when aircraft deliveries fell by 34% from the record level seen in 2008, the business jet market stabilised gradually through 2010 with aircraft deliveries of 763, down 12% on the 870 aircraft delivered in 2009. Despite this decline, the Group's sales to this market were broadly unchanged as production of certain aircraft, such as the Gulfstream G500/550 on which the Group has healthy content, increased. As anticipated, the regional jet market was weak with Bombardier and Embraer, currently the two largest regional jet manufacturers, reporting declines in deliveries of 33% and 20% respectively. However, their combined order intake was slightly above deliveries and this, combined with the near-to medium-term entry into service of regional jets built in China, Japan and Russia, on which Senior has good content, offers improved future prospects for the Group.

As a result of build rate increases of the Lockheed Martin C-130 military air-transport aircraft and additional content on the Sikorsky Black Hawk helicopter being awarded to Senior, Group sales to the military and defence sector increased during 2010, such that this market now represents 30% of the Aerospace Division's sales (2009 – 27%). In addition to the solid prospects for these two programmes, the entry into service during the coming years of the Airbus A400M military air-transport aircraft and Lockheed Martin's F35 Joint Strike Fighter is anticipated to provide sales growth for Senior.

Improved revenues to the military and defence sector and to some non-aerospace markets (total 13% of divisional sales), together with much improved operational efficiencies, resulted in reported sales for the Aerospace Division increasing by 5% to £333.8m (2009 – £319.2m) and reported adjusted operating profit increasing by 29% to £50.0m (2009 – £38.8m). The reported operating margin of the Division was 15.0% (2009 – 12.2%).

Flexonics Division

Sales to land vehicle markets (passenger vehicles, commercial trucks and off-highway vehicles) accounted for 53% of the Flexonics Division's sales in 2010. Sales to industrial markets, such as petrochemical, power generation, medical, and heating & ventilation, accounted for the remaining 47%.

During 2009, production of land vehicles in North America and Europe had been generally well below sales levels, as the vehicle manufacturers sought to generate cash through the liquidation of finished vehicle inventory. In 2010, sales and production levels in these markets were much better aligned and as a result year-on-year increases in production, for both passenger and commercial vehicles, were in excess of sales. The Group's two other important passenger vehicle markets, Brazil and India, saw production increases broadly in line with increases in sales. Against this background, the Group's sales to the passenger vehicle market (34% of divisional sales) and to the medium- and heavy-truck market (19% of divisional sales) both grew by around 12%.

With the notable exception of sales to the petrochemical market, which declined by 26%, sales in the Group's industrial markets were generally satisfactory and were notably strong in German markets. After a number of years of healthy increases, global sales of large metallic and fabric expansion joints, manufactured by the Group's Senior Flexonics Pathway business, eased down in 2010

Fluid conveyance systems

The Group's Fluid Systems Division is a market leader in the design and manufacture of high and low pressure pneumatic ducting systems, hydraulic systems and pressure sensors for the world's principal regional and business jet manufacturers.

from record levels, although margins held up well as a result of a greater demand for emergency repair services. Industrial dampers are a complementary product to expansion joints, being sold to the same industries and customers, and the acquisition of WahlcoMetroflex, Inc., the market leader in dampers in North America, can be expected to enhance the growth prospects of both businesses.

The modest recovery in land vehicle markets, and some strengthening in German general industrial markets, meant reported revenue for the Flexonics Division increased by 6% to £233.5m (2009 – £221.3m). This revenue increase, combined with the lower cost base now in place as a result of the actions taken in 2009, resulted in reported adjusted operating profit for the Division increasing by 21% to £31.6m (2009 – £26.2m). The reported divisional operating margin improved to 13.5% (2009 – 11.8%).

Employees and the Board
I would like to thank all of Senior's employees for their continued hard work on behalf of the Group and for contributing to its success in 2010. After a significant decline in headcount from September 2008 until June 2009, it was pleasing to see many of the Group's end markets stabilising or improving during 2010. Against this background, the Group's headcount increased by 185 (4%) during 2010 to end the year at 4,949. Around half of the increase in headcount was due to the acquisition of WahlcoMetroflex, to whose employees I would like to extend an especially warm welcome to the Group.

Michael Steel, who joined the Board as a non-executive Director in May 2008, has notified the Company that he will not be standing for re-election at the forthcoming Annual General Meeting on 28 April 2011 and he intends to leave the Group at that time. On behalf of the Board, I would like to thank Michael for his contribution to Senior's success during his time with the Group and to wish him well for the future. In light of this decision, and the aspirations which the Group has for its future development, the Board has decided to take the opportunity to enlarge and strengthen the Board through the ongoing recruitment of two non-executive Directors.

Outlook
Senior is well positioned, both financially and operationally, to benefit from the healthy opportunities being seen across the Group today, particularly in the large commercial aerospace market where build rates are increasing and significant new programmes are due to go into production in the near to medium term.

In Aerospace, the most recent announcements from Boeing and Airbus indicate that their 2011 production volumes will be slightly above 2010 levels and that, because of the already announced increases in build rates, volumes will also increase over the following few years. After a number of delays, Boeing has stated that it is confident its 787 Dreamliner, on which Senior has more content than any previous commercial aircraft, and the 747-8 aircraft will both start to be delivered to customers in the second half of 2011. A meaningful improvement in the regional and business jet markets is probably at least a couple of years away, although any further decline from the current low levels is not anticipated and a number of new programmes are due to go into production in the near to medium term which should benefit the Group. Two other potentially important new programmes for Senior, the Airbus A350 and Bombardier CSeries aircraft, are currently scheduled for delivery to customers beginning in 2013. Build rates of the Group's main military programmes, the C-130 air-transport aircraft and the Black Hawk helicopter, are expected to remain at healthy levels for the foreseeable future, with the entry into service of the Joint Strike Fighter and the A400M providing further future growth.

With respect to the Flexonics Division, industry commentators are forecasting production of passenger vehicles to be slightly higher in most of the Group's geographical markets in 2011 than in 2010. The main exception to this is in Western Europe, particularly for the Group's important French customers, where more challenging market conditions are expected following the ending of government-funded incentive schemes. Sales of medium- and heavy-duty trucks are also forecast to recover, strongly in some territories, but to date the Group has seen only modest increases. Looking further ahead, and given the generally weak levels of activity today in the Group's key European passenger vehicle and North American truck markets, volumes can be expected to increase at a healthy rate when economic prospects improve. On the industrial side of the Flexonics Division, the market for large expansion joints in 2011 is expected to remain at similar levels to 2010 although, given the short-term order book nature of much of this business, the actual outcome is always somewhat uncertain. In the longer term, the Group's increased product offering following the acquisition of WahlcoMetroflex, and ever tightening environmental legislation are expected to provide growth opportunities. Price increases of some raw materials used by the Group, such as stainless steel, have been seen in recent months. In North America and Europe the Group is generally able to pass on raw material price increases through previously agreed "surcharge agreements" or because of the one-off nature of many of the industrial projects, although there is a potential exposure outside these territories in the land vehicle markets. The Group's projections for 2011 take account of current raw material costs as well as the adverse impact of the stronger South African Rand against the Euro, which effectively reduces the selling prices of the Group's South African operation by around 20% in 2011 compared to 2010.

Senior's growing emphasis on better understanding its customers' needs, and providing solutions for them, is generating significant customer interest which is anticipated to translate into market share gains over the coming years. In addition to focusing on organic growth, greater effort is now being expended on identifying suitable acquisition targets whose business activities fall within Senior's core areas of expertise and which can bring additional capability or customer and geographic exposure to the Group.

The current year has started in line with the Board's expectations and prospects for the remainder of 2011 and beyond remain encouraging.

Martin Clark Chairman

Operating and Financial Review

Mark Rollins Group Chief Executive

Senior is well positioned, both financially and operationally, to benefit from the healthy opportunities being seen across the Group today."

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 should be treated with caution due to the inherent uncertainties underlying any such forward-looking information.

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:

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

Business Model and Operations

Senior is an international, market-leading, engineering solutions provider with operations in 11 countries. Senior designs, manufactures and markets high-technology components and systems for the principal original equipment producers in the worldwide aerospace, defence, land vehicle and energy markets.

The Group is split into two Divisions, Aerospace and Flexonics, and as described more fully on pages 20 and 21, operates in the following five key market sectors:

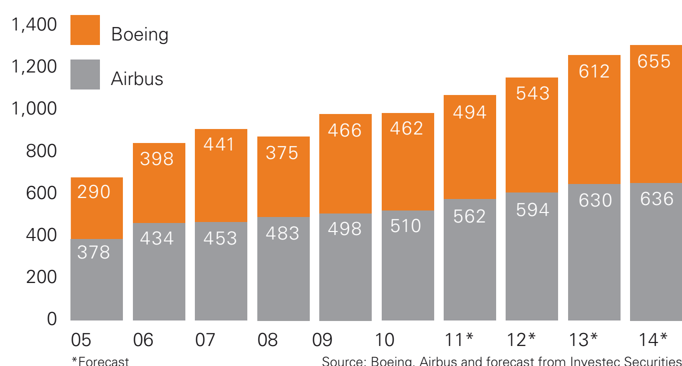
Sectors	Division	Description
Fluid conveyance systems	Aerospace	Design and manufacture of metallic and non-metallic air and hydraulic system solutions
Structures	Aerospace	Provision of precision engineered structural components and higher value assemblies for airframes and nacelles
Gas turbine engines	Aerospace	Manufacture of complex critical components for demanding aero-engine operating conditions
Land vehicle emission control	Flexonics	Design, development and manufacture of engineered emission control products for passenger vehicles and heavy-duty diesel engines for trucks and off-road vehicles
Industrial process control	Flexonics	Design and delivery of low-maintenance control systems and products for demanding temperature and pressure environments in the petrochemical, power and energy, HVAC and renewable energy industries

Many of the Group's products are used to satisfy the increasing requirement for emission control and environmental solutions in its principal end markets, as well as the growing desire for improvements in operating costs, particularly fuel efficiency in developing new aircraft platforms, gas turbine and land vehicle engine applications. These trends are expected to drive an inherent increase in underlying demand for, and further development of, many of the Group's core products for the foreseeable future.

The Group is 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's principal underlying aerospace market demand drivers are global passenger air miles, air freight demand, large commercial and regional and business jet build rates, and military aerospace programme spending (in particular by the US Government). Within land vehicle and energy markets, the principal demand drivers are passenger vehicle sales in North America, Europe and Brazil, medium- and heavy-duty diesel truck sales in North America and capital project spending in the global petrochemical and power generation industries. Long-term forecasts for trends in these demand drivers are generally positive, which are anticipated to provide the foundation for future sustainable growth in revenue, profitability and associated cash flows from the Group's organic product portfolio.

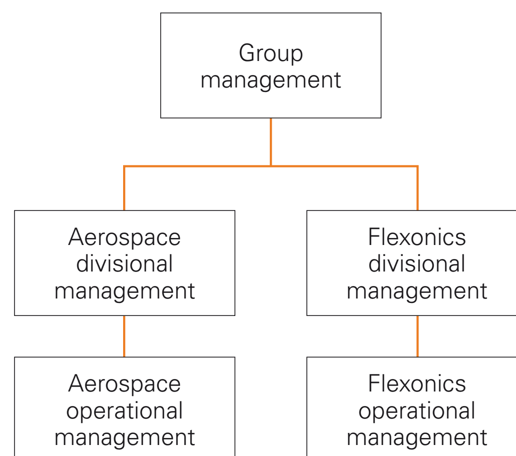
Large commercial aircraft build rate forecast (Number of aircraft)



One of the Group's principal underlying aerospace market demand drivers is large commercial aircraft production, or build rates. These are forecast to increase healthily in the next three years.

Senior has a flat organisational structure, with only one layer of management between the Group Chief Executive 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 to provide more complete customer programme solutions.

Organisation structure



Senior embraces fully the concepts and principles of Lean Manufacturing, striving at all times for continuous improvement and the elimination of non-value-added activities and processes. Continuing success in implementing this methodology across the Group's operations is the principal reason for the significant growth achieved in Group adjusted operating margin from 6.8% in 2006 to 13.3% in 2010.

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. Senior has made excellent progress with this initiative in recent years, as evidenced by its consistently strong free cash flow generation. Sustaining and, where possible, building further on this position is a key Group objective.

Senior 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. The Group also plans to target a select number of complementary acquisitions to accelerate growth and enhance the overall asset portfolio.

The Group acknowledges that its objectives cannot be achieved without assuming some degree of risk, and that profit is in part the reward for risk taking. Risk, therefore, should be embraced and managed effectively within each business unit to optimise performance. Senior takes a relatively cautious approach to risk management, believing that stronger and more effective risk management procedures will enable the Group to embrace and effectively manage increasing levels of risk as the Group grows in line with its strategic objectives.

Senior 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.

Operating and Financial Review continued

Aerospace

The Aerospace Division consists of 15 operations. These are located in North America (ten), the United Kingdom (two) and continental Europe (three).

In 2010, this Division accounted for 59% of total Group revenue. Its main products were engine structures and mounting systems (24% of divisional sales), metallic ducting systems (22%), airframe and other structural parts (20%), helicopter machined parts (9%), composite ducting systems (7%) and fluid control systems (5%). The remaining 13% of divisional sales were to non-aerospace, but related, technology markets, including the semi-conductor and medical markets.

The Division's largest customers include Boeing, representing 13% of 2010 divisional sales, United Technologies (12%), Spirit AeroSystems (7%), Rolls-Royce (6%), Goodrich (5%), Bombardier (4%), GKN (4%) and Airbus (4%).

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 2010, the Flexonics Division accounted for 41% of total Group revenue. This Division's sales comprised flexible mechanisms for vehicle exhaust systems (22% 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 (47%). The industrial components were supplied to power and boiler markets (15% of divisional sales), HVAC and solar markets (12%), oil and gas and chemical processing industries (9%) and other industrial markets (11%).

The Division's largest individual end users are land vehicle customers, including Cummins (representing 10% of divisional sales), PSA (8%), Ford (7%) and General Motors (5%). The percentage of divisional sales arising from the passenger vehicle sector in 2010 was 34% (2009 – 32%) with sales to the heavy-duty diesel engine market (e.g. Cummins and Caterpillar) growing marginally to 19% (2009 – 18%).

Strategy, Business Objectives and Key Performance Indicators

The Group's primary performance objective is to create long-term and sustainable growth in shareholder value. It aims to achieve this objective through the development of a portfolio of collaborative high value-added engineering manufacturing companies within its five market sector framework, that are capable of producing sustainable real growth in operating profit and cash flow, and that consistently exceed the Group's cost of capital. At Group level there are four key principles to Senior's strategy, which are:

- optimising the value of the Group's existing operations portfolio by exceeding customer expectation through advanced process engineering and excellent factory and logistics execution, leading to market differentiation and continued growth in organic revenue, operating margins and cash flow delivery;
- targeted investment in new product development, technologies and geographic regions, for markets having higher than average growth potential, to further enhance organic growth opportunities;
- 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, and continuously striving for improvements amongst its operating businesses whilst operating in a safe and socially responsible manner.

The application of these four principles has resulted in the development of the following strategic objectives in each of the Group's five key market sectors:

Structures

- Growth in higher value assemblies
- Growth outside of USA
- Invest in well-funded military aerospace programmes
- Continue focus on operational excellence to deliver market share gains

Fluid conveyance systems

- Seek proprietary add-ons and adjacent products
- Further develop strategic customer relationships
- Increase customer value add through more complete product offering, including increase in inter-company collaboration
- Increase engineering strength to benefit from customer outsourcing

Gas turbine engines

- Target more flight-critical parts (e.g. rotating)
- Increase focus on fluid systems applications (e.g. engine ducting and bellows)
- Continue to develop customer outsourcing opportunities

Land vehicle emission control

- Continue to develop product portfolio in line with increasing emission regulation standards
- Growth in heat exchanger applications, including fuel cell technologies
- Growth in heavy-duty diesel engine programmes, including off-highway
- Focus component manufacture outside Western Europe and North America

Industrial process control

- Capitalise on energy sector requirements to comply with reduced emissions standards (e.g. US 2010 Clean Air Interstate Rule)
- Target wider global presence, including Europe and Asia
- Seek proprietary adjacent products
- Participate selectively in developments in key new technology applications (e.g. combined heat & power, concentrated solar power)

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

– to achieve 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 114 tonnes per £m revenue in 2006 to below 97 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.

Senior delivered a record level of profit in 2010 and all of the Group's financial objectives were met. It also reached its four-year carbon dioxide emission improvement target of 97 tonnes per £m revenue, an improvement of 15% since 2006. A lost time injury frequency rate of 1.60 days per 100 employees was recorded (2009 – 1.61 days), an improvement of 1%, which is below the targeted annual improvement of 5%. Whilst the overall improvement in recordable injury and illness cases in 2010 did not meet the annual target, the Group has made significant progress in this area since the initiative was launched in 2006, achieving an improvement of 42% in the four-year period.

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

	2010	2009
Organic revenue growth (1)	**+4%**	-16%
Adjusted earnings per share (2)	**12.01p**	8.91p
– growth	**+35%**	-16%
Return on revenue margin (3)	**13.3%**	11.0%
Return on capital employed (4)	**26.1%**	18.6%
CO_2 emissions/£m revenue (5)	**97 tonnes**	99 tonnes
Lost time injury frequency rate (6)	**1.60**	1.61

A key highlight of 2010 was the improvement in the Group's adjusted operating margin from 11.0% in 2009 to 13.3% for 2010."

The Group has had considerable success in implementing its strategy over the last four years. A summary of the four-year average annual movements in the Group's KPIs is set out in the table below:

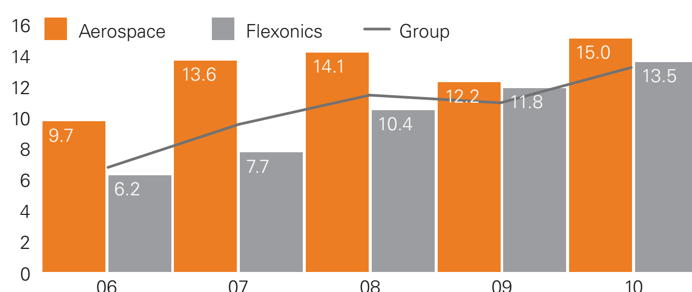
	Four-year average annual movement 2006 to 2010 (7)
Organic revenue growth (1)	**+3% p.a.**
Adjusted earnings per share growth (2)	**+31% p.a.**
Return on revenue margin increase (3)	**+1.6 ppts p.a.**
Return on capital employed increase (4)	**+3.1 ppts p.a.**
CO_2 emissions/£m revenue reduction (5)	**4 tonnes p.a.**
Lost time injury frequency rate improvement (6)	**0.3 incidents p.a.**

(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, acquisition costs, goodwill impairment charge 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.
(7) Calculated as the simple average of year-on-year movements in these KPIs over the four years, as published.

Acquisitions

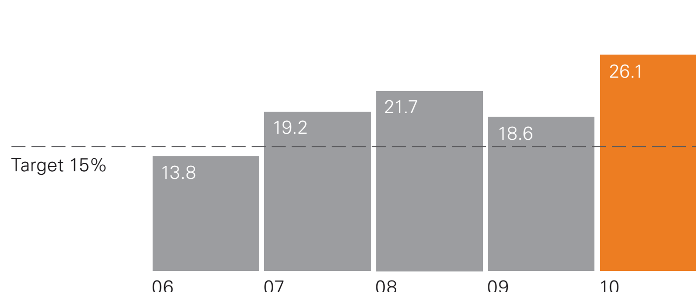
The Group completed the acquisition of WahlcoMetroflex, Inc. ("WMX") on 16 August 2010 for a total consideration of £8.9m, less cash acquired of £0.6m. WMX is located in Lewiston, Maine in the USA and specialises in the manufacture of dampers, expansion joints and exhaust gas systems for the global power generation, refinery and chemical processing industries. WMX has an installed base of over 5,000 units and is a market leader in dampers in the USA. WMX is an excellent strategic fit with the Group's Senior Flexonics Pathway business, having a highly complementary customer and product portfolio. Financial details relating to this acquisition are disclosed in Note 32 to the Financial Statements.

Adusted operating margin (%)



Adjusted operating margins in both Divisions have increased significantly since 2006 through a combination of improved product mix and sustained operational improvements.

Pre-tax return on capital employed (%)



The Group's pre-tax return on capital employed has almost doubled in the last four years. This is the result of successful strategy implementation, in particular increased asset utilisation.

Gas turbine engines

Senior manufactures a range of precision machined components and fabricated products for core and ancillary systems on major gas turbine engines that power Boeing and Airbus large commercial aircraft platforms, as well as many regional, business jet and military aircraft. These products include various intermediate and combustion casings as well as hydraulic and fuel feed manifolds, seal bellows and metallic ducting.

Simon Nicholls Group Finance Director

The Group once again demonstrated its strongly cash-generative nature, delivering free cash flow of £58.8m. The principal drivers of this performance were continued good progress with the Group's Lean Manufacturing initiatives, combined with sustained tight controls over working capital levels and modest capital expenditure."

Financial review

Summary

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

	Revenue	
	2010 £m	2009 £m
Aerospace	**333.8**	319.2
Flexonics	**233.5**	221.3
Inter-segment sales	**(0.4)**	(0.4)
Group total	**566.9**	540.1

	Adjusted operating profit [1]	
	2010 £m	2009 £m
Aerospace	**50.0**	38.8
Flexonics	**31.6**	26.2
Central costs	**(6.2)**	(5.6)
Group total	**75.4**	59.4

	Margin	
	2010 %	2009 %
Aerospace	**15.0**	12.2
Flexonics	**13.5**	11.8
Group total	**13.3**	11.0

[1] Adjusted operating profit is the profit before interest and tax and before the profit or loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions, acquisition costs, goodwill impairment charge and an exceptional pension gain.

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

	2010 £m	2009 £m
Operating profit per Financial Statements	**62.2**	61.0
(Profit)/loss on sale of fixed assets	**(0.2)**	0.1
Exceptional pension gain	**–**	(6.3)
Amortisation of intangible assets from acquisitions	**4.6**	4.6
Impairment of goodwill	**8.7**	–
Acquisition costs	**0.1**	–
Adjusted operating profit	**75.4**	59.4

Group revenue increased by 5% in 2010 including the positive impact of foreign exchange movements (4% increase excluding the impact of foreign exchange). In aerospace markets, the Group benefited from a combination of increased build rates and shipset content in its key military aerospace programmes and consistently strong demand in the semi-conductor market in the Group's non-aerospace segment. In line with expectation, sales to the large commercial aerospace and business jet markets were stable overall, whilst sales to the regional jet markets weakened further. Activity levels in land vehicle markets generally increased, in particular in Brazil, India and Europe early in the year. In addition, European and North American truck markets were stronger in the second half of 2010 although the impact on the Group of increased sales in North America was tempered by the strong comparative sales result in the fourth quarter of last year due to a pre-buy of engines ahead of emission regulation changes in January 2010. Demand patterns in the Group's industrial markets were mixed, with increases experienced in Europe, but the global petrochemical and power and energy markets weakened slightly from their historic highs, beginning midway through the second quarter.

The Group's free cash flow and net debt for 2010 and the prior year were:

	2010 £m	2009 £m
Free cash flow	**58.8**	60.1
Net debt	**63.7**	102.3

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:

	2010 £m	2009 £m
Net cash from operating activities	**70.2**	69.8
Interest received	**0.7**	2.6
Proceeds on disposal of tangible fixed assets	**2.1**	0.3
Purchases of tangible fixed assets	**(13.5)**	(12.3)
Purchases of intangible assets	**(0.7)**	(0.3)
Free cash flow	**58.8**	60.1

The Group generated significant free cash flow of £58.8m in 2010 (2009 – £60.1m), an excellent performance for the year. The principal drivers of this performance were continued good progress with the Group's Lean Manufacturing initiatives, resulting in a

significant increase in operating margins in both Divisions which, combined with sustained tight controls over working capital levels and modest capital expenditure, resulted in an excellent level of cash conversion. The strong free cash flow performance was after the Group had contributed a further £11.8m in excess of service costs into its defined benefit pension plans in the UK and the US, £6.0m of which was on a voluntary basis.

The strong cash flow enabled the Group to achieve a significant reduction in net debt of £38.6m during the year (including adverse foreign exchange movements of £2.8m). Net debt at the year-end was £63.7m (2009 – £102.3m).

Revenue

Group revenue increased by £26.8m (5%) to £566.9m (2009 – £540.1m), including £2.8m from the Group's acquisition of WMX on 16 August 2010. If the effect of acquisitions and a year-on-year beneficial exchange impact of £4.9m are excluded, then underlying revenue from organic operations increased by 4% on a constant currency basis. In 2010, 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

Adjusted operating profit increased significantly by £16.0m (27%) to £75.4m (2009 – £59.4m), principally due to the increase in revenue, operational improvements and a more favourable product mix. Adjusted operating profit is before finance costs, profit on disposal of fixed assets of £0.2m (2009 – £0.1m loss), acquisition costs of £0.1m (2009 – £nil), amortisation of intangible assets arising on acquisitions of £4.6m (2009 – £4.6m), impairment of goodwill of £8.7m (2009 – £nil) and exceptional pension gains of £nil (2009 – £6.3m). The Group benefited from favourable foreign currency movements of £1.9m, and, if these are excluded, underlying adjusted operating profit increased by 23% on a constant currency basis.

Total Group reported operating profit increased by 2% to £62.2m (2009 - £61.0m), after the negative impact from recognising in 2010 the impairment of £8.7m relating to the goodwill arising upon the acquisition of Capo Industries, Inc. Capo Industries, Inc. was acquired by the Group in January 2008 and supplies principally to the business jet market, which declined by 42% between 2008 and 2010. No recovery is immediately foreseeable. In addition, last year's result included 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.

Finance costs

Total finance costs, net of investment income of £0.5m (2009 – £1.2m), decreased to £10.1m (2009 – £11.4m). Net interest costs on borrowings increased to £7.9m (2009 – £7.2m) mainly as a result of the benefit from net asset hedges in 2009 not repeating in 2010. Pension-related charges decreased to £2.2m in 2010 (2009 – £4.2m), principally as a result of an increase in the value of assets in the Group's pension plans at the start of the year.

Profit before tax

Adjusted profit before tax increased by 36% to £65.3m (2009 – £48.0m). Reported profit before tax increased to £52.1m (2009 – £49.6m). The reconciling items between these two measures are shown in Note 9 of the Financial Statements.

Tax charge

The total tax charge increased to £11.7m (2009 – £10.6m), due to the increase in the Group's taxable profits. Net tax benefits of £5.6m (2009 - £1.9m) arose from the profit on sale of fixed assets, goodwill impairment, acquisition costs and amortisation of intangible assets from acquisitions. If these are added back, then the resultant tax charge of £17.3m (2009 – £12.5m) represented an underlying rate of 26.5% (2009 – 26.0%) on the adjusted profit before tax of £65.3m (2009 – £48.0m). The increase in the underlying tax rate arose mainly due to an increase in the proportion of Group profits being generated in the US where the effective tax rate is approximately 38%.

Earnings per share

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 399.6 million (2009 – 398.3 million). Adjusted earnings per share increased by 35% to 12.01 pence (2009 – 8.91 pence). Basic earnings per share increased by 3% to 10.11 pence (2009 – 9.79 pence).

Dividends

A final dividend of 2.12 pence per share is proposed for 2010, an increase of 25% from last year, which would cost £8.5m (2009 final dividend – £6.8m). This would bring the full-year dividend to 3.12 pence per share, 20% above the prior year. The cash outflow incurred during 2010 in respect of the final dividend for 2009 and the interim dividend for 2010 was £10.8m (2009 – £10.4m).

Research and development

The Group's expenditure on research and development increased to £10.6m during 2010 (2009 – £9.7m). Expenditure was incurred mainly on designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production.

Capital expenditure

Gross capital expenditure increased by 13% in 2010 to £14.2m (2009 – £12.6m), representing investment in future growth programmes and ongoing necessary replacement and compliance expenditure. The Group's operations remain well capitalised. The disposal of assets no longer required raised £2.1m (2009 – £0.3m), £1.5m of which related to the disposal of a surplus property at the Senior Hargreaves operation in the UK. A higher level of capital expenditure is anticipated for 2011, although the extent will be dependent primarily on the level of build rate increases in the large commercial aircraft segment and the Group securing the expected new programme wins in both Divisions.

Capital structure

The Group's Consolidated Balance Sheet at 31 December 2010 may be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	114.0	–	114.0
Goodwill and intangible assets	176.6	–	176.6
Current assets and liabilities	155.8	(117.9)	37.9
Other non-current assets and liabilities	1.6	(2.3)	(0.7)
Retirement benefit obligations	–	(38.2)	(38.2)
Total before net debt	448.0	(158.4)	289.6
Net debt	56.0	(119.7)	(63.7)
Total at 31 December 2010	**504.0**	**(278.1)**	**225.9**
Total at 31 December 2009	464.1	(279.3)	184.8

Net assets increased by 22% in the year to £225.9m (2009 – £184.8m), in the main as a result of retained profits of £40.4m. Net assets per share increased by 22% to 56.3p (2009 – 46.2p). There were 400.9 million ordinary shares in issue at the end of 2010 (2009 – 399.7 million).

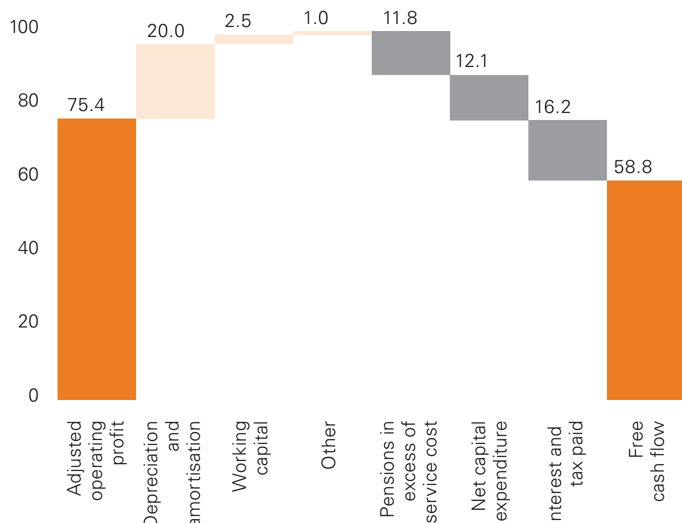
Operating and Financial Review continued

Retirement benefit obligations decreased by £9.9m to £38.2m (2009 – £48.1m) principally due to the positive impact of an increase in the value of assets in the plans (including £11.8m of cash contributions in excess of service costs), but offset partially by an increase in plan liabilities resulting from a decrease in the discount rate used to discount plan liabilities.

Cash flow

The Group generated significant free cash flow (whose derivation is set out in the table below) of £58.8m in 2010, marginally below the £60.1m achieved in 2009. The main driver of the year's performance was cash generated from operations of £87.1m, which is stated after taking into account additional pension contributions in excess of service costs of £11.8m and a working capital inflow of £2.5m.

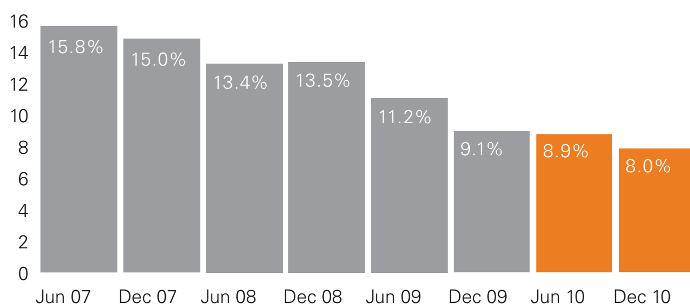
Free cash flow bridge (£m)



The Group continues to generate significant free cash flow by focusing on continuous improvements in all areas of the business and by maintaining tight controls over discretionary expenditure.

The positive cash flow from operations was offset by increased capital expenditure of £14.2m (2009 – £12.6m), partly mitigated by a cash inflow of £2.1m from sale of fixed assets (2009 – £0.3m), and tax and interest payments of £16.2m (2009 – £17.3m). In addition, included within operating profit in 2010 is a non-cash goodwill impairment of £8.7m relating to the write down of goodwill at Capo Industries, Inc. It should also be noted that operating profit in 2009 included a non-cash exceptional pension gain of £6.3m relating to the implementation of a cap on future pensionable salary increases in the UK pension plan from 2010.

Working capital as % of 12 months rolling revenue



The Group's success in driving down its level of working capital needs is based around a clear understanding, at all levels of management, 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.

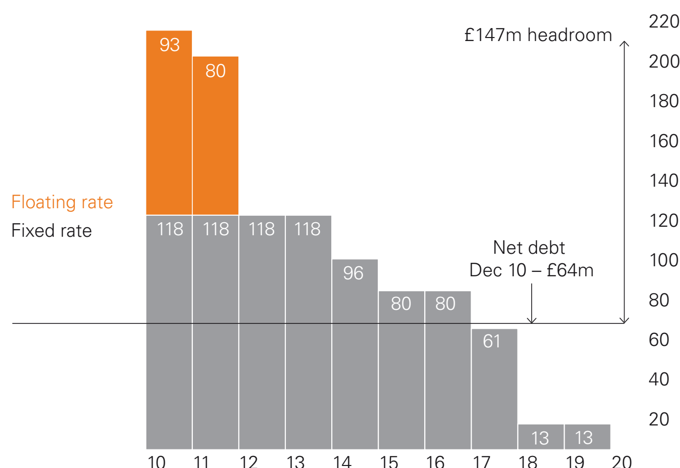
Cash flow	2010 £m	2009 £m
Operating profit	**62.2**	61.0
Depreciation and amortisation	**24.6**	25.4
Working capital movement	**2.5**	29.9
Pension payments above service cost	**(5.8)**	(6.4)
Additional discretionary pension payments	**(6.0)**	(13.2)
Exceptional pension gain	**–**	(6.3)
Goodwill impairment	**8.7**	–
Other items	**0.9**	(0.7)
Cash generated from operations	**87.1**	89.7
Interest paid (net)	**(7.6)**	(6.1)
Tax paid	**(8.6)**	(11.2)
Capital expenditure	**(14.2)**	(12.6)
Sale of fixed assets	**2.1**	0.3
Free cash flow	**58.8**	60.1
Dividends	**(10.8)**	(10.4)
Acquisitions and deferred consideration received	**(8.3)**	0.5
Share issues	**0.3**	0.1
Sale of shares held by employee benefit trust	**1.4**	–
Foreign exchange variations	**(2.8)**	21.9
Opening net debt	**(102.3)**	(174.5)
Closing net debt	**(63.7)**	(102.3)

Net debt

Net debt decreased by £38.6m in the year to £63.7m (2009 – £102.3m). The principal reasons for the decrease were increased profitability combined with continued tight controls over capital expenditure and working capital levels, which ensured that the increase in 2010 Group profits was converted into free cash flow to reduce net debt. At the year-end, net debt comprised gross borrowings of £119.7m, with 99% of the Group's gross borrowings in US dollars (31 December 2009 – 94%), plus cash and cash equivalents of £56.0m.

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 2010 the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 11.8x (31 December 2009 – 10.6x) and the ratio of net debt to EBITDA was 0.7x (31 December 2009 – 1.3x).

Maturity profile of credit facilities (£m)



Senior has significant funding headroom of £147m under its committed borrowing facilities with no major refinancing due until July 2012.

Liquidity

As at 31 December 2010, the Group's gross borrowings excluding finance leases were £118.6m (2009 – £121.4m). 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	0.3	12.7
In the second year	0.2	80.0
In years three to five	38.5	38.2
After five years	79.6	79.6
	118.6	210.5

[1] Gross borrowings include the use of bank overdrafts, other loans and committed facilities, but exclude finance leases of £1.1m.

At the year-end, the Group had committed facilities of £210.5m, with a weighted average maturity of 4.3 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 Financial Review above and the Divisional Review below. These include a description of the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, a review of the principal risks and uncertainties that are likely to affect the Group's future development is set out below. A summary of the Group's policies and processes in respect of capital and financial risk management, including foreign exchange and liquidity risks, is included in Note 21 of the Financial Statements.

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 2010, 98% of the Group's gross debt was financed via revolving credit and private placement facilities, with an average maturity of 4.3 years. The Group is profitable, cash generative and well funded with net debt of £63.7m compared to £210.5m of committed borrowing facilities, and has no major borrowing facility renewal before mid 2012.

However, economic conditions inevitably vary and so potentially 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 70% of the Group's profits in 2010 were earned in the US and 99% of its gross borrowings at 31 December 2010 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 2010.

Industrial process control

Senior Flexonics Pathway, based in Texas, USA is one of the global market leaders in the design and manufacture of large industrial expansion joints, used in the oil and gas, power generation, steel and chemical processing industries. Pathway's capabilities and product offering have been enhanced during 2010 as a result of the acquisition of WahlcoMetroflex, Inc. in August, which is a manufacturer of complementary dampers and exhaust gas systems.

Operating and Financial Review continued

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 2009, 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 2009 have been translated using 2010 average exchange rates in order to make appropriate comparisons at constant currency.

Aerospace Division

	2010 £m	2009 £m	Change
Revenue	**333.8**	319.7[1]	+4%
Adjusted operating profit	**50.0**	39.0[1]	+28%
Operating margin	**15.0%**	12.2%[1]	+2.8ppts

[1] 2009 results translated using 2010 average exchange rates.

The revenue of the Aerospace Division increased by £14.1m (4%) to £333.8m (2009 – £319.7m at constant currency), as sales to the military and defence and non-aerospace segments increased.

The Division's sales in the large commercial aircraft market (39% of divisional sales) were broadly stable during 2010, with aircraft deliveries by Boeing and Airbus declining marginally to 972 in 2010 from 979 in 2009. The Aerospace Division benefited from a slight increase in shipments on both narrow body programmes and the Boeing 787 Dreamliner, although this was offset by a small reduction in demand for engine-related components and lower 777 deliveries. Encouragingly for the future, the 2010 Boeing and Airbus combined net order intake increased significantly to 1,104 aircraft, which was 114% of the level of deliveries (2009 – 42% of deliveries). This is a reflection of confidence in future estimates of sustained annual increases in passenger air miles flown. The combined order book now stands at 6,995 aircraft at the year-end (representing approximately seven years of deliveries at current build rates). This order book includes 847 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, and the Group enjoyed an increase in shipset content on the Black Hawk helicopter resulting in increased volumes of helicopter parts delivered to Sikorsky, as well as benefiting from continued growth in build rates on the C-130 transport aircraft programme. However, regional and business jet markets declined, as expected, in 2010. Combined deliveries of 183 aircraft by the principal regional jet manufacturers, Embraer (100 aircraft) and Bombardier (83 aircraft), were 26% lower than the combined total of 248 achieved in 2009. The business jet market showed signs of stabilisation in 2010 following a significant decline in 2009, with 763 deliveries being some 12% lower than in 2009 (870 deliveries). Against this market backdrop, Senior's sales to the regional jet market declined by 18% but those to the business jet sector remained broadly stable as sales to new aircraft programmes largely offset the general market reduction. Sales in the Group's non-aerospace segment were strong, due to increased demand for edge-welded bellows, used for the manufacture of silicon wafers in the semi-conductor industry.

The Aerospace Division's adjusted operating profit (before profit/loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and impairment of goodwill) increased by £11.0m (28%) to £50.0m (2009 – £39.0m at constant currency), and the Division's operating margin increased by 2.8 percentage points to 15.0% (2009 – 12.2%). These increases arose due to a combination of improved product mix, the beneficial impact of increased volumes on core programmes on a reduced cost base following rationalisation measures taken in the prior year, further success with the Group's operational excellence initiatives derived from implementation of Lean Manufacturing methodology, and the positive impact of foreign exchange gains arising from an appreciation of the US dollar against Sterling for the Group's UK-based operations that sell to customers in US dollars.

Capital expenditure for the Aerospace Division was £8.9m in 2010 (2009 – £9.0m). This reflects the fact that the Aerospace Division remains well capitalised, since the Group's rate of capital expenditure in this Division in recent years has been generally 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 C-130 military transport aircraft, the Boeing 787 and the Joint Strike Fighter. Total capital expenditure in this Division represented 0.8x depreciation (2009 – 0.8x).

Flexonics Division

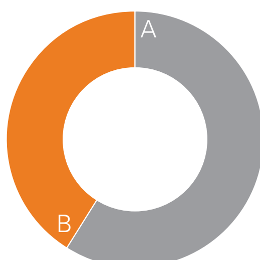
	2010 £m	2009 £m	Change
Revenue	**233.5**	225.8[1]	+3%
Adjusted operating profit	**31.6**	27.9[1]	+13%
Operating margin	**13.5%**	12.4%[1]	+1.1ppts

[1] 2009 results translated using 2010 average exchange rates.

Revenue in the Flexonics Division increased by £7.7m (3%) to £233.5m (2009 – £225.8m at constant currency), including £2.8m from WahlcoMetroflex, Inc. which was acquired in August 2010. Excluding this, the Flexonics Division's revenue from organic operations increased by 2%.

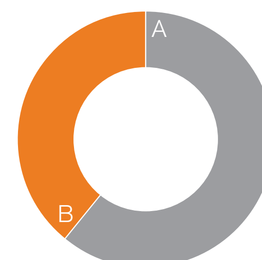
Sales

A Aerospace Division 59%
B Flexonics Division 41%



Adjusted operating profit

A Aerospace Division 61%
B Flexonics Division 39%



The Division enjoyed year-on-year increases in demand in all land vehicle markets, which represented 53% of the Flexonics Division's sales in 2010 (2009 – 50%). The most important of these markets for the Group are the North American medium- and heavy-duty truck market and the European passenger car markets. In the former, total truck production was 243,000 units in 2010, an increase of 20% compared to 2009, although the year-on-year impact of this increase on the Group was tempered by very strong demand experienced in the fourth quarter of 2009, that had a beneficial impact on volumes in the prior year, as a result of the pre-buy of engines ahead of emission legislation changes that came into force in January 2010. Total production of passenger cars in Europe increased by 13% in 2010, although the increase was weighted towards the first half of the year and demand reductions were experienced in the second half, particularly at the Group's important French customers. Sales of passenger vehicles increased in all other markets served by the Group; in Brazil by 6%, India by 31% and North America by 10%.

Revenue in industrial markets, representing the remaining 47% of the Flexonics Division's sales, fell marginally in 2010. Activity levels in the petrochemical and power and energy markets eased down from historic highs, impacting the Group's operations at Pathway and in Brazil and Canada. However, these declines were largely offset by increased demand experienced in other European industrial markets, particularly Germany, and for niche products manufactured for certain medical and renewable energy applications.

The Flexonics Division's adjusted operating profit for 2010 increased by 13% to £31.6m (2009 – £27.9m at constant currency), and the Division's operating margin increased by a very satisfactory 1.1 percentage points to 13.5% (2009 – 12.4%). These increases were driven by the combination of improved product mix and the positive leverage effect on operating profit from the overall increase in volumes on a reduced cost base.

Capital expenditure for the Division increased to £5.2m or 0.6x depreciation in 2010 (2009 – £3.5m or 0.4x depreciation) reflecting relatively low ongoing requirements for investment in replacement equipment and machinery, and the fact that capital expenditure in recent years, in particular in the land vehicle operations, has been comfortably above depreciation. Net proceeds of £1.5m were received from the sale of a surplus property at Senior Hargreaves, the Group's HVAC operation in the UK.

Outlook

The current year has started in line with the Board's expectations and prospects for the remainder of 2011 and beyond remain encouraging. A detailed outlook statement is included in the Chairman's Statement on pages 6 to 9.

Risks and Uncertainties

Integrated risk management and Group risk philosophy

The Board is ultimately responsible for managing risk, and for the implementation of effective risk management procedures and internal control systems. Across the Group, these are designed to align with the UK Corporate Governance Code's Turnbull guidance. The Audit Committee is responsible for reviewing the effectiveness of the Group's internal control systems that were in operation during the year, and the fulfilment of this responsibility is described in the Audit Committee Report on pages 36 to 37.

An integrated risk management framework is currently evolving within the Group, aimed at improving the efficiency and effectiveness of the Group's risk management procedures. This initiative is sponsored by the Board, aligned with industry best practice and is designed to take account of the Group's internal culture. As a result of this initiative, examples of areas identified for increased focus are strategic planning and objective setting, and the Group's approach to internal audit, business continuity, IT risks and risk reporting. A Risk Philosophy Statement has also been developed, which is due to be rolled out across the Group shortly.

Senior's risk philosophy is based around an acknowledgement that profits are in part the reward for risk taking, and therefore risk should be embraced and managed effectively within each business unit. The Group aims to take a relatively conservative approach to risk management, targeting a development approach that is evolutionary rather than revolutionary. Pursuit of opportunities is encouraged, within an effective risk management framework, as an essential component of a high-performance culture. It is acknowledged that strong risk management procedures are likely to enhance senior leadership decision making capabilities, strengthen accountability and enhance stewardship of the Group's assets. In turn this can be expected to result in management teams being able to embrace increased levels of risk and pursue more opportunities, which should also allow the Group to increase its rate of performance delivery without breaching its risk appetite.

The Group aims to embed its risk management procedures within its existing business processes and corporate governance structure, rather than impose an inefficient administrative burden on its operations. At a minimum, the Group aims to ensure that any individually significant event that:

i) has or may result in the potential to compromise its ability to achieve its objectives; or
ii) could lead to a material breach of policies and procedures; or
iii) could impact the delivery of earnings materially at a local operational level

is identified, reported on and dealt with through the Group's risk management procedures.

Risk assessment and risk reporting procedures

The Group has a well-established and ongoing annual process for identifying, evaluating and managing its significant risks. This process starts in April each year with a risk review and assessment conducted at each of the Group's 26 operations, facilitated by local senior management. A Principal Risk list is generated from each review, with individual risks assigned to the categories of Strategic, Operational, Compliance or Financial Reporting in nature. Management is required to record details of controls that are in place to mitigate each risk, make an assessment of the residual likelihood and impact of each risk having a material impact on the operation's ability to achieve its objectives, and to record any improvement measures that are targeted to strengthen the operation's internal control environment around each risk. The results of these reviews are consolidated at divisional level with an accompanying divisional overlay, and divisional Principal Risk lists are then submitted for review by the Executive Committee.

Following review by the Executive Committee, a risk questionnaire is compiled and circulated to each Board member, who is required to make an individual assessment of the potential significance of each risk. Completed questionnaires are subsequently reviewed and discussed at the Group's June Board meeting each year, following which a Group Principal Risk list is compiled and presented for review by the Board at the July Board meeting. The final step in the process is an update of all Principal Risk lists, which is performed late in each calendar year by each operation as part of the annual budget-setting process and ultimately presented to the Board at its January meeting.

Operating and Financial Review continued

Principal Group risks

Overall, the Group's risk profile is largely unchanged in 2010 compared to 2009. The principal potential risks and uncertainties which could have a material impact on the Group's future performance and ability to deliver on its stated strategic objectives, together with actions that are being taken to mitigate each risk, are set out below.

Risk	Management actions to mitigate risk
Strategy An appropriately formulated, communicated and effectively executed strategy is essential to avoid the risk of inappropriate allocation of resources and failure to deliver on long-term performance goals.	Recognising the significant breadth of potential new growth opportunities that have become available to the Group as its profit and cash flow performance has increased, additional focus has been placed on the Group's strategic planning process including more regular strategy sessions at Executive Committee and Board level and increased participation on the part of senior operational executives in select global market teams. The Group's business development resources have been bolstered, in particular via the recruitment of a Head of Business Development. The Group also held a Capital Markets day in October 2010, attended by analysts and major shareholders, which included presentation of the Group's strategy. This presentation is available on the Company's website.
Global cyclical downturn The potential adverse impact on the Group of significant demand declines in key markets, arising from the consequences of either sovereign debt issues, newly implemented government austerity measures and/or political instability in the Middle East, remains significant.	The Group is well positioned in its key aerospace and industrial markets, and in the emission-related sectors of land based vehicle and industrial markets, where increasingly stringent legislation should ensure that long-term demand for the Group's products remains healthy. These factors and the diversity of its end market exposures provide strong mitigation against inevitable cyclicality. The Group was recently able to demonstrate its ability to manage cyclicality, as it withstood significant declines in most of its key markets during the global recession of 2008 and 2009 and continued to remain healthily profitable and highly cash generative. The Group's financing position, which has been reported on earlier in this Operating and Financial Review, improved significantly again in 2010. Senior therefore remains well placed to be able to withstand any potential negative consequences that may arise from a further global cyclical downturn.
Programme participation Long-term growth in demand, including participation in future development programmes in the Group's major markets, is an essential foundation for future growth. Failure to secure profitable new programme wins could have a severe impact on Group performance.	The Group has developed a portfolio of businesses that are exposed to markets which exhibit fundamental long-term growth characteristics. It aims to develop constructive and co-operative relationships with key customers in each market, providing innovative customer solutions and quality products delivered on time and in line with specifications. These are critical components of customer value that ensure continued participation in existing and future development programmes. The Group ensures that its operations are sufficiently well capitalised to be able to bid competitively on new programme opportunities, and maintains close control over operating costs to ensure that operations remain competitive on existing programmes. The Group also utilises an internal contract approval process, comprising both financial and non-financial analyses, to ensure that bids are submitted and won at acceptable margin levels.
Acquisitions Failure to execute an effective acquisition programme would have a significant impact on the Group's ability to generate long-term value for shareholders.	Recent significant free cash flow generation, and the expectation that this will continue in the future, has enabled the Group to recommence a targeted acquisition programme. The Group's acquisition framework has been updated in 2010 to enhance the targeting process. In addition, a well-established and proven valuation, due diligence and integration process is employed by the senior management team. Post-acquisition reviews are performed on all acquisitions, comprising a full retrospective review of each deal process, including integration effectiveness, and sharing of lessons learned with the Board and across the senior management team.
Employee retention An inability to attract, develop and retain high-quality individuals in key management positions could severely affect the long-term success of the Group.	Capable, empowered and highly engaged individuals are a key asset of the business. The Group has had 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 sponsors the development and training of key managers through an in-house management development programme. Senior management turnover ratios remain low, a further indication of success in this important area.
New aircraft platform delays Significant shipset content has been secured on a number of new aircraft platforms currently under development. These include the Boeing 787 Dreamliner, Bombardier's CSeries regional jet and the Airbus A350. Delays in the launch of these platforms could have a material adverse impact on the Group's rate of organic growth.	The Group monitors programme development and launch timing of new aircraft platforms very closely, utilising internal customer relationships and market intelligence. It also takes a cautious approach to both capital investment in new programmes, to minimise the time between installation and utilisation of new capital equipment, and to inclusion of projected build rates and associated revenue in its financial projections. In addition, the growing breadth of Senior's exposure to a comprehensive and diverse range of aerospace industry platforms with increasing shipset content, together with its broad exposure in land vehicle and industrial markets, means that the Group's future organic growth profile is not overly dependent on any individual new aircraft platform.

Risk	Management actions to mitigate risk
Raw material costs A significant increase in the cost of raw material inputs could have a damaging impact on the Group's profitability.	Raw materials, principally stainless steel, aluminium and various exotic metal alloys are the Group's largest input cost, representing 43% of total costs in 2010. The Group has a good track record in managing this cost exposure through a combination of fixed price purchase contracts, customer surcharge agreements and customer directed purchases at fixed costs that together ensure there is no material impact on Group operating margins from volatility in the price of these materials.
Low-cost country competition Customers' desire to move manufacture of components to low cost countries could render the Group's operations uncompetitive and have an adverse impact on profitability.	The threat of low-cost country manufacture has existed for some time in certain product lines, typically where price competition is fierce or where product manufacture involves significant labour content. The Group's strategy of developing a portfolio of high value-added engineering manufacturing companies also means that over time it has evolved away from these types of products. However in response, in areas where these products have been retained, the Group successfully employs a strategy of retaining commercial and engineering expertise close to customers' locations, principally in North America and Europe, so enabling effective support to be readily given to its customers whilst moving manufacturing selectively to low-cost country locations. Some years ago the Group set up an operation in Mexico and is actively engaged in new aerospace programme bids to expand this facility. Similarly, the Group is increasingly manufacturing products, in the Flexonics Division, in its lower cost operations in the Czech Republic, South Africa, Brazil and India. Other low-cost country alternatives will also be considered at the appropriate time.
Pension deficit An increase in the Group's pension deficit might have a material adverse impact on cash flow and the ability of the Group to invest for growth.	The Group operates a number of defined benefit pension plans, with the largest being a UK plan. The Group's combined pension deficits at 31 December 2010 were £38.2m (31 December 2009 – £48.1m). 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. Recent significant actions taken include the closure of all North American non-union plans to new members, increases in contribution rates in the UK, 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 revised 10-year funding plan has recently been submitted to the UK Pensions Regulator, based on the actuarial valuation of the UK pension plan undertaken in April 2010. Under this plan the Group is committed to contributing an additional £6.9m per annum above service cost (previously £4.9m) for the next nine years. Given the Group's strong cash generation in 2009 and 2010, additional discretionary payments of £19m in total, over the two years, were made into the Group's pension plans over and above the level of payments that had been agreed with the plans' Trustees.
Financing and liquidity The Group could have insufficient financial resources to fund its growth strategy or meet its financial obligations as they fall due.	The Group's activities expose it to a variety of financial risks including foreign exchange risk and liquidity 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. 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. The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on operations' trading activities in foreign currencies. 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. 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"). 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. At 31 December 2010 net debt was 0.7x the Group's level of EBITDA (31 December 2009 – 1.3x) with significant funding headroom of £147m under the Group's committed borrowing facilities.

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 2010 was 4,872 (2009 – 4,873). Of these 4,072 were in production-related roles, 55 in distribution, 308 in sales and 437 in administration. Senior is an international group operating in 11 countries. At the end of 2010 the Group employed a total of 4,949 people, with 51% located in North America, 15% in the United Kingdom, 19% 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 2010 the Group spent £14.2m (2009 – £12.6m) on capital expenditure to strengthen the Group's manufacturing capability, as well as its production capacity. This expenditure was 0.7x the depreciation level (2009 – 0.6x).

Financial

The Group funds its activities through a mixture of equity and debt financing. It obtains its equity financing from a wide range of non-related institutional investors who trade the Company's shares on the London Stock Exchange. The largest holder has an interest in approximately 13.3% of the shares of the Company. As at 31 December 2010, the Company's share price was 150.7p, giving it a market capitalisation of around £600m.

In respect of debt financing, at the end of 2010 the Group had committed borrowing facilities totalling £210.5m, of which £117.8m was being utilised in addition to £1.9m of borrowings from uncommitted facilities and finance leases. The Group held £56.0m in cash and hence net debt was £63.7m. The committed facilities at this time consisted of US$35m (£22.3m) of loan notes due in 2014, US$25m (£15.9m) of loan notes due in 2015, US$30m (£19.1m) of loan notes due in 2017, US$75m (£47.8m) of loan notes due in 2018, US$20m (£12.7m) of loan notes due in 2020, an £80.0m multi-currency revolving credit facility maturing in 2012 and a US$20m (£12.7m) 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 the Corporate Social Responsibility Report on pages 26 to 28.

Land vehicle emission control

Increasingly stringent exhaust emission regulations are progressively being enacted in land vehicle markets throughout the world. Senior's Flexonics Division engineers have developed market-leading exhaust gas recycling coolers that enable exhaust gas to be recycled more efficiently, as part of the improved fuel management systems, in the next generation of medium- and heavy- duty diesel truck and off-road vehicle engines.

Corporate Social Responsibility

Senior recognises that an essential factor for the long-term success of the Group is operating in an ethical, environmentally and socially sustainable manner, and complying with all relevant regulatory requirements. The Group remains committed to maintaining high standards of ethics, integrity and corporate social responsibility in the conduct of its business throughout the world."

The Group's approach to corporate social responsibility ("CSR") is focused broadly on three key areas of activity:

– developing our employees by creating a working environment that attracts and retains the best people;

– operating with integrity by acting in an ethical and responsible manner; and

– ensuring safe working conditions and reducing the Group's environmental footprint by continuously improving the management of health, safety and the environment ("HSE").

This report presents an overview of the CSR framework that Senior plc has established, an overview of the improvements made during 2010 and plans for future development.

1. Employees

The Group believes that the future success of the business is dependent upon creating an environment that attracts and retains the best people. Central to this is a commitment to invest in the skills and development of the Group's workforce, helping employees achieve their potential, and identifying and promoting talent from within.

Equality and diversity

Senior believes that employment-related decisions should always be based on relevant aptitudes, skills and abilities. The Group promotes 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.

People development

The Group is committed to developing the skills of over 4,900 employees and in 2010 Senior continued its Group-wide management training and development programme. The programme provides a range of management and leadership training to the future leaders of the business and demonstrates Senior's investment in the future of its workforce. Approximately 150 employees have benefited from this training programme to date. Additionally, individual training and development plans are also run by each operation, focusing on local needs.

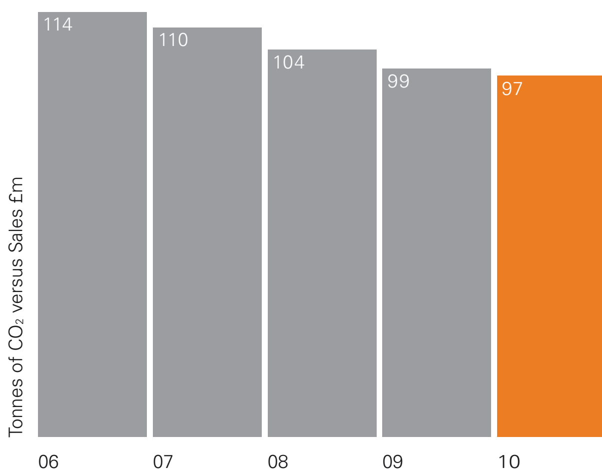
Pay and remuneration

Each operation aims to offer competitive remuneration packages to its employees, dependent upon skills, qualifications and experience.

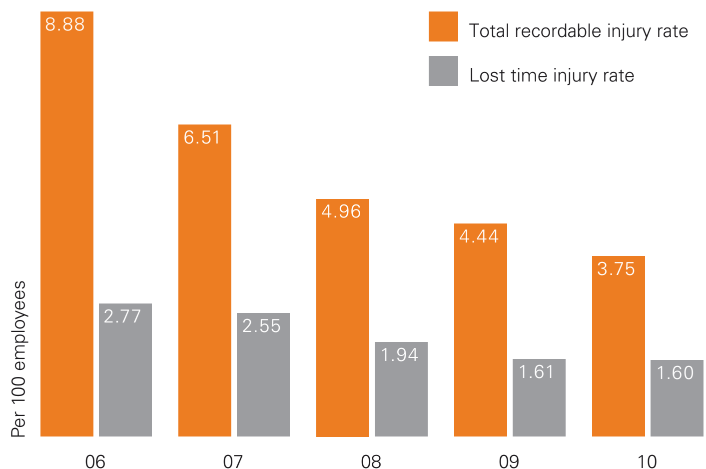
Contributing to communities

The Group's operations are encouraged to involve themselves in their local communities and to support local charities. These relationships are managed at a local level, where the employees select non-profit-making organisations and charitable interests active within their community. These are often long-standing relationships and involve employees volunteering their time, making financial donations and raising funds to help those in need of support within their local communities.

CO_2 to £m sales



Injury rates 2006-2010 (injuries per 100 employees)



2. Operating with Integrity

The Board believes that operating in an ethically and socially responsible manner is an integral part of efficient and profitable business management. The Group is committed to maintaining high standards of ethical behaviour in all aspects of its business, and requires its employees and agents to act with integrity at all times. The Group seeks to take account of the needs of all of its stakeholders, including shareholders, employees, customers, suppliers, governments and the environment, whilst safeguarding shareholders' investments.

The Group has operated a Code of Business Conduct (the "Code") for many years. The Code sets out Senior's approach to legal and ethical conduct, such as conflicts of interest, bribery and corruption and matters of personal integrity. The importance of this Code has been highlighted by the Bribery Act 2010, which is due to come into force in 2011.

The Code applies to Senior plc and to all of its subsidiaries; 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 of the Code when performing their day-to-day duties and when they are representing Senior.

To strengthen the Code, Senior has a whistle-blowing policy (the "Policy") to encourage employees to report any suspected unethical or illegal corporate conduct within the Group. The Policy sets out the procedure for the confidential reporting and investigation of any suspected misconduct. The written Code and the Policy are issued to all new employees as part of the induction process, and are subsequently reissued to existing employees on a periodic basis as a memory aid. The whistle-blowing reporting procedure is also publicised at each of the Group's sites and is available for use by third parties, such as suppliers and customers, to report any ethical concerns that they may have. If a whistle-blower feels unable to approach an executive at operational or divisional level regarding their concerns, or receives an unsatisfactory response, they may then contact the Group Company Secretary or Chairman to request a further investigation. The Board monitors and evaluates the use and effectiveness of this Policy on a regular basis.

The Group does not permit its operations to make contributions to political parties or organisations, or to candidates standing for public or political office.

3. Health, Safety and the Environment

Leadership and strategy

The Group operates a Health, Safety and Environment ("HSE") Committee which meets quarterly; its Terms of Reference can be found on the Senior plc website. The Committee is responsible for formulating the Group's HSE strategy and objectives, for reviewing the Group's HSE performance against the objectives, for setting policy, and for ensuring that key HSE risks and issues are effectively identified and managed. It also supports the Board in its corporate governance role. 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.

The Board of Directors is kept abreast of HSE matters and the performance of each operation throughout the year. Members of the Board and of the Executive Committee also conduct regular visits to each business during which they are briefed on any relevant HSE matters. These visits provide a valuable opportunity to discuss performance and improvement plans, and reinforce the Group's commitment to health and safety performance.

Whilst overall responsibility lies with the Board, the chief executive officers of the local operations and their management teams are directly accountable for the operations under their control. Each operation is responsible for integrating HSE within its business planning processes, creating a local management framework, defining accountability, and establishing local objectives and improvement initiatives.

HSE framework

The basis of Senior's HSE programme is set out in the Group Health and Safety and Environmental Charter ("the Charter"). The Charter has an established set of principles, practices and core programmes that each operation should adhere to, providing a sound foundation for the HSE management process throughout the Group.

There is a Group audit programme for HSE, led by the Group HSE Manager, where performance is measured against the Charter and recommendations for improvement are issued. These recommendations are incorporated into the operations' HSE improvement plans. HSE performance is routinely monitored on a monthly basis, thereby enabling prompt intervention, where necessary. Any serious matters of concern are notified to the Group HSE Manager immediately for investigation and remedial action.

Each operation also undergoes a number of external audits as part of their external ISO 14001/18001 certifications, where compliance with local regulations and good management practice are verified. 25 of the 26 Group operations are certified to ISO 14001, with the remaining operation planning to achieve certification in the first half of 2011. In addition to the HSE audits, each site undergoes a fire safety audit by an independent specialist, typically every two years. The results of each of these audits demonstrated a continued improvement at each relevant operation during 2010.

The Group has a standardised set of tools and support materials for HSE, which are housed on an internal web-based HSE portal, for use by the local HSE representatives. Regional networks have also been established to enable HSE specialists to share knowledge and the lessons learned from incidents.

Risk management and safety performance in 2010

Improving HSE performance continues to be a priority for the Group, and 2010 has seen some important improvements, central of which has been the Group-wide risk assessments programme. The programme aims to improve the safety of processes and eliminate risks before an accident occurs, through the systematic identification and reduction of risks. The findings of the risk assessments have helped the Group make technical enhancements to the safety of its facilities, including improvements to dust extraction, machinery safety and ergonomic alterations.

Strains remain the primary cause of injuries, and in order to improve the comfort, safety and efficiency of work processes, a new focus on workplace ergonomics has been introduced. This programme aims to significantly reduce the number of musculoskeletal injuries and involves training employees, assessing tasks and making targeted improvements.

Corporate Social Responsibility continued

Health and safety performance indicators

Senior uses two metrics to evaluate its health and safety performance:

- Total recordable injury rate (TRIR) measures the number of injuries per 100 workers. In 2010, Senior achieved a TRIR of 3.75 (4.44 in 2009; 4.96 in 2008). 2010 saw the lowest rate since the Group began tracking injury rates and was a 13% improvement from 2009.
- Lost time injury rate (LTIR) tracks the number of injuries per 100 workers with one day or more away from work. Senior's LTIR improved by 1% in 2010 to 1.60. The Group's LTIR has now declined by 42% since performance reporting began in 2006.

Environmental performance

Senior has a long-standing commitment to reducing its environmental footprint. The Group's significant environmental impacts include: emissions (resulting from the use of energy in manufacturing processes and facilities); raw materials usage; water consumption; the reuse, recycling, discharge and disposal of waste; and solvent and volatile organic compounds ("VOC") releases.In 2006, Senior established a baseline for measuring these impacts and, as a consequence of process improvements and environmental programmes over the past four years, reductions have been made in all of these areas.

Energy

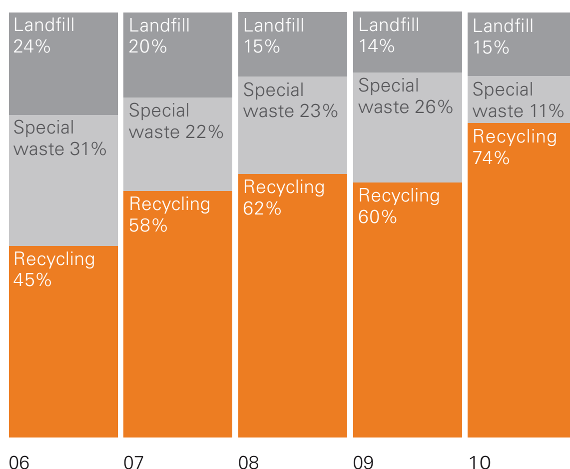
Senior's most significant environmental impact is in the form of CO_2 emissions resulting from energy consumption. In 2010, 78% of these emissions (42,890 tonnes) resulted from electricity consumption and 16% from natural gas consumption (8,801 tonnes). In 2010 the Group emitted 96.65 tonnes of CO_2 for each £1m of revenue; this represents a 3% reduction on 2009 emissions (99.00 tonnes per £1m revenue) and a fulfilment of the Group's long-standing target of reducing by 15% the CO_2 emissions, relative to sales, by 2010, compared with 2006 emission levels.

The Group recognises the need for longer-term reductions in global greenhouse gas emissions ("GHG") and has set a new target for 2010–2015 to reduce energy consumption, the Group's single largest GHG contributor, by 10% normalised to revenue.

Waste

The total amount of waste generated by the Group was 10,413 tonnes, three-quarters of which was recycled material, such as metals and packaging.

Waste Levels



The level of recycling within the Group has continued to increase as a result of a focus on the "waste hierarchy". This entails reducing waste at source through Lean Manufacturing programmes and, where this is not possible, finding alternative uses for materials previously sent to landfill.

Water and solvent usage

The Group's main water uses are processing, such as material cleaning, and equipment cooling. As a consequence of a number of 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 2010 by 18% to 206 megalitres (2009 – 251 megalitres). Since the Group began reporting on water usage in 2006, consumption levels have halved.

The majority of the Group's solvent usage results from chemicals that are inherent within the production processes. The Group has made significant improvements by substituting chemicals with lower impact material wherever possible, such as on cleaning lines. The Group is committed to reducing 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 just one of the Group's operations; however, these emissions are captured and prevented from atmospheric release.

HSE regulatory compliance

Senior remains committed to full compliance with all legal requirements and monitors this throughout the Group's operations. Senior also issues guidance to its operations on HSE legal compliance.

There were no fatalities in the Group during 2010 or prosecutions by regulatory authorities for HSE-related issues. One of the Group's operations did however receive statutory notices from its safety regulator during site inspections in 2010; the issues identified have now been corrected.

Looking Forward

Senior strives to improve further its approach to corporate social responsibility and has established a number of specific areas for improvement.

A Group-wide HSE Strategy for 2011–2015 has been agreed by the Group HSE Committee, which aims to build on the achievements made over the past four years. The strategy includes a number of initiatives, including: a programme to improve ergonomics and the integration of risk assessment within the Group's operating processes, as well as enhancing our energy conservation and waste reduction programmes. To measure the success of these initiatives, two new improvement targets have been issued:

- to reduce the Group's Accident Incidence Rate by 20% by 2015[1]; and
- to improve the Group's rate of energy intensity by 10% by 2015[2].

The Board undertook an annual review of the Group's Code of Business Conduct and its whistle-blowing policy during 2010; these will both be reviewed again in 2011 to take into account the implementation of the Bribery Act 2010.

[1] The Accident Incidence Rate is defined as the number of OSHA Recordable Injuries multiplied by 200,000 hr/the hours worked.

[2] The energy intensity is the amount of primary energy consumed relative to the sales. The baseline for the 10% improvement is the 2009 data. These targets exclude the impact of any new acquisitions.

Renewable energy

The Group's Flexonics operation in Kassel, Germany designs and manufactures vacuum seal bellows, metal hoses and rotating flexible joints that are being used in the construction of concentrated solar power plants.

Board of Directors

Main Board
The main Board met a total of nine times during the period 1 January 2010 and 31 December 2010.

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), Jerry Goodwin (Chief Executive of Aerospace Structures) and Launie Fleming (Chief Executive of Aerospace Fluid Systems). The Committee met four times during the year. James Pomeroy, the Group HSE Manager, also attended each Committee meeting.

Apologies for non-attendance were received from Ian Much for one Audit Committee meeting. With this exception, there was full attendance at every meeting of the main Board and of the Committees of the Board during the year.

Non-executive Directors
1 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.

2 David Best Non-executive Director. Joined the Board in 2007; was also a non-executive director of St Ives plc until November 2010. He is a Chartered Accountant and was formerly Group Finance Director of Xansa plc. He is Chairman of the Audit Committee and of the Trustee Board of the Senior plc Pension Plan. The Board considers David Best to be independent.

3 Ian Much Non-executive Director and Senior Independent Director. Joined the Board in 2005 and is also non-executive director of Chemring Group plc and BTG PLC, having joined the latter in August 2010. He was formerly Chief Executive of De la Rue plc. He is Chairman of the Remuneration Committee. The Board considers Ian Much to be independent.

4 Michael Steel Non-executive Director. Joined the Board in 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. Michael Steel is to retire from the Board at the Annual General Meeting 2011.

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

6 Simon Nicholls Group Finance Director. A Chartered Accountant, he joined the Group 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) 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 and Peter Woolfrey, Head of Business Development, normally attends.

7 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.

8 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 and joined the Executive Committee in December 2009. Prior to joining Senior, Jerry served as Vice President and General Manager at C & D Zodiac, a composites aerospace manufacturing company.

9 Mike Sheppard A US citizen, Mike is the Chief Executive of the Flexonics Division. He has worked for the Group for more than 20 years and has been a member of the Executive Committee for more than 10 years. A qualified engineer, Mike's previous positions within the Group included operational roles at the two largest Flexonics businesses: Pathway and Bartlett.

Report of the Directors

The Directors present their Report and supplementary reports, together with the audited Financial Statements for the year ended 31 December 2010.

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 24. Its Principal Group Undertakings are shown on page 93 and comments on Divisional results and activities in 2010 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

On 16 August 2010, the Senior Group acquired 100% of the issued share capital of WahlcoMetroflex, Inc. ("WMX"), for a total consideration of £8.9m (US$13.9m); further details of this business are given on pages 13, 82 and 83. The WMX business is complementary to, and has been integrated into, Senior Flexonics Pathway. There were no disposals during the year.

Results and Dividends

The results for the year are shown in the Consolidated Income Statement on page 48.

An interim dividend of 1.00 pence per share (2009 – 0.90 pence) has already been paid and the Directors recommend a final dividend of 2.12 pence per share (2009 – 1.70 pence). The final dividend, if approved, will be payable on 31 May 2011 to shareholders on the register at the close of business on 6 May 2011. This would bring the total dividend for the year to 3.12 pence per share (2009 – 2.60 pence).

Share Capital

The Company has one class of ordinary shares. Each share carries the right to vote at general meetings of the Company, but no right to a fixed income. Changes in the Company's issued share capital during 2010 were:

Shares in issue at 1 January 2010	399,663,293
Senior plc Long Term Incentive Plan	810,657
Senior plc Savings Related Share Option Plan	432,136
Shares in issue at 31 December 2010	400,906,086

Further share capital details are given in Note 25 to the Financial Statements on page 80. Details of employee share plans are set out on pages 85 and 86.

There are no specific restrictions on the size of a holding nor on the transfer of shares, both of which are 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. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code on Corporate Governance, UK Corporate Governance 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 34. 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 73 to 78 contains disclosures on Financial Instruments.

Directors

Details of the Directors who served throughout the year can be found on page 31. The Directors' interests in the shares of the Company are included in the Remuneration Report on page 43. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings.

The provisions of the UK Corporate Governance Code (the "New Code") which apply to financial years commencing after 29 June 2010, require that all Directors of FTSE 350 companies should be subject to annual election by shareholders. The Board is to adopt this requirement for the Annual General Meeting 2011 to be held in April 2011, and David Best, Martin Clark, Simon Nicholls, Ian Much and Mark Rollins will all stand for re-election at the AGM. Michael Steel is to retire from the Board at the conclusion of the AGM 2011.

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 2010, the Group incurred £10.6m (2009 – £9.7m) on research and development, before recoveries from customers of £1.4m (2009 – £1.4m). 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 £138,000 (2009 – £43,000), principally to local charities serving the communities in which the Group operates; £87,500 of this figure relates to donations made by the Group following Mark Rollins' decision to waive in full his 2009 performance bonus. 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 26 to 28.

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 15 days (2009 – 14 days). Typical payment terms adhered to by the Company are estimated to be approximately 30 days.

Fixed Assets

In the opinion of the Directors there is no significant difference between the book value and the current open market value of the Group's interests in land and buildings.

Major Shareholdings

At 25 February 2011, the Company had been notified that the following shareholders were interested in 3% or more of the issued share capital of the Company:

BlackRock Inv Mgt (UK)	13.29%
Scottish Widows Investment Partnership	7.24%
Henderson Global Investors	6.65%
JP Morgan Asset Management	5.81%
Legal & General Investment Management	5.38%
Aegon Asset Management	3.82%

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 34.

UK Corporate Goverance Code

On 27 May 2010 the Financial Reporting Council ("FRC") issued the UK Corporate Governance Code ("the New Code"), which applies to financial years commencing after 29 June 2010. The FRC has changed the tone of the Code to focus more on Board behaviour. The Board of Senior does not anticipate that the requirements of the New Code will have a significant impact on its activities, and where possible has complied with the provisions of the New Code in these Annual Report & Accounts, in particular in respect of explanations relating to how the Board operates, the role of the Chairman and Senior Independent Director, annual re-election of all directors, disclosures on the Group's strategy and business model, and the Board's procedures for determining the nature and extent of significant risks it is willing to take in achieving its strategic objectives.

Remuneration Report

The Company's policy on executive Directors' remuneration is set out in the Remuneration Report on pages 38 to 45. The Remuneration Report is to be put to shareholder vote at the Annual General Meeting on 28 April 2011.

Annual General Meeting

The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held on Thursday 28 April 2011 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 23 April 2010, to make market purchases of the Company's shares up to an aggregate nominal amount of £4.0m, 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
25 February 2011

Corporate Governance Report

This Corporate Governance Report describes the manner in which the Company has applied the Principles of Good Governance set out in Section 1 of the 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 independent non-executive Directors, who were selected for appointment because of their wide industrial and commercial experience. In addition, there is an Executive Committee, chaired by the Group Chief Executive, comprising the executive Directors and other key executives within the Group. Brief details of the Board and of the key Executive Committee members are included on page 31.

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 2010); in addition there were three meetings of the Audit Committee in 2010, 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 31. 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. Group strategy, and health, safety and environmental performance are 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 31. 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. Members of the Committee 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.

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.

There were no new appointments to the Board in 2010. Michael Steel has indicated that he wishes to retire from the Board at the Annual General Meeting 2011 and the Nominations Committee has commenced the process to appoint two new non-executive Directors. The Board is to adopt the New Code's provision relating to the annual re-election of Directors for the Annual General Meeting 2011 and David Best, Martin Clark, Simon Nicholls, Ian Much and Mark Rollins will all stand for re-election at the AGM.

b) Directors' remuneration

The Remuneration Report on pages 38 to 45 describes the Board's approach to remuneration matters.

c) Accountability and audit

The Audit Committee Report on pages 36 and 37 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 with them is not appropriate. The Group's ethical procedures and Code of Business Conduct have been reviewed in light of the potential impact of the Bribery Act 2010 and enhancements planned as appropriate.

d) Relations with shareholders

The Company maintains regular contact with its institutional shareholders. At least 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 2010, the Company's non-executive Chairman also attended the preliminary full-year and interim results announcement presentations 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 2010 were passed on a show of hands. Details of the proxy voting received by the Company for the AGM 2010 resolutions are set out in the table below. The total number of proxy votes received for the AGM 2010 represented approximately 66.8% (2009 – 66.2%) 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 proxy form.

Proxy voting for the AGM 2010 resolutions

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total[1] (votes)
1. To adopt Report & Accounts	259,380,879	216,480	97,777	7,091,507	266,786,643
2. To approve Directors' Remuneration Report	254,002,016	298,983	101,137	12,384,507	266,786,643
3. To declare a Final Dividend	259,597,819	800	96,337	7,091,687	266,786,643
4. To re-elect Martin Clark as a Director	258,837,310	736,302	107,764	7,105,267	266,786,643
5. To re-elect Deloitte LLP as auditor	258,759,949	752,800	111,577	7,162,317	266,786,643
6. Authority to allot shares	251,718,841	2,183,051	114,739	12,770,012	266,786,643
7. Disapplication of pre-emption rights	259,382,370	103,165	109,882	7,191,226	266,786,643
8. Authority to buy back shares	259,440,896	134,697	102,442	7,108,608	266,786,643
9. To retain the 14-day notice period	244,708,142	14,856,281	109,052	7,113,168	266,786,643
10. To adopt New Articles of Association	259,325,482	229,562	115,781	7,115,818	266,786,643

[1] The total issued share capital as at 1 March 2010 (the date of the Notice of the AGM 2010), was 399.7 million ordinary shares of 10 pence each.

Audit Committee Report

Summary of the Role of the Audit Committee

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

- considering and making recommendations to the Board regarding the appointment of the external auditor, the audit fee, and any questions relating to 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; considering the major findings of internal audit investigations and management's response; ensuring co-ordination between the Group and the external auditor; and ensuring 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 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.

Michael Steel is to retire from the Board at the Annual General Meeting 2011 and will not be standing for re-election. It is planned that a new independent non-executive Director will be appointed to the Audit Committee in 2011 to replace him.

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 on a regular basis without the presence of executive management.

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 its 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 2010, £0.2m (2009 – £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 their 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 fulfillment of the agreed audit plan.

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

- the changes in key external audit staff: the current Audit Partner took over the role by rotation in 2009;
- 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 its 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 Audit Function

The Audit Committee is required to assist the Board to fulfil its responsibilities relating to the effectiveness, resourcing and plans of the Internal Audit function. In 2010, the Audit Committee:

- monitored and reviewed the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- approved the appointment of a new Head of Internal Audit;
- considered and approved the remit of the internal audit function and ensured it had adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee also ensured that the Head of Internal Audit had adequate standing and was free from management or other restrictions;
- reviewed and assessed the annual internal audit plan;
- reviewed reports addressed to the Committee from the Head of Internal Audit; and
- reviewed and monitored management's responsiveness to the findings and recommendations of the Head of Internal Audit.

The Head of Internal Audit has direct access to the Chairman of the Board and to the Audit Committee.

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 2009, and the Interim Report issued in August 2010, 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 2009 and the work carried out on the Interim Report 2010;
- reviewed the effectiveness of the Group's risk management and internal control systems and disclosures made in the Annual Report 2009;
- reviewed and agreed the going concern basis to be adopted for the 2009 Financial Statements;
- assessed the effectiveness of the 2009 Audit;
- reviewed and agreed the scope of the audit and client service plan to be undertaken by the external auditor for 2010;
- agreed the fees to be paid to the external auditor for the audit of the Financial Statements 2010 and the review of the Interim Report 2010, and the fees to be paid for any non-audit work;
- reviewed the Business Continuity Plans and IT Risk Assessments of the Group's businesses;
- carried out an evaluation of the performance of the external auditor;
- agreed a programme of work for the Head of Internal Audit; and received reports from the Head of Internal Audit on the work he had undertaken and the management responses to the proposals made in his audit reports during the year;
- monitored and reviewed the effectiveness of the Internal Audit function;
- oversaw the appointment of a new Head of Internal Audit following the predecessor's retirement;
- reviewed the Terms of Reference of the Audit Committee;
- reviewed the Group's whistle-blowing policy and procedures; and
- reviewed and agreed the effectiveness of the Audit Committee.

The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness; details of the Group's system of internal control can be found within the Operating and Financial Review on pages 10 to 24.

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 2011 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
25 February 2011

Remuneration Report

The Directors present their Remuneration Report for the year ended 31 December 2010 in accordance with Section 420 of the Companies Act 2006, and Regulation 11 and Schedule 8 to 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. Martin Clark, the non-executive Chairman of the Board, was considered to be independent upon appointment. Two members constitute a quorum for the Committee.

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 190 other senior managers. The Terms of Reference of the Remuneration Committee may be found on the Company's website. During 2010, 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 Associates Limited, Mercer Limited, and Lane Clark & Peacock LLP in relation to the review of the remuneration packages of the executive Directors and senior managers, and the executive Directors' pension arrangements. No remuneration consultant has any other connection with the Company, although Mercer is appointed by the Trustee ("the Trustee") of the Senior plc Pension Plan ("the Plan") to act as administrator of the Plan, and Lane Clark & Peacock is appointed by the Trustee to be the Plan's Actuary and Investment Advisers.

The Committee does not have a formal policy of subjecting its remuneration consultants to a regular fixed-term rotation, although the Committee remains cognisant of the need to achieve objective advice and good value whilst also benefiting from the consultants' knowledge of the Group. Some remuneration consultancy work was put out to competitive tender during the year.

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, a large part of which are long term in nature, 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, which take into consideration the Company's risk policies and systems, 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.

a) Service agreements

Both executive Directors have 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 and he or the Company may terminate his appointment by providing 12 months' notice. Ian Much's appointment commenced in December 2005 for an initial three-year term which was extended for a further three years in December 2008. David Best was appointed with effect from 1 May 2007 for an initial three-year term which was extended for a further three years in April 2010. Michael Steel was appointed with effect from 1 May 2008. Michael Steel has advised the Company that he wishes to retire from the Board at the conclusion of the Annual General Meeting to be held on 28 April 2011. The appointments of the non-executive Directors, excluding Martin Clark, 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 £37,557 in 2010.

b) Base salaries

In setting the base salary of both executive Directors, the Committee takes into account the pay practice of other companies and the performance of the Director.

The Committee is also responsible for ratifying the salaries of around 190 senior managers and therefore is fully cognisant of pay levels throughout the Group when determining the pay of the executive Directors.

The executive Directors' 2010 salaries remained unchanged compared to 2009, with Mark Rollins' salary being £350,000 and Simon Nicholls' salary being £230,000.

The Remuneration Committee has been concerned for some time about the need for the correct pay arrangements to be in place for the executive Directors so that the pay for the next tiers of management are based on the correct reference point. This is particularly true for the Aerospace operations, where the Committee is eager to retain the strong operational management

through the ongoing Aerospace growth cycle. In order to create the correct reference points for senior management pay throughout the Group, the Committee's policy is to set base salary levels for executive Directors broadly in line with the market median.

As a result of the annual review of the executive Directors' remuneration, the Remuneration Committee recommended an increase in base salary, with effect from 1 January 2011, for Mark Rollins from £350,000 to £425,000 (although he has personally decided to waive £50,000 of the increase and to receive a salary of £375,000 for 2011) and for Simon Nicholls' base salary to increase from £230,000 to £260,000.

The 2010 fees for the non-executive Directors remained unchanged in 2010 compared to 2009, with Martin Clark's fees being £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. No additional fees are payable for Committee membership.

With effect from 1 January 2011, the Chairman's annual fee was increased from £90,000 to £125,000 (although he has personally decided to waive £20,000 of the increase and to receive a fee of £105,000 for 2011). The base annual fee for the non-executive Directors for 2011 increased from £35,000 to £38,000. The fee for chairing the Remuneration Committee and Audit Committee increased from £3,000 to £5,000, and the fee for chairing the Trustee Board of the Pension Plan remained unchanged. Therefore the 2011 annual fees for the non-executive Directors are Ian Much £43,000, David Best £50,000, and Michael Steel £38,000. No additional fees are payable for Committee membership.

c) Annual performance-related bonus scheme

Under the annual performance-related bonus scheme, bonuses up to 65% (2009 – up to 65%) of basic salary could be earned by the executive Directors in 2010, 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. The following 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.

	Cash flow target		Earnings per share target		
	Interim %	Full year %	Internal target %	Year-on-year growth %	Total %
Maximum possible award	10.0	15.0	20.0	20.0	65.0
2009 bonus paid	10.0	15.0	0.0	0.0	25.0[1]
2010 bonus to be paid	10.0	15.0	20.0	20.0	65.0

[1] Mark Rollins chose to waive, in full, his entitlement to his 2009 performance bonus.

The Group attaches significant importance to the Group's cash flow performance and delivering consistent earnings per share growth for shareholders. The Committee believes that it remains appropriate for the performance-related bonus scheme to focus on these two elements.

The 2010 scheme provided a maximum bonus potential of 65% of salary (2009 – 65%). The 2010 bonus award for the executive Directors delivered a bonus of 65% of salary (2009 – 25%) as the Group exceeded both the Interim and Full-year maximum cash flow targets – Interim: £7.73m, Full-year: £27.18m. In the year, the Group reduced net debt by £39m. The Group also exceeded its maximum Earnings per Share targets – Internal Target: 8.76 pence, Year-on-Year Target of 10.69 pence.

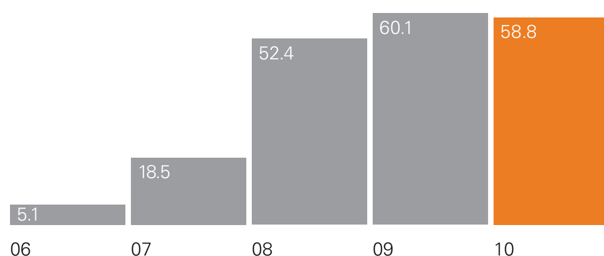
The tables below show the Group's free cash flow and adjusted EPS performance over the last five years.

The Committee's policy is for performance-related pay to be a significant proportion of the total pay package. The current bonus potential of 65% of salary is significantly lower than that offered to executives employed by companies that are considered to be the Group's peers, and it is also uncompetitive in relation to the North American market from which the Group seeks to attract many of its senior executives.

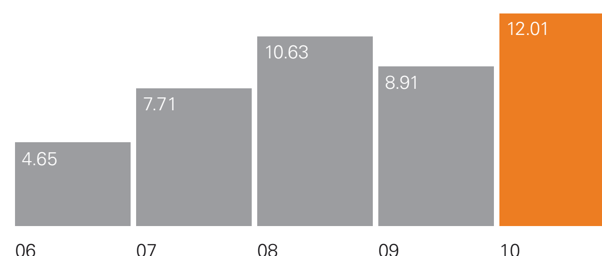
To address these issues, the Committee has proposed, and the Board has accepted following consultation with the Company's major shareholders, that for 2011:

– the annual cash bonus potential be increased from 65% to 70% of salary. This change applies to all participants in the annual performance-related bonus scheme (including executive and divisional Directors, senior operational management teams and corporate employees); and
– a new deferred share bonus worth up to 35% of salary be introduced for the executive Directors and a small number of key executives. Any deferred shares earned would be released three years after the award and would be subject to forfeiture by a "bad leaver" over that deferral period.

Free cash flow (£m)



Adjusted EPS (pence)



Consistent with recent years, the 2011 bonus will be determined by earnings per share and cash flow performance as set out in the following table.

	Cash flow target		Earnings per share target		
	Interim %	Full year %	Internal target %	Year-on-year growth %	Total %
Maximum possible cash award	10.0	15.0	20.0	25.0	70.0
Deferred share bonus – maximum share award	5.0	7.5	10.0	12.5	35.0

Maximum payouts under each measure require at least 20% out-performance of the target or prior year benchmark.

The Remuneration Committee has, with effect from 2011, adopted provisions relating to the deferred share bonus and LTIP awards that would enable the Company to claw back an element of LTIP awards or deferred bonus in certain circumstances such as misstatement or gross misconduct.

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 2010, 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 7.34% of the issued ordinary share capital of the Company. At 31 December 2010, awards outstanding and shares issued in the previous 10 years under executive (discretionary) plans (the 1999 Plan and the 2005 LTIP) amounted to 3.94% of the issued ordinary share capital of the Company.

Typically, share awards are satisfied by the issue of new ordinary shares. 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 can be made to executive Directors and other senior managers. An award worth up to 200% of salary in the case of recruitment can be made, although no greater than 100% has been awarded in such circumstances. The awards made to the executive Directors in 2010 under the 2005 LTIP were limited to 75% of salary (2009 – 40% of salary). The awards are conditional allocations, where the executives receive free ordinary shares in the Company automatically on the vesting of their award.

All awards are subject to performance conditions set by the Remuneration Committee. All 2005 LTIP awards, with the exception of the award made in 2009, have 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.

LTIP awards may vest following the third anniversary of the granting of the award, subject to satisfying the performance conditions attaching to the LTIP award and provided that the participant is still employed within the Group. For the EPS-based element of the award, the Remuneration Committee calculates the EPS growth using the audited adjusted EPS for the financial year prior to the commencement of the LTIP performance period and for the third financial year of the LTIP performance period, in conjunction with the relevant Office of National Statistics inflation data where the EPS-based element is RPI-linked. Hewitt New Bridge Street, advises the Remuneration Committee to the extent that the TSR-based element of the award has been achieved based on market data supplied by Datastream (a Thomson Reuters' product).

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. Based on the Company's closing share price on 31 December 2010 of 150.7p and the executive Directors' 2010 base salaries, Mark Rollins had a holding of 258% of base salary and Simon Nicholls had a holding of 13% of base salary. Simon Nicholls joined the Company in 2008 and his first LTIP award is due to vest in April 2011.

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 awards from 2008 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 for all years including the 2011 award, 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 performance in excess of RPI	Vesting percentage – EPS half of an award
Less and 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 uncertain economic environment prevailing at that time, the adoption of the EPS performance target (RPI + 5% to +12% p.a.) 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. 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 believes 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. Consequently, the Remuneration Committee reinstated 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, having taken advice, and consulted major investors and shareholder representative bodies, determined that the RPI element of the EPS performance condition be removed for the 2010 LTIP award. Therefore the Committee determined that the vesting of the EPS-related half of the 2010 LTIP award would 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%

2011 LTIP award

The Remuneration Committee has considered the structure of the 2011 LTIP awards. For the half of the LTIP award subject to the EPS-related performance condition, the Committee has concluded that the RPI link will be restored and that for awards granted in 2011 the annual EPS growth target range over the three-year performance period will be RPI + 3% to RPI + 8%, with the vesting percentages for the two thresholds over the EPS half of the award being 25% and 100% respectively.

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 the Sharesave Plan and share options are issued to all participants in accordance with the HM Revenue & Customs ("HMRC") rules for savings-related share option plans. The details of Simon Nicholls' participation in the Sharesave Plan are set out on page 43.

e) Retirement benefits

Mark Rollins' and Simon Nicholls' pension arrangements are provided by the Senior plc Pension Plan ("the Plan"), the Group's UK final salary pension plan, but are based upon their pensionable salaries only 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 Plan adopted its own earnings "cap", which has been calculated on the same basis as the HMRC pre-A-Day "cap". The pensionable salary "cap" for the 2010/11 Plan year is £123,600.

In the light of recent Treasury announcements regarding the restriction of pensions tax relief, the Remuneration Committee has reviewed the executive Directors' pension benefits. It is expected that the executive Directors will continue to be members of the Plan in 2011 but only to the extent that their annual pension accrual is at or below the Government-imposed Annual Allowance (currently £50,000). In lieu of accrual above this Annual Allowance, the intention is that the Directors will receive a salary supplement equal to the pension benefit accrual foregone.

If the executive Directors and other senior UK managers do not wish to continue in the final salary section of the 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 or car allowance, and medical insurance.

Remuneration Report continued

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	2010 Total £000's	2009 Total £000's
Executive Directors					
Mark Rollins	**350**	**228**	**16**	**594**	366[1]
Simon Nicholls	**240[2]**	**150**	**1**	**391**	299
Mike Sheppard (to 31 July 2009)	–	–	–	–	177
Non-executive Directors					
Martin Clark	**90**	–	–	**90**	90
David Best	**45**	–	–	**45**	45
Ian Much	**38**	–	–	**38**	38
Michael Steel	**35**	–	–	**35**	35
Total	**798**	**378**	**17**	**1,193**	1,050

(1) Mark Rollins chose to waive, in full, his entitlement to his 2009 performance bonus.
(2) Figure includes base salary of £230,000 and car allowance of £10,500.

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 2009 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 and his full 2010 emoluments are included within the senior managers' emoluments table below as he remains Chief Executive of the Flexonics Division.

Aggregate Directors' remuneration

	2010 £000's	2009 £000's
Emoluments	**1,193**	1,050
Gains on exercise of share options and incentives (see Awards under the Senior plc 2005 LTIP)	**118**	79
Money purchase pension contributions	–	9
Total	**1,311**	1,138

In addition to setting the remuneration of the executive Directors, the Remuneration Committee oversees the remuneration of approximately 190 other senior managers. The table below shows the cumulative benefits of Mike Sheppard (from 1 August 2009) together with the five other Divisional Directors and the four most senior corporate managers. Only three senior corporate managers were included in the 2009 figures.

Senior managers' emoluments

	2010 £000's	2009 £000's
Short-term employee benefits	**2,393**	1,513
Post-employment benefits	**148**	137
Share-based payments	**366**	142
Total	**2,907**	1,792

Directors' Interests

At 31 December 2010, 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

	2010 Shares	2009 Shares
Mark Rollins	**600,000**	550,000
Simon Nicholls	**20,000**	20,000
Martin Clark	**110,000**	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.

Awards under the Senior plc 2005 LTIP

	Date of award	At 31.12.09	Awarded 2010	Vested 2010	Date of vesting	Market price on vesting 2010	Gains on vesting 2010	Forfeited 2010	Lapsed 2010	At 31.12.10	Maturity date	Potential gain at 31.12.10[1]
Mark Rollins	08.03.07	130,435		130,435	09.03.10	£0.901	£117,522			–	Mar 10	–
	13.03.08	252,631								252,631	Mar 11	£380,715
	12.03.09	491,228								491,228	Mar 12	£740,281
	15.03.10		275,590							275,590	Mar 13	£415,314
Simon Nicholls	02.04.08	217,821								217,821	Mar 11	£328,256
	12.03.09	322,807								322,807	Mar 12	£486,470
	15.03.10		181,102							181,102	Mar 13	£272,921

(1) Potential gain is calculated using the closing share price on 31 December 2010 of 150.7p assuming the LTIP award vests in full.

Awards under the Senior plc Savings-Related Share Option Plan

	Date of grant	At 31.12.09	Granted 2010	Exercised 2010	Forfeited 2010	Lapsed 2010	At 31.12.10	Exercise period/ maturity date	Option price pence	Potential gain at 31.12.10[1]
Simon Nicholls	08.04.09	27,376					27,376	6 months to 31.12.12	25.00p	£34,412

(1) Potential gain is calculated using the closing share price on 31 December 2010 of 150.7p.

Details of the share schemes referred to in the above tables may be found on pages 40 and 41.

The Company's share price on the dates of the awards made under the 2005 LTIP are as follows:

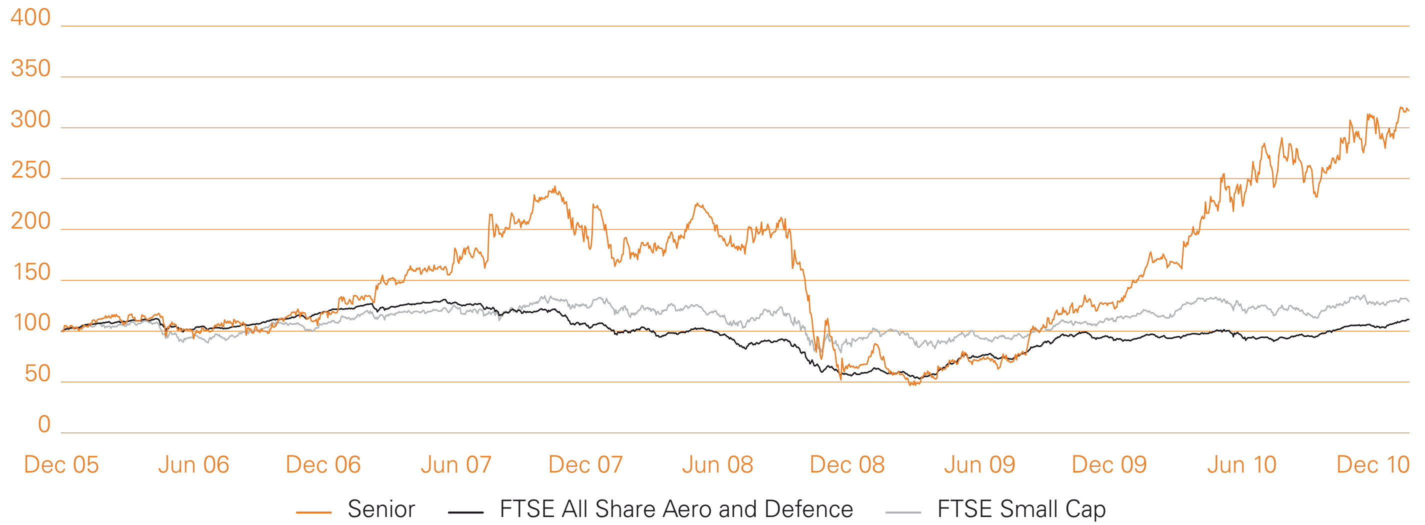
Year of grant	08.03.07	13.03.08	02.04.08	12.03.09	15.03.10
Market price of Company's shares (on date of award)	80.75p	99.75p	103.50p	28.50p	95.25p

At 31 December 2010, no ordinary shares (2009 –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 2010 was £nil (2009 – £783,644). The Trustee had materially waived its rights to dividends on the shares held in the Senior plc Employee Benefit Trust. The executive Directors were not collectively interested in these shares. On 20 October 2010, the Trustee of the Trust completed the sale of all the shares held in the Trust and used the net proceeds of sale to repay an outstanding loan owed to the Company.

Dividends do not accrue on shares that are yet to vest under the 2005 LTIP.

The closing middle market price of the shares at 31 December 2010 was 150.7p (2009 – 75.0p). During 2010, the shares traded in the range of 74.5p to 152.4p.

Senior plc Total Shareholder Return



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 2010, the Directors had accrued entitlements under defined benefit plans as follows:

	Gross increase in pension (A) £000's	Increase in accrued pension net of inflation (B) £000's	Total accrued pension at 31.12.10 (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 31.12.10 (F) £000's	Transfer value of accrued pension at 31.12.09 (G) £000's
Mark Rollins	**4**	**2**	**41**	**13**	**61**	**560**	488
Simon Nicholls	**4**	**4**	**11**	**33**	**42**	**133**	80
Total	**8**	**6**	**52**	**46**	**103**	**693**	568

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 2010.
2. The gross increase in accrued pension during the year (A) includes an increase for inflation; the net increase in accrued pension (B) excludes any such increase.
3. The transfer values have been calculated in accordance with Regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) Regulations 1996.
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 ceased to be a member of the Board from 31 July 2009. His accrued benefit at 31 December 2009 was £149,000 in respect of the defined benefit element of his pension only. In addition, he had 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 Annual General Meeting to be held on 28 April 2011.

This Report was approved by the Board on 25 February 2011 and signed on its behalf by:

Ian Much
Chairman of the Remuneration Committee

Statement of Directors' Responsibilities

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. The Directors 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;
- 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
25 February 2011

Simon Nicholls
Group Finance Director
25 February 2011

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 2010 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 37. 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 and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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 and express an opinion on 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 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 2010 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- 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;
- 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; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Gregory Culshaw (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
25 February 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	Year ended 2010 £m	Year ended 2009 £m
Continuing operations			
Revenue	3	**566.9**	540.1
Trading profit	5	**62.0**	61.1
Profit/(loss) on sale of fixed assets		**0.2**	(0.1)
Operating profit[1]		**62.2**	61.0
Investment income	7	**0.5**	1.2
Finance costs	8	**(10.6)**	(12.6)
Profit before tax[2]		**52.1**	49.6
Tax	10	**(11.7)**	(10.6)
Profit for the period	5	**40.4**	39.0
Attributable to:			
Equity holders of the parent		**40.4**	39.0
Earnings per share			
Basic[3]	12	**10.11p**	9.79p
Diluted	12	**9.77p**	9.58p
[1] Adjusted operating profit	9	**75.4**	59.4
[2] Adjusted profit before tax	9	**65.3**	48.0
[3] Adjusted earnings per share	12	**12.01p**	8.91p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Year ended 2010 £m	Year ended 2009 £m
Profit for the period	**40.4**	39.0
Other comprehensive income:		
Gains on cash flow hedges during the period	**0.8**	5.1
Reclassification adjustments for (gains)/losses included in profit or loss	**(1.2)**	1.7
(Losses)/gains on cash flow hedges	**(0.4)**	6.8
Gains on revaluation of financial instruments	**–**	8.0
Exchange differences on translation of foreign operations	**4.0**	(20.6)
Actuarial gains/(losses) on defined benefit pension schemes	**0.4**	(20.0)
Other comprehensive income	**4.0**	(25.8)
Tax relating to components of other comprehensive income	**2.7**	4.4
Other comprehensive income for the period, net of tax	**6.7**	(21.4)
Total comprehensive income for the period	**47.1**	17.6
Attributable to:		
Equity holders of the parent	**47.1**	17.6

Balance Sheets

As at 31 December 2010

	Notes	Group Year ended 2010 £m	Group Year ended 2009 £m	Company Year ended 2010 £m	Company Year ended 2009 £m
Non-current assets					
Goodwill	13	**169.7**	169.3	**–**	–
Other intangible assets	14	**6.9**	11.0	**–**	–
Investments in subsidiaries	15	**–**	–	**179.0**	179.0
Property, plant and equipment	16	**114.0**	118.0	**0.1**	0.1
Deferred tax assets	22	**1.0**	0.2	**–**	–
Trade and other receivables	19	**0.6**	0.6	**59.5**	58.4
Total non-current assets		**292.2**	299.1	**238.6**	237.5
Current assets					
Inventories	17	**75.1**	65.0	**–**	–
Construction contracts	18	**1.4**	0.5	**–**	–
Trade and other receivables	19	**79.3**	79.1	**50.7**	61.5
Cash and cash equivalents	33c	**56.0**	20.4	**9.7**	2.5
Total current assets		**211.8**	165.0	**60.4**	64.0
Total assets		**504.0**	464.1	**299.0**	301.5
Current liabilities					
Trade and other payables	24	**110.5**	95.6	**55.3**	68.5
Current tax liabilities		**7.4**	4.6	**0.2**	–
Obligations under finance leases	23	**0.3**	0.2	**–**	–
Bank overdrafts and loans	20	**0.3**	1.1	**–**	–
Total current liabilities		**118.5**	101.5	**55.5**	68.5
Non-current liabilities					
Trade and other payables	24	**–**	–	**–**	–
Bank and other loans	20	**118.3**	120.3	**117.8**	114.9
Retirement benefit obligations	36	**38.2**	48.1	**29.8**	39.6
Deferred tax liabilities	22	**1.9**	7.8	**–**	–
Obligations under finance leases	23	**0.8**	1.1	**–**	–
Others		**0.4**	0.5	**–**	–
Total non-current liabilities		**159.6**	177.8	**147.6**	154.5
Total liabilities		**278.1**	279.3	**203.1**	223.0
Net assets		**225.9**	184.8	**95.9**	78.5
Equity					
Issued share capital	25	**40.1**	39.9	**40.1**	39.9
Share premium account	26	**12.3**	12.1	**12.3**	12.1
Equity reserve	27	**2.2**	1.9	**2.2**	1.9
Distributable reserve	28	**–**	19.4	**–**	19.4
Hedging and translation reserve	29	**6.2**	1.6	**(0.3)**	(0.3)
Retained earnings	30	**165.1**	111.3	**41.6**	6.9
Own shares	31	**–**	(1.4)	**–**	(1.4)
Equity attributable to equity holders of the parent		**225.9**	184.8	**95.9**	78.5
Total equity		**225.9**	184.8	**95.9**	78.5

The Financial Statements of Senior plc (registered number 282772) were approved by the Board of Directors and authorised for issue on 25 February 2011. They were signed on its behalf by:

Martin Clark
Director

Simon Nicholls
Director

Statements of Changes in Equity

For the year ended 31 December 2010

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 2009	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
Profit for the year 2010	–	–	–	–	–	40.4	–	40.4
Losses on cash flow hedges	–	–	–	–	(0.4)	–	–	(0.4)
Gains on revaluation of financial instruments	–	–	–	–	–	–	–	–
Exchange differences on translation of foreign operations	–	–	–	–	4.0	–	–	4.0
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	0.4	–	0.4
Tax relating to components of other comprehensive income	–	–	–	–	1.0	1.7	–	2.7
Total comprehensive income for the period	–	–	–	–	4.6	42.5	–	47.1
Issue of share capital	0.2	0.2	(0.1)	–	–	–	–	0.3
Share-based payment charge	–	–	1.0	–	–	–	–	1.0
Sale of shares held by employee benefit trust	–	–	–	–	–	–	1.4	1.4
Tax relating to share-based payments	–	–	–	–	–	2.1	–	2.1
Transfer to retained earnings	–	–	(0.6)	(19.4)	–	20.0	–	–
Dividends paid	–	–	–	–	–	(10.8)	–	(10.8)
Balance at 31 December 2010	**40.1**	**12.3**	**2.2**	**–**	**6.2**	**165.1**	**–**	**225.9**

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 1 January 2009	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
Profit for the year 2010	–	–	–	–	–	23.7	–	23.7
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	1.8	–	1.8
Total comprehensive income for the period	–	–	–	–	–	25.5	–	25.5
Issue of share capital	0.2	0.2	(0.1)	–	–	–	–	0.3
Share-based payment charge	–	–	1.0	–	–	–	–	1.0
Sale of shares held by employee benefit trust	–	–	–	–	–	–	1.4	1.4
Transfer to retained earnings	–	–	(0.6)	(19.4)	–	20.0	–	–
Dividends paid	–	–	–	–	–	(10.8)	–	(10.8)
Balance at 31 December 2010	**40.1**	**12.3**	**2.2**	**–**	**(0.3)**	**41.6**	**–**	**95.9**

Cash Flow Statements

For the year ended 31 December 2010

	Notes	**Group Year ended 2010 £m**	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Net cash from/(used in) operating activities	33a	**70.2**	69.8	**(16.3)**	(23.5)
Investing activities					
Interest received		**0.7**	2.6	**8.5**	6.7
Dividends received from subsidiaries		**–**	–	**30.0**	–
Deferred consideration received		**–**	0.5	**–**	–
Proceeds on disposal of property, plant and equipment		**2.1**	0.3	**–**	–
Purchases of property, plant and equipment		**(13.5)**	(12.3)	**–**	(0.1)
Purchases of intangible assets		**(0.7)**	(0.3)	**–**	–
Acquisition of WahlcoMetroflex	32	**(8.3)**	–	**–**	–
Net cash (used in)/from investing activities		**(19.7)**	(9.2)	**38.5**	6.6
Financing activities					
Dividends paid		**(10.8)**	(10.4)	**(10.8)**	(10.4)
Repayment of borrowings		**(4.6)**	(20.0)	**–**	(10.5)
Repayments of obligations under finance leases		**(0.2)**	(0.2)	**–**	–
Share issues		**0.3**	0.1	**0.3**	0.1
Sale of shares held by employee benefit trust		**1.4**	–	**1.4**	–
New loans raised		**–**	4.5	**–**	–
Net loans (advanced to)/repaid by subsidiaries		**–**	–	**(6.3)**	40.8
Net cash (outflow)/inflow on forward contracts		**–**	(25.2)	**0.4**	(0.3)
Net cash (used in)/from financing activities		**(13.9)**	(51.2)	**(15.0)**	19.7
Net increase in cash and cash equivalents		**36.6**	9.4	**7.2**	2.8
Cash and cash equivalents at beginning of period		**19.3**	10.7	**2.5**	(0.3)
Effect of foreign exchange rate changes		**–**	(0.8)	**–**	–
Cash and cash equivalents at end of period	33a	**55.9**	19.3	**9.7**	2.5

Notes to the Financial Statements

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 96. 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 24.

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 24. 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 2 (Amendment) "Group Cash-settled Share-based Payment Transactions", IFRS 3 (Revised) "Business Combinations" and IAS 27 (Amendment) "Consolidated and Separate Financial Statements".

IFRS 2 (Amendment) clarifies that the Standard applies to all share-based payment transactions, whether or not the goods or services received under the share-based payment transaction can be individually identified. This amendment does not represent a material impact on the Group's Financial Statements.

IFRS 3 (Revised) focuses on what is given to the vendor as consideration on acqusition, rather than what is spent on achieving the acquisition. It also focuses on changes in control as a significant economic event and places greater emphasis on the use of fair value. The main impact of the revisions to the Group's Financial Statements are that of expensing acquisition costs and not being able to adjust goodwill after the measurement date for changes in the fair value of any contingent consideration. The Group has applied IFRS 3 (Revised) prospectively to all business combinations occurring from 1 January 2010.

IAS 27 (Amendment) primarily deals with the accounting for non-controlling interests and the loss of control of a subsidiary. This amendment has not led to a change in the way the Group accounts for its subsidiaries in its consolidated 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: IAS 39 (Amendment) "Eligible Hedged Items" and Improvements to IFRS – as published in April 2009. IFRS 1 (Amendments) "First Time Adoption of Financial Reporting Standards" and "Additional Exemptions for First-Time Adopters"; and IFRIC 17 "Distributions of Non-cash Assets to Owners" 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) Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. Effective from 1 July 2010. Endorsed by the EU.

IFRS 1 (Amendment) Removal of Fixed Dates for First-Time Adopters. Effective for annual periods beginning on or after 1 July 2011.

IFRS 1 (Amendment) Severe Hyperinflation. Effective for annual periods beginning on or after 1 July 2011.

IFRS 7 (Amendment) Disclosures – Transfers of Financial Assets. Effective for annual periods beginning on or after 1 July 2011.

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

IAS 12 (Amendment) Deferred Tax: Recovery of Underlying Assets. Effective for annual periods beginning on or after 1 January 2012.

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

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

Improvements to IFRS – as published in May 2010. Effective dates vary.

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

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

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.

2. Significant Accounting Policies continued

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.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred for each acquisition is the aggregate of the fair values (at the date of exchange) of assets transferred, liabilities incurred or assumed, and equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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 measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. It is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately through the Conslidated Income Statement and is not subsequently reversed.

If the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree is less than the fair value of the net assets acquired (i.e. bargain purchase), the difference is credited to the Consolidated Income Statement in the period of acquisition.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

Revenue recognition

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

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

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

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

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

Construction contracts

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

2. Significant Accounting Policies continued

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 2010	Average rates 2009	**Year-end rates 2010**	Year-end rates 2009
US dollar	**1.55**	1.56	**1.57**	1.61
Euro	**1.16**	1.12	**1.17**	1.13

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

For defined benefit retirement plans, 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.

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.

2. Significant Accounting Policies continued

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 based on tax laws and rates that have been enacted at the balance sheet date. 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 historical cost, or at modified historical 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.

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.

2. Significant Accounting Policies continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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, on occassion, 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 cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents, both at hedge inception and on an ongoing basis, whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the Income Statement. Gains or losses from remeasuring the derivative are also recognised in the Income Statement. If the hedge is effective, these entries will offset in the Income Statement.

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

2. Significant Accounting Policies continued

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, 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.

Gains and losses accumulated in equity are recognised in the Income Statement on disposal of the foreign operation.

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 2010 was £169.7m (2009 – £169.3m). Further details on these estimates are set out in Note 13.

Fair value of intangible assets acquired on acquisition

On acquisition of a business, the Group reviews the potential for recognising intangible assets and to date has recognised amounts in respect of customer relationships acquired. The fair values of these intangible assets are dependent on estimates of attributable future revenues, profitability and cash flows. The carrying amount at 31 December 2010 of intangible assets in respect of customer relationships acquired was £5.3m (2009 – £9.5m).

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 2010 was £7.3m (2009 – £2.2m) and £0.9m (2009 – £7.6m), 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 2010 was a liability of £38.2m (2009 – £48.1m). Further details on these estimates are set out in Note 36.

Notes to the Financial Statements continued

3. Revenue

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

	Year ended 2010 £m	Year ended 2009 £m
Sales of goods	**558.8**	532.3
Revenue from construction contracts	**8.1**	7.8
	566.9	540.1

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 2010 £m	**Flexonics Year ended 2010 £m**	**Eliminations/ central costs Year ended 2010 £m**	**Total Year ended 2010 £m**	Aerospace Year ended 2009 £m	Flexonics Year ended 2009 £m	Eliminations/ central costs Year ended 2009 £m	Total Year ended 2009 £m
External revenue	**333.7**	**233.2**	**–**	**566.9**	319.0	221.1	–	540.1
Inter-segment revenue	**0.1**	**0.3**	**(0.4)**	**–**	0.2	0.2	(0.4)	–
Total revenue	**333.8**	**233.5**	**(0.4)**	**566.9**	319.2	221.3	(0.4)	540.1
Adjusted operating profit	**50.0**	**31.6**	**(6.2)**	**75.4**	38.8	26.2	(5.6)	59.4
(Loss)/profit on sale of fixed assets	**(0.1)**	**0.3**	**–**	**0.2**	(0.1)	–	–	(0.1)
Exceptional pension gain	**–**	**–**	**–**	**–**	–	–	6.3	6.3
Amortisation of intangible assets from acquisitions	**(4.6)**	**–**	**–**	**(4.6)**	(4.6)	–	–	(4.6)
Impairment of goodwill	**(8.7)**	**–**	**–**	**(8.7)**	–	–	–	–
Acquisition costs	**–**	**(0.1)**	**–**	**(0.1)**	–	–	–	–
Operating profit	**36.6**	**31.8**	**(6.2)**	**62.2**	34.1	26.2	0.7	61.0
Investment income				**0.5**				1.2
Finance costs				**(10.6)**				(12.6)
Profit before tax				**52.1**				49.6
Tax				**(11.7)**				(10.6)
Profit after tax				**40.4**				39.0

4. Segment Information continued

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

Assets	Year ended 2010 £m	Year ended 2009 £m
Aerospace	**167.0**	162.3
Flexonics	**101.9**	97.7
Corporate	**1.2**	0.9
Segment assets for reportable segments	**270.1**	260.9
Unallocated		
Goodwill	**169.7**	169.3
Intangible customer relationships	**5.3**	9.5
Cash	**56.0**	20.4
Deferred and current tax	**1.1**	2.6
Others	**1.8**	1.4
Total assets per balance sheet	**504.0**	464.1

Liabilities	Year ended 2010 £m	Year ended 2009 £m
Aerospace	**49.1**	42.1
Flexonics	**45.1**	40.1
Corporate	**13.5**	11.2
Segment liabilities for reportable segments	**107.7**	93.4
Unallocated		
Debt	**118.6**	121.4
Finance leases	**1.1**	1.3
Deferred and current tax	**9.3**	12.4
Retirement benefit obligations	**38.2**	48.1
Others	**3.2**	2.7
Total liabilities per balance sheet	**278.1**	279.3

	Additions to non-current assets Year ended 2010 £m	Additions to non-current assets Year ended 2009 £m	Depreciation and amortisation Year ended 2010 £m	Depreciation and amortisation Year ended 2009 £m
Aerospace	**8.9**	9.0	**16.1**	15.7
Flexonics	**5.2**	3.5	**8.4**	9.6
Subtotal continuing operations	**14.1**	12.5	**24.5**	25.3
Unallocated corporate amounts	**0.1**	0.1	**0.1**	0.1
Total	**14.2**	12.6	**24.6**	25.4

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

	Year ended 2010 £m	Year ended 2009 £m
Aerospace – Structures	**177.8**	158.9
Aerospace – Fluid Systems	**155.9**	160.1
Aerospace total	**333.7**	319.0
Land vehicles	**123.6**	110.5
Industrial	**109.6**	110.6
Flexonics total	**233.2**	221.1
Group total	**566.9**	540.1

The Group does not have revenues derived from a single external customer that amounts to 10% or more of its revenue in either the current or preceding year.

Notes to the Financial Statements continued

4. Segment Information continued

Geographical information

The Group's operations are located principally 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 2010 £m	Sales revenue Year ended 2009 £m	**Segment non-current assets Year ended 2010 £m**	Segment non-current assets Year ended 2009 £m
USA	**307.0**	278.5	**210.8**	215.7
UK	**61.9**	58.4	**43.6**	44.0
Rest of the World	**198.0**	203.2	**36.8**	39.2
Subtotal continuing operations	**566.9**	540.1	**291.2**	298.9
Unallocated amounts	**–**	–	**1.0**	0.2
Total	**566.9**	540.1	**292.2**	299.1

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 2010 £m	Year ended 2009 £m
Revenue	**566.9**	540.1
Cost of sales	**(418.6)**	(405.0)
Gross profit	**148.3**	135.1
Distribution costs	**(3.7)**	(3.3)
Administrative expenses	**(82.6)**	(70.7)
Trading profit	**62.0**	61.1

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

	Year ended 2010 £m	Year ended 2009 £m
Net foreign exchange (gains)/losses	**(0.8)**	2.4
Research and development costs	**10.6**	9.7
Depreciation of property, plant and equipment	**19.4**	20.1
Amortisation of intangible assets included in administration expenses	**5.2**	5.3
Impairment of goodwill	**8.7**	–
Cost of inventories recognised as expense	**418.6**	405.0
Provision for impairment for doubtful receivables	**0.7**	1.7
Staff costs (see Note 6)	**169.2**	155.4
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 £0.3m (2009 – £0.2m).

Auditor's remuneration for audit services to the Company was £0.1m (2009 – £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:

	2010 £m	2010 %	2009 £m	2009 %
Audit services				
– statutory audit	**0.6**	**67**	0.6	75
	0.6	**67**	0.6	75
Non-audit services				
– tax compliance services	**0.1**	**11**	0.1	12
– tax advisory services	**0.2**	**22**	0.1	13
	0.3	**33**	0.2	25
	0.9	**100**	0.8	100

A description of the work of the Audit Committee is set out on pages 36 and 37 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 2010 Number	Group Year ended 2009 Number
Production	**4,072**	4,075
Distribution	**55**	56
Sales	**308**	307
Administration	**437**	435
	4,872	4,873

	Year ended 2010 £m	Year ended 2009 £m
Their aggregate remuneration comprised:		
Wages and salaries	**143.7**	137.3
Social security costs	**18.5**	17.9
Other pension costs – defined contribution (see Note 36a)	**3.9**	3.9
Other pension costs – defined benefit (see Note 36e)	**1.7**	1.7
Share-based payments	**1.4**	0.9
Aggregate remuneration	**169.2**	161.7
Exceptional pension gain (see Note 36)	**–**	(6.3)
Total	**169.2**	155.4

7. Investment Income

	Year ended 2010 £m	Year ended 2009 £m
Interest on bank deposits	**0.4**	0.1
Foreign currency derivatives	**–**	1.0
Others	**0.1**	0.1
Total income	**0.5**	1.2

The Company earned investment income of £8.2m (2009 – £6.6m) on financial assets all of which relate to the "Loans and receivables" category.

8. Finance Costs

	Year ended 2010 £m	Year ended 2009 £m
Interest on bank overdrafts and loans	**0.5**	0.7
Interest on other loans	**7.8**	7.6
Interest on obligations under finance leases	**0.1**	0.1
Net finance cost of retirement benefit obligations (Note 36e)	**2.2**	4.2
Total finance costs	**10.6**	12.6

The Company incurred finance costs of £9.3m (2009 – £8.5m) 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, amortisation of intangible assets acquired on acquisitions, impairment of goodwill and acquisition costs. The goodwill impairment charge of £8.7m in 2010 relates to recognition of a reduction in the carrying value of goodwill arising upon the acquisition of Capo Industries, Inc., a business acquired in 2008 supplying principally into the business jet market (see Note 13). The exceptional pension gain reported in 2009 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 36).

	Year ended 2010 £m	Year ended 2009 £m
Operating profit	**62.2**	61.0
(Profit)/loss on sale of fixed assets	**(0.2)**	0.1
Exceptional pension gain	**–**	(6.3)
Amortisation of intangible assets from acquisitions	**4.6**	4.6
Impairment of goodwill	**8.7**	–
Acquisition costs	**0.1**	–
Adjustments to operating profit	**13.2**	(1.6)
Adjusted operating profit	**75.4**	59.4
Profit before tax	**52.1**	49.6
Adjustments to profit as above before tax	**13.2**	(1.6)
Adjusted profit before tax	**65.3**	48.0

10. Tax Charge

	Year ended 2010 £m	Year ended 2009 £m
Current tax:		
UK Corporation tax	–	–
Foreign tax	14.8	4.5
Adjustments in respect of prior periods	0.7	1.9
	15.5	6.4
Deferred tax (Note 22):		
Current year	(0.8)	6.5
Adjustments in respect of prior periods	(3.0)	(2.3)
	(3.8)	4.2
	11.7	10.6
Attributable to:		
Continuing operations	11.7	10.6

UK Corporation tax is calculated at an effective rate of 28% (2009 – 28%) 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 Consolidated Income Statement as follows:

	Year ended 2010 £m	Year ended 2010 %	Year ended 2009 £m	Year ended 2009 %
Profit before tax from continuing operations	52.1		49.6	
Tax at the UK Corporation tax rate of 28% (2009 – 28%)	14.6		13.9	
Tax effect of income/expenses that are non-taxable/deductible in determining taxable profit	0.1		(4.0)	
Tax suffered on dividends from subsidiaries	0.9		–	
Tax effect of unrelieved tax losses	0.1		1.5	
Tax effect of movements in temporary differences not previously recognised	(2.5)		(0.4)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	0.8		–	
Adjustments to tax charge in respect of prior periods	(2.3)		(0.4)	
Tax expense and effective tax rate for the year	11.7	22.5	10.6	21.4

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

	Year ended 2010 £m	Year ended 2009 £m
Translation of foreign operations	1.0	1.1
Actuarial loss on retirement benefit obligations	0.5	3.3
Tax recovery	1.2	–
Total tax recognised directly in other comprehensive income	2.7	4.4
Current tax	1.6	0.4
Deferred tax (Note 22)	1.1	4.0
	2.7	4.4

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

	Year ended 2010 £m	Year ended 2009 £m
Current tax:		
Excess tax deductions related to share-based payments on exercised options	–	–
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	2.1	0.5
Total tax recognised directly in equity	2.1	0.5

11. Dividends

	Year ended 2010 £m	Year ended 2009 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2009 of 1.70p (2008 – 1.70p) per share	**6.8**	6.8
Interim dividend for the year ended 31 December 2010 of 1.00p (2009 – 0.90p) per share	**4.0**	3.6
	10.8	10.4
Proposed final dividend for the year ended 31 December 2010 of 2.12p (2009 – 1.70p) per share	**8.5**	6.8

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting 2011 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 2010 Million	Year ended 2009 Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**399.6**	398.3
Effect of dilutive potential ordinary shares:		
Share options	**14.0**	9.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**413.6**	407.3

	Year ended 2010		Year ended 2009	
Earnings and earnings per share	Earnings £m	EPS Pence	Earnings £m	EPS Pence
Profit for the period	**40.4**	**10.11**	39.0	9.79
Adjust:				
(Profit)/loss on sale of fixed assets net of tax of £0.3m (2009 – £0.1m)	**(0.5)**	**(0.13)**	–	–
Exceptional pension gain	**–**	**–**	(6.3)	(1.58)
Amortisation of intangible assets from acquisitions net of tax of £1.8m (2009 – £1.8m)	**2.8**	**0.70**	2.8	0.70
Impairment of goodwill net of tax of £3.5m (2009 – £nil)	**5.2**	**1.30**	–	–
Acquisition costs	**0.1**	**0.03**	–	–
Adjusted earnings after tax	**48.0**	**12.01**	35.5	8.91
Earnings per share				
– basic		**10.11p**		9.79p
– diluted		**9.77p**		9.58p
– adjusted		**12.01p**		8.91p
– adjusted and diluted		**11.61p**		8.72p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2009 – £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

– impairment of goodwill

– acquisition costs.

13. Goodwill

	Group Year ended 2010 £m	Group Year ended 2009 £m
Cost		
At 1 January	**169.3**	184.0
Exchange differences	**3.5**	(14.7)
Recognised on acquisition of subsidiaries (see Note 32)	**5.5**	–
At 31 December	**178.3**	169.3
Accumulated impairment losses		
At 1 January	**–**	–
Impairment charge in the year	**8.7**	–
Exchange differences	**(0.1)**	–
At 31 December	**8.6**	–
Carrying amount at 31 December	**169.7**	169.3

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 24, the Aerospace Division consists of 15 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 2010 £m	Group Year ended 2009 £m
Aerospace		
– Capo Industries	**28.9**	36.6
– AMT	**34.3**	33.4
– Jet Products	**16.4**	16.0
– Sterling Machine	**13.3**	13.0
– BWT	**15.0**	15.0
– Bird Bellows	**12.0**	12.0
– Other Aerospace CGUs	**16.6**	16.5
	136.5	142.5
Flexonics		
– Pathway	**22.6**	16.7
– Other Flexonics CGUs	**10.6**	10.1
	33.2	26.8
Total	**169.7**	169.3

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The 2010 goodwill impairment review was undertaken as at 31 December 2010. 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 forecasts 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 24. 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 10.4% (2009 – 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 market forecasts and guidance available from manufacturers such as Boeing and Airbus. Forecast gross margins are set individually by each CGU and reflect past experience, notably the most recently achieved margins, but also factor in continuing efficiency improvements to counteract inflationary increases in underlying costs. 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 24, aircraft deliveries in the business jet market declined 12% 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 Capo Industries for the initial forecast period have been expanded a further three years beyond the initial forecast period of three years to reflect the medium-term plan of management to recover from this downturn in the market. Beyond this combined six-year period, cash flows are projected to grow at a compound annual growth rate of 4.4% from 2017 to 2029, in line with Boeing and Bombardier 20-year market projections, and 2.5% per annum thereafter as noted above. This results in Capo Industries' carrying value exceeding its recoverable amount by £8.7m, before recognition of an impairment loss. 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 (which includes WahlcoMetroflex) 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 to be 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% 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.

At 31 December 2010, before impairment testing, goodwill of £37.5m was allocated to Capo Industries, within Aerospace. As noted above, and in the OFR on pages 10 to 24, Capo Industries operates mainly in the business jet market and the decline in this market since 2008, coupled with few signs of market improvement, has led to a reduction in its recoverable amount based on value in use calculated per the methodology noted above. This has led to the recognition of an impairment loss against goodwill of £8.7m, which is included within trading profit in the Consolidated Income Statement. No impairment charges were recognised in 2009.

14. Other Intangible Assets

	Group Year ended 2010 Customer relationships £m	**Group Year ended 2010 Computer software £m**	**Group Year ended 2010 Total £m**	Group Year ended 2009 Customer relationships £m	Group Year ended 2009 Computer software £m	Group Year ended 2009 Total £m	**Company Year ended 2010 Computer software £m**	Company Year ended 2009 Computer software £m
Cost								
At 1 January	**25.0**	**8.1**	**33.1**	28.0	8.4	36.4	**0.1**	0.1
Additions	**–**	**0.7**	**0.7**	–	0.3	0.3	**–**	–
Disposals	**–**	**(0.3)**	**(0.3)**	–	–	–	**–**	–
Acquired on acquisition of subsidiaries	**0.1**	**–**	**0.1**	–	–	–	**–**	–
Exchange differences	**0.6**	**0.1**	**0.7**	(3.0)	(0.6)	(3.6)	**–**	–
At 31 December	**25.7**	**8.6**	**34.3**	25.0	8.1	33.1	**0.1**	0.1
Amortisation								
At 1 January	**15.5**	**6.6**	**22.1**	12.3	6.5	18.8	**0.1**	0.1
Charge for the year	**4.6**	**0.6**	**5.2**	4.6	0.7	5.3	**–**	–
Disposals	**–**	**(0.3)**	**(0.3)**	–	–	–	**–**	–
Exchange differences	**0.3**	**0.1**	**0.4**	(1.4)	(0.6)	(2.0)	**–**	–
At 31 December	**20.4**	**7.0**	**27.4**	15.5	6.6	22.1	**0.1**	0.1
Carrying amount at 31 December	**5.3**	**1.6**	**6.9**	9.5	1.5	11.0	**–**	–

The carrying amount of the Group's customer relationships includes an amount of £2.6m (2009 – £5.7m) and £2.6m (2009 – £3.8m) 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 0.8 years (2009 – 1.8 years) and 2.0 years (2009 – 3.0 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 93.

	Company Year ended 2010 £m	Company Year ended 2009 £m
At 1 January and 31 December	**179.0**	179.0

16. Property, Plant and Equipment

a) Group

	Year ended 2010 Freehold land and buildings £m	**Year ended 2010 Leasehold land and buildings £m**	**Year ended 2010 Plant and equipment £m**	**Year ended 2010 Total £m**	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
Cost or valuation								
At 1 January	**59.7**	**1.8**	**255.2**	**316.7**	65.3	2.0	274.6	341.9
Additions	**0.3**	**–**	**13.2**	**13.5**	0.4	–	11.9	12.3
Acquired on acquisition of subsidiaries	**1.5**	**–**	**0.4**	**1.9**	–	–	–	–
Exchange differences	**0.2**	**–**	**5.1**	**5.3**	(5.7)	(0.2)	(22.6)	(28.5)
Disposals	**(1.2)**	**–**	**(17.1)**	**(18.3)**	(0.3)	–	(8.7)	(9.0)
At 31 December	**60.5**	**1.8**	**256.8**	**319.1**	59.7	1.8	255.2	316.7
Accumulated depreciation and impairment								
At 1 January	**15.1**	**1.2**	**182.4**	**198.7**	15.0	1.3	187.2	203.5
Charge for the year	**1.7**	**0.1**	**17.6**	**19.4**	1.7	0.1	18.3	20.1
Exchange differences	**0.1**	**–**	**3.3**	**3.4**	(1.4)	(0.2)	(14.7)	(16.3)
Eliminated on disposals	**(0.4)**	**–**	**(16.0)**	**(16.4)**	(0.2)	–	(8.4)	(8.6)
At 31 December	**16.5**	**1.3**	**187.3**	**(205.1)**	15.1	1.2	182.4	198.7
Carrying amount at 31 December	**44.0**	**0.5**	**69.5**	**114.0**	44.6	0.6	72.8	118.0

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £2.1m (2009 – £2.3m) 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 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.4m (2009 – £1.4m).

Notes to the Financial Statements continued

16. Property, Plant and Equipment continued

b) Company

	Year ended 2010 Plant and equipment £m	Year ended 2009 Plant and equipment £m
Cost		
At 1 January	**0.5**	0.4
Additions	**–**	0.1
Disposals	**–**	–
At 31 December	**0.5**	0.5
Accumulated depreciation		
At 1 January	**0.4**	0.3
Charge for the year	**–**	0.1
Eliminated on disposals	**–**	–
At 31 December	**0.4**	0.4
Carrying amount at 31 December	**0.1**	0.1

17. Inventories

	Group Year ended 2010 £m	Group Year ended 2009 £m
Raw materials	**22.2**	20.0
Work-in-progress	**36.2**	30.3
Finished goods	**16.7**	14.7
	75.1	65.0

Inventory write-downs and provisions increased by £0.9m in the year (2009 – reduced by £0.3m).

18. Construction Contracts

	Group Year ended 2010 £m	Group Year ended 2009 £m
Contracts in progress at 31 December:		
Amounts due from contract customers included in current assets	**1.4**	0.5
Amounts due to contract customers included in trade and other payables	**–**	–
	1.4	0.5
Current costs incurred plus recognised profits less recognised losses to date	**9.0**	8.8
Less: progress billings	**(7.6)**	(8.3)
	1.4	0.5

At 31 December 2010, retentions held by customers for contract work amounted to £0.2m (2009 – £0.4m). Advances received from customers for contract work amounted to £nil (2009 – £nil).

At 31 December 2010, amounts of £nil (2009 – £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 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Non-current assets				
Trade receivables	**–**	–	**–**	–
Other receivables	**0.6**	0.6	**–**	–
Due from subsidiaries	**–**	–	**59.5**	58.4
	0.6	0.6	**59.5**	58.4
Current assets				
Trade receivables	**71.8**	70.3	**–**	–
Current tax recoverable	**0.1**	2.4	**–**	5.3
Value added tax	**0.8**	0.5	**–**	0.1
Currency derivatives	**1.5**	1.1	**–**	–
Prepayments and accrued income	**4.3**	4.4	**0.5**	0.7
Other receivables	**0.8**	0.4	**0.4**	0.4
Due from subsidiaries	**–**	–	**49.8**	55.0
	79.3	79.1	**50.7**	61.5
Total trade and other receivables	**79.9**	79.7	**110.2**	119.9

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 Note 21.

19. Trade and Other Receivables continued

The average credit period taken on sales of goods is 54 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.3m (2009 – £2.3m). 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 2010 £m	Group Year ended 2009 £m
Movements in allowance for doubtful receivables:		
At 1 January	**2.3**	1.9
Provision for impairment	**0.7**	1.7
Amounts written off as uncollectible	**(0.3)**	(0.1)
Amounts recovered	**(1.5)**	(1.1)
Exchange differences	**0.1**	(0.1)
At 31 December	**1.3**	2.3
Ageing analysis of past due but not impaired trade receivables:		
Up to 30 days past due	**8.9**	9.2
31 to 60 days past due	**1.7**	1.1
61 to 90 days past due	**0.8**	0.7
91 to 180 days past due	**0.3**	0.5
Total past due but not impaired	**11.7**	11.5
Not past due	**60.1**	58.8
Total trade receivables	**71.8**	70.3
Less: non-current trade receivables	**–**	–
Current trade receivables	**71.8**	70.3

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 (2009 – £nil).

20. Bank Overdrafts and Loans

	Group Year ended 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Bank overdrafts	**0.1**	1.1	**–**	–
Bank loans	**–**	4.5	**–**	–
Other loans	**118.5**	115.8	**117.8**	114.9
	118.6	121.4	**117.8**	114.9

The borrowings are repayable as follows:				
On demand or within one year	**0.3**	1.1	**–**	–
In the second year	**0.2**	0.9	**–**	–
In the third to fifth years inclusive	**38.5**	26.2	**38.2**	21.7
After five years	**79.6**	93.2	**79.6**	93.2
	118.6	121.4	**117.8**	114.9
Less: amount due for settlement within 12 months (shown under current liabilities)	**(0.3)**	(1.1)	**–**	–
Amount due for settlement after 12 months	**118.3**	120.3	**117.8**	114.9

Analysis of borrowings by currency:

31 December 2010

	Total £m	**Pound Sterling £m**	**Euros £m**	**US dollars £m**	**Others £m**
Bank overdrafts	**0.1**	**–**	**0.1**	**–**	**–**
Bank loans	**–**	**–**	**–**	**–**	**–**
Other loans	**118.5**	**–**	**0.7**	**117.8**	**–**
	118.6	**–**	**0.8**	**117.8**	**–**

An analysis of the Company's borrowings is as follows: Other loans – US dollars £117.8m.

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.

The weighted average interest rates paid were as follows:

	Year ended 2010 %	Year ended 2009 %
Bank overdrafts	**3.00**	2.90
Bank loans	**1.16**	1.90
Other loans	**6.46**	6.46

20. Bank Overdrafts and Loans continued

Bank loans and overdrafts of £0.1m (2009 – £5.6m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk. No interest rate swaps were taken out in 2009 or 2010.

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

	Group Year ended 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Bank overdrafts	**0.1**	1.1	**–**	–
Bank loans	**–**	4.5	**–**	–
Other loans	**132.1**	120.3	**131.4**	119.4
	132.2	125.9	**131.4**	119.4

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, 2010 £76.4m (2009 – £74.6m) 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, 2010 £19.1m (2009 – £18.6m) 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, 2010 £22.3m (2009 – £21.7m) were taken out in October 2007 and are due for repayment in October 2014. The loan notes carry interest at the rate of 5.93% per annum.

The Group also has two revolving credit facilities: a committed £80m syndicated multi-currency facility maturing in July 2012 and a committed $20m single bank (£12.7m) facility maturing in August 2011. There were no amounts drawn under the first facility by either the Group or the Company at 31 December 2010. 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.

There were no amounts drawn under the second facility as at 31 December 2010 or 31 December 2009.

As at 31 December 2010, the Group had available £92.7m (2009 – £87.9m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

21. Financial Instruments

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 2010 net debt was 0.7x the Group's level of EBITDA (31 December 2009 – 1.3x). 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 2010 EBITDA was 11.8x the level of net interest (31 December 2009 – 10.6x). 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 2010 was 28% (2009 – 55%). The decrease in 2010 is attributable mainly to the strong profit and free cash flow generation during the year.

Financial risk management

The Group's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall 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 exposures 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.

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 90% of its revenue from businesses outside the United Kingdom, of which 66% related to operations in North America. Fluctuations in the value of the US dollar and other currencies in relation to the Pound Sterling have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pound Sterling. The Group 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 lending 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. A 10% appreciation (or depreciation) of all other currencies against Pound Sterling would have increased (or decreased) 2010 Group operating profit by £5.9m (£4.2m of which would have been due to the US dollar movement) and would have increased (or decreased) net equity by £21.2m (£16.4m of which would have been due to the US dollar movement).

Transaction risk

The Group has a number of transaction-related foreign currency exposures, particularly between the Euro and the South African Rand, and between the US dollar and the Pound Sterling. The Group seeks to hedge transaction-related exposures on a rolling 15- to 18-month forward basis 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 to Group profit after hedging in existence at 31 December 2010 are immaterial. The impact on net equity is determined by the unrecognised portion of open forward contracts at the year-end. A 10% appreciation (or depreciation) of the Euro against the Rand and of the US dollar against Pound Sterling would have decreased (or increased) net equity by £0.5m and £1.6m, respectively.

21. Financial Instruments continued

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.

The following sensitivity analysis of the Group's and the Company's exposure to interest rate risk at the reporting date has been determined based on the exposure to interest rates at the beginning of the financial year, and held constant throughout the reporting period with all other variables held constant (such as foreign exchange rates). If variable interest rates had been 0.5% lower (or higher), the Group's and Company's net profit would have increased (or decreased) by £0.2m. Any fixed interest debt is held to maturity and not fair value adjusted through the profit and loss. An increase (or decrease) of 0.5% in the US dollar market interest rate for the fixed rate debt held up to maturity would have decreased (or increased) the fair value of the Group's and Company's borrowings by £3.5m. The Group's and Company's sensitivity to interest rates has decreased during the current period mainly due to the increased proportion of fixed debt.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables. The credit quality of customers is assessed taking into account their financial position, past experience and other factors. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group is guarantor under the leases of two buildings in the UK, which arose on the disposal of former Group-owned subsidiaries in 2001 and 2004.

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the Financial Statements, which is net of impairment losses, represents the Group's and Company's maximum exposure to credit risk.

Liquidity risk management

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash flow forecasts are produced monthly, together with appropriate capacity planning and scenario analysis, to ensure that bank covenant and liquidity targets will be met. The Directors also regularly assess the balance of capital and debt funding of the Group, as part of a process to satisfy the Group's long-term strategic funding requirements.

As noted in the OFR on pages 10 to 24, 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. It is considered unlikely that the Group will face any significant funding issues in the foreseeable future.

21. Financial Instruments continued

Categories of financial instruments

	Group Year ended 2010 £m	Group Year ended 2009 £m	Company Year ended 2010 £m	Company Year ended 2009 £m
Carrying value of financial assets:				
Cash and cash equivalents	**56.0**	20.4	**9.7**	2.5
Deferred consideration receivable	**–**	–	**–**	–
Trade receivables	**71.8**	70.3	**–**	–
Other receivables	**1.4**	1.0	**0.4**	0.4
Due from subsidiaries	**–**	–	**109.3**	113.4
Loans and receivables at amortised cost	**129.2**	91.7	**119.4**	116.3
Currency derivatives used for hedging	**1.5**	1.1	**–**	–
Currency derivatives at fair value through profit and loss	**–**	–	**–**	–
Total financial assets	**130.7**	92.8	**119.4**	116.3
Carrying value of financial liabilities:				
Bank overdrafts and loans	**118.6**	121.4	**117.8**	114.9
Obligations under finance leases	**1.1**	1.3	**–**	–
Trade payables	**46.0**	41.1	**0.2**	0.2
Other payables	**57.5**	48.0	**4.1**	3.8
Due to subsidiaries	**–**	–	**50.3**	63.7
Other financial liabilities at amortised cost	**223.2**	211.8	**172.4**	182.6
Currency derivatives used for hedging	**0.9**	0.3	**–**	–
Currency derivatives at fair value through profit and loss	**–**	–	**0.6**	0.7
Total financial liabilities	**224.1**	212.1	**173.0**	183.3
Undiscounted contractual maturity of other financial liabilities:				
Amounts payable:				
On demand or within one year	**111.7**	102.6	**62.2**	75.1
In the second to fifth years inclusive	**68.0**	52.7	**66.6**	50.8
After five years	**96.3**	115.6	**96.1**	115.4
	276.0	270.9	**224.9**	241.3
Less: future finance charges	**(52.8)**	(59.1)	**(52.5)**	(58.7)
Other financial liabilities at amortised cost	**223.2**	211.8	**172.4**	182.6

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. 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 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Notional amounts:				
Foreign exchange contracts – cash flow hedges	**38.0**	33.4	**–**	–
Foreign exchange contracts – held for trading	**–**	0.4	**18.9**	18.4
Total	**38.0**	33.8	**18.9**	18.4
Less: amounts maturing within 12 months	**(29.7)**	(28.2)	**(18.9)**	(18.4)
Amounts maturing after 12 months	**8.3**	5.6	**–**	–
Contractual maturity:				
Cash flow hedges balances due within one year:				
Outflow	**29.9**	27.9	**–**	–
Inflow	**30.6**	29.0	**–**	–
Cash flow hedges balances due between one and two years:				
Outflow	**8.3**	5.6	**–**	–
Inflow	**8.4**	5.6	**–**	–
Cash flow hedges balances due between two and three years:				
Outflow	**–**	–	**–**	–
Inflow	**–**	–	**–**	–
Held for trading balances due within one year:				
Outflow	**–**	0.4	**19.5**	19.1
Inflow	**–**	0.4	**18.9**	18.4
Fair values:				
Foreign exchange contracts – cash flow hedges	**0.6**	0.8	**–**	–
Foreign exchange contracts – held for trading	**–**	–	**(0.6)**	(0.7)
Total asset/(liability)	**0.6**	0.8	**(0.6)**	(0.7)

These fair values are based on market values of equivalent instruments at the balance sheet date, comprising £1.5m (2009 – £1.1m) assets included in trade and other receivables and £0.9m (2009 – £0.3m) included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £0.5m gain (2009 – £0.8m gain) has been deferred in equity. The fair values for the Company comprise £nil (2009 – £nil) assets included in trade and other receivables and £0.6m (2009 – £0.7m) included in trade and other payables.

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 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Foreign exchange contracts – cash flow hedges	–	1.5	–	1.5
Total assets	–	1.5	–	1.5
Liabilities				
Foreign exchange contracts – cash flow hedges	–	0.9	–	0.9
Total liabilities	–	0.9	–	0.9

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 2010	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 assets at fair value through profit or loss:				
Foreign exchange contracts – held for trading	–	0.6	–	0.6
Total liabilities	–	0.6	–	0.6

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 assets 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 £1.2m gain (2009 – £1.7m loss) has been transferred to the Consolidated Income Statement, and is included within trading profit, in respect of contracts which matured during the period. There was no ineffectiveness to be recorded from foreign exchange cash flow hedges. An amount of £nil (2009 – £nil) has been recognised in the Consolidated Income Statement in respect of foreign exchange contracts held for trading. For the Company, a net gain of £0.5m (2009 – £8.1m net loss) has been recognised in its Income Statement in respect of foreign exchange contracts held for trading.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 18 months. 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 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)
At 1 January 2010	11.7	2.4	7.9	(2.3)	(9.7)	(2.4)	7.6
Charge/(credit) to income	0.8	–	(1.5)	0.6	(3.9)	0.2	(3.8)
Credit to other comprehensive income	–	(0.6)	–	(0.5)	–	–	(1.1)
Credit directly to equity	–	–	–	–	(2.1)	–	(2.1)
Exchange differences	0.1	0.1	0.2	–	(0.1)	–	0.3
As 31 December 2010	**12.6**	**1.9**	**6.6**	**(2.2)**	**(15.8)**	**(2.2)**	**0.9**

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 2010 £m	Group Year ended 2009 £m
Deferred tax liabilities	**1.9**	7.8
Deferred tax assets	**(1.0)**	(0.2)
	0.9	7.6

At the balance sheet date, the Group has unused tax losses of £13.0m (2009 – £20.9m) available for offset against future profits. A deferred tax asset has been recognised in respect of £7.8m (2009 – £8.8m) of such losses. No deferred tax asset has been recognised in respect of the remaining £5.2m (2009 – £12.1m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £2.8m (2009 – £nil) that will expire within eight years (2009 – 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 £59.9m (2009 – £90.6m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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 £34.3m (2009 – £40.0m), share-based payments of £6.7m (2009 – £2.1m), accelerated book depreciation of £5.6m (2009 – £3.6m) and other temporary differences of £0.7m (2009 – £0.4m). The Company has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £34.3m (2009 – £39.6m), share-based payments of £2.5m (2009 – £1.0m), accelerated book depreciation of £0.6m (2009 – £0.5m) and other temporary differences of £1.0m (2009 – £0.9m). 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 (2009 – £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 (2009 – £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 (2009 – £15.6m) of such unused capital losses.

23. Obligations Under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2010 £m	Group Year ended 2009 £m	**Group Year ended 2010 £m**	Group Year ended 2009 £m
Amounts payable under finance leases:				
Within one year	**0.3**	0.3	**0.2**	0.2
In the second to fifth years inclusive	**0.8**	1.1	**0.7**	0.9
After five years	**0.2**	0.2	**0.2**	0.2
	1.3	1.6	**1.1**	1.3
Less: future finance charges	**(0.2)**	(0.3)	**–**	–
Present value of lease obligations	**1.1**	1.3	**1.1**	1.3
Less: amount due for settlement within 12 months (shown under current liabilities)			**(0.3)**	(0.2)
Amount due for settlement after 12 months			**0.8**	1.1

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 69% (2009 – 74%) of the Group's obligations, expires in 2014. For the year ended 31 December 2010, the average effective borrowing rate was 6.2% (2009 – 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 £0.8m (2009 – £1.0m) and US dollars £0.3m (2009 – £0.3m).

24. Trade and Other Payables

Trade and other payables at 31 December comprise the following:

	Group Year ended 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Non-current liabilities	**–**	–	**–**	–
Current liabilities				
Trade payables	**46.0**	41.1	**0.2**	0.2
Social security and PAYE	**5.3**	5.7	**0.1**	0.1
Value Added Tax	**0.8**	0.5	**–**	–
Currency derivatives	**0.9**	0.3	**0.6**	0.7
Other payables and accruals	**57.5**	48.0	**4.1**	3.8
Due to subsidiaries	**–**	–	**50.3**	63.7
	110.5	95.6	**55.3**	68.5
Total trade and other payables	**110.5**	95.6	**55.3**	68.5

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

The average credit period taken for trade purchases is 55 days.

25. Share Capital

	Group and Company	
	Year ended 2010 £m	Year ended 2009 £m
Authorised:		
750 million ordinary shares of 10p each	**75.0**	75.0
Issued and fully paid:		
400.9 million ordinary shares of 10p each	**40.1**	39.9

At 31 December 2009, the issued and fully paid up share capital was 399.7 million ordinary shares of 10p each. The nominal authorised share capital of the Company increased from £50.0m to £75.0m on 24 April 2009. The 2009 comparator figure is now correctly stated.

432,136 shares were issued during 2010 at an average price of 72.34p per share under share option plans raising £0.3m. 810,657 shares were issued during 2010 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 2010 £m	Year ended 2009 £m
Balance at 1 January	**12.1**	12.0
Movement in year	**0.2**	0.1
Balance at 31 December	**12.3**	12.1

27. Equity Reserve

	Group and Company	
	Year ended 2010 £m	Year ended 2009 £m
Balance at 1 January	**1.9**	1.7
Transfer to retained earnings reserve	**(0.6)**	(0.5)
Movement in year	**0.9**	0.7
Balance at 31 December	**2.2**	1.9

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 £1.0m (2009 – £0.8m) in respect of the share-based payment charge for the year, and £0.1m (2009 – £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 2010 £m	Year ended 2009 £m
Balance at 1 January	**19.4**	19.4
Transfer to retained earnings reserve	**(19.4)**	–
Balance at 31 December	**–**	19.4

This reserve was transferred to retained earnings during the year.

29. Hedging and Translation Reserves

a) Group

	Hedging reserve Year ended 2010 £m	**Translation reserve Year ended 2010 £m**	**Total Year ended 2010 £m**	Hedging reserve Year ended 2009 £m	Translation reserve Year ended 2009 £m	Total Year ended 2009 £m
Balance at 1 January	**(36.6)**	**38.2**	**1.6**	(51.4)	57.7	6.3
Exchange differences on translation of overseas operations	**–**	**4.0**	**4.0**	–	(20.6)	(20.6)
Change in fair value of hedging derivatives	**(0.4)**	**–**	**(0.4)**	14.8	–	14.8
Tax on items taken directly to equity	**–**	**1.0**	**1.0**	–	1.1	1.1
Balance at 31 December	**(37.0)**	**43.2**	**6.2**	(36.6)	38.2	1.6

b) Company

	Hedging reserve Year ended 2010 £m	**Translation reserve Year ended 2010 £m**	**Total Year ended 2010 £m**	Hedging reserve Year ended 2009 £m	Translation reserve Year ended 2009 £m	Total Year ended 2009 £m
Balance at 1 January	**–**	**(0.3)**	**(0.3)**	–	(0.3)	(0.3)
Exchange differences on translation	**–**	**–**	**–**	–	–	–
Change in fair value of hedging derivatives	**–**	**–**	**–**	–	–	–
Balance at 31 December	**–**	**(0.3)**	**(0.3)**	–	(0.3)	(0.3)

30. Retained Earnings

	Group Year ended 2010 £m	Group Year ended 2009 £m	Company Year ended 2010 £m	Company Year ended 2009 £m
Balance at 1 January	**111.3**	98.4	**6.9**	33.7
Dividends paid	**(10.8)**	(10.4)	**(10.8)**	(10.4)
Net profit for the year	**40.4**	39.0	**23.7**	3.4
Pension actuarial gain/(loss)	**0.4**	(20.0)	**1.8**	(20.3)
Transfer from equity reserve	**0.6**	0.5	**0.6**	0.5
Transfer from distributable reserve	**19.4**	–	**19.4**	–
Tax on deductible temporary differences	**3.8**	3.8	**–**	–
Balance at 31 December	**165.1**	111.3	**41.6**	6.9

£7.5m (2009 – £nil) of the Company's retained earnings are considered undistributable.

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 2010 £m	Year ended 2009 £m
Balance at 1 January	**1.4**	1.4
Movement in the year	**(1.4)**	–
Balance at 31 December	**–**	1.4

The own shares reserve represents the cost of shares purchased in the market and held by the Senior plc Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 35). All the shares held by the employee benefit trust were sold during 2010.

32. Acquisitions

WahlcoMetroflex, Inc.

On 16 August 2010, the Group acquired 100% of the issued share capital of WahlcoMetroflex, Inc. ("WMX"), a manufacturer of dampers, expansion joints and exhaust gas systems for the global power generation, refinery and chemical processing industries based in Lewiston, Maine, USA. WMX's products and markets are highly complementary to those of the Group's existing, and successful, Senior Flexonics Pathway operation and the combination of WMX's capabilities with the global market leadership of Senior Flexonics Pathway will allow the Group to offer an enhanced range of product solutions to its industrial customers. The cash consideration was £8.9m and the acquisition was funded from the Group's existing debt facilities.

Set out below is a summary of the net assets acquired:

Recognised amounts of identifiable assets acquired and liabilities assumed:	£m
Identifiable intangible assets	0.1
Property, plant and equipment	1.9
Inventories	0.6
Financial assets, excluding cash and cash equivalents	1.4
Cash and cash equivalents	0.6
Financial liabilities	(1.2)
Net assets acquired	3.4
Goodwill	5.5
Total consideration	8.9
Consideration satisfied by:	
Cash	8.9
Total consideration transferred	8.9
Net cash outflow arising on acquisition:	
Cash consideration	8.9
Less: cash and cash equivalents acquired	(0.6)
Net cash outflow arising on acquisition	8.3

32. Acquisitions continued

The goodwill of £5.5m arising from the acquisition results largely from the expectation that WMX will be able to leverage the combination of the Group's financial resources and Senior Flexonics Pathway's customer network to generate significant medium-term growth well beyond what WMX would have been able to achieve if it had remained a privately held company. The amount of goodwill that is expected to be deductible for income tax purposes is £6.2m, which includes £5.5m goodwill as noted above plus £0.1m of acquisition costs and £0.6m of adjustments resulting from the fair value exercise not recognised for tax purposes.

The financial assets acquired include trade receivables with a fair value of £1.3m and a gross contractual value of £1.3m, all of which is expected to be collectible.

Acquisition-related costs (included in administrative expenses within trading profit in the Group's Consolidated Income Statement for the year ended 31 December 2010) amounted to £0.1m.

WMX contributed £2.8m external revenue and £0.3m to the Group's operating profit from the date of acquisition to 31 December 2010. If the acquisition had been completed on 1 January 2010, Group revenue for the year ended 31 December 2010 would have been £573.2m and Group operating profit would have been £62.9m.

33. Notes to the Cash Flow Statement

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

	Group Year ended 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Operating profit/(loss) from continuing operations	**62.2**	61.0	**(2.9)**	2.7
Adjustments for:				
Depreciation of property, plant and equipment	**19.4**	20.1	**–**	0.1
Amortisation of intangible assets	**5.2**	5.3	**–**	–
Share options	**1.4**	0.9	**0.4**	0.3
(Profit)/loss on disposal of property, plant and equipment	**(0.2)**	0.1	**–**	–
Exceptional pension gain	**–**	(6.3)	**–**	(6.3)
Pension payments in excess of service cost	**(11.8)**	(19.6)	**(10.2)**	(15.4)
Impairment of goodwill	**8.7**	–	**–**	–
Operating cash flows before movements in working capital	**84.9**	61.5	**(12.7)**	(18.6)
(Increase)/decrease in inventories	**(8.1)**	26.8	**–**	–
(Increase)/decrease in receivables	**(0.4)**	11.5	**–**	0.2
Increase/(decrease) in payables	**11.0**	(8.4)	**0.1**	0.3
Decrease in receivables from subsidiaries	**–**	–	**0.5**	0.4
Working capital currency movements	**(0.3)**	(1.7)	**–**	–
Cash generated by/(used in) operations	**87.1**	89.7	**(12.1)**	(17.7)
Income taxes (paid)/received	**(8.6)**	(11.2)	**5.0**	2.8
Interest paid	**(8.3)**	(8.7)	**(9.2)**	(8.6)
Net cash from/(used in) operating activities	**70.2**	69.8	**(16.3)**	(23.5)

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 2010 £m	Group Year ended 2009 £m
Net cash from operating activities	**70.2**	69.8
Interest received	**0.7**	2.6
Proceeds on disposal of property, plant and equipment	**2.1**	0.3
Purchases of property, plant and equipment – cash	**(13.5)**	(12.3)
Purchase of intangible assets	**(0.7)**	(0.3)
Free cash flow	**58.8**	60.1

33. Notes to the Cash Flow Statement continued

c) Analysis of group net debt

	At 1 January 2010 £m	Cash flow £m	Non-cash items £m	Exchange movement £m	**At 31 December 2010 £m**
Cash	20.4	35.6	–	–	**56.0**
Overdrafts	(1.1)	1.0	–	–	**(0.1)**
Cash and cash equivalents	19.3	36.6	–	–	**55.9**
Debt due within one year	–	–	(0.2)	–	**(0.2)**
Debt due after one year	(120.3)	4.6	0.2	(2.8)	**(118.3)**
Finance leases	(1.3)	0.2	–	–	**(1.1)**
Total	(102.3)	41.4	–	(2.8)	**(63.7)**

	Group Year ended 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Cash and cash equivalents comprise:				
Cash	**56.0**	20.4	**9.7**	2.5
Bank overdrafts	**(0.1)**	(1.1)	**–**	–
Total	**55.9**	19.3	**9.7**	2.5

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 to their fair value.

34. Operating Lease Arrangements

The Group and the Company as lessee

	Group Year ended 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	**6.3**	6.3	**0.2**	0.2

The Group also received £0.5m under a sub-lease recognised in the Consolidated Income Statement for the year (2009 – £0.5m).

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 2010 £m	Group Year ended 2009 £m	**Company Year ended 2010 £m**	Company Year ended 2009 £m
Within one year	**5.6**	5.3	**0.2**	0.2
In the second to fifth years inclusive	**15.4**	14.3	**–**	0.2
After five years	**13.3**	11.4	**–**	–
	34.3	31.0	**0.2**	0.4

The total of future minimum sub-lease payments expected to be received by the Group under non-cancellable sub-leases at the end of 2010 was £3.7m (2009 – £4.2m).

Operating lease payments principally represent rentals payable by the Group for certain of its manufacturing properties. The leases with the four largest outstanding commitments, representing 64% (2009 – 66%) of the Group's commitment, (excluding sub-leases) respectively expire in 2018 (with rentals fixed for 2.5 years), in 2026 (with rentals fixed for one year), in 2022 and in 2019.

The Company has guaranteed £1.4m (2009 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

35. Share-based Payments

The Group recognised total expenses of £1.4m (2009 – £0.9m) related to share-based payments, of which £1.0m (2009 – £0.8m) related to equity-settled share-based payments, and £0.4m (2009 – £0.1m) related to social security costs on share-based payments. At 31 December 2010, the Group had a liability of £0.5m (2009 – £0.2m) arising from share-based payments of which £0.5m (2009 – £0.2m) related to social security costs. The Company recognised total expenses of £0.4m (2009 – £0.3m) related to equity-settled share-based payments. At 31 December 2010 the Company had a liability of £0.3m (2009 – £0.1m) 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 2010 and 2009:

	Year ended 2010		Year ended 2009	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**–**	**–**	239,894	21.97p
Granted	**–**	**–**	–	–
Exercised	**–**	**–**	(239,894)	21.97p
Forfeited	**–**	**–**	–	–
Expired	**–**	**–**	–	–
Outstanding at 31 December	**–**	**–**	–	–
Exercisable at 31 December	**–**	**–**	–	–

The weighted average share price at the date of exercise for share options exercised during the period was nil p (2009 – 25.04p).

There were no equity-settled options outstanding at 31 December 2010 and 31 December 2009.

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.

There were no shadow share options outstanding at 31 December 2010 and 31 December 2009.

35. Share-based Payments continued

b) 2005 Long Term Incentive Plan

Equity-Settled Long Term Incentive Plans

2,122,172 shares were awarded under the 2005 Long Term Incentive Plan on 15 March 2010. Awards under this plan have a three-year vesting period, subject to earnings per share ("EPS") and total shareholder return ("TSR") performance conditions being met. Half the awards have an attaching performance target for EPS growth over the three-year performance period of at least 5% per annum above the RPI. The other half of the awards begin to vest if the Company's TSR falls in the top half of a comparator group at the end of the three-year performance period. Vesting levels increase with higher performance. The awards are settled by delivering shares to the participants.

The estimated fair value for the awards granted in the year with EPS conditions is 87.10p per share, which is essentially the share price at the date of grant of 95.25p per share less an allowance for dividends foregone over the three-year vesting period. The estimated fair value for the awards granted in the year with TSR conditions is 66.70p per share, reflecting an adjustment of 77% to the fair value of the awards with EPS conditions due to the stringent TSR condition.

These fair values were calculated by applying a binomial option pricing model. This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition. The model inputs at the date of grant were the share price of 95.25p, a risk-free interest rate of 1.9% per annum, expected volatility of 64.0% per annum, net dividend yield of 3.0% 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 2010 and 2009:

	Year ended 2010 Number of shares	Year ended 2009 Number of shares
Outstanding at 1 January	**5,300,384**	4,062,410
Granted	**2,122,172**	3,088,578
Exercised	**(810,657)**	(1,099,451)
Forfeited	**(242,905)**	(751,153)
Outstanding at 31 December	**6,368,994**	5,300,384

Cash-Settled Long Term Incentive Plan

Under the 2005 Plan, phantom awards were granted to certain employees. These are subject to the same general terms and conditions as the above equity-settled awards, however, on vesting the holder is entitled to receive an amount equal to the market value of the shares in relation to which the phantom award vests.

15,913 notional shares subject to the phantom award were awarded under the 2005 Long Term Incentive Plan on 15 March 2010. No phantom awards vested during the year. The number of notional shares outstanding at 31 December 2010 was 15,913. There were no notional shares outstanding at 31 December 2009.

c) Savings-Related Share Option Plan

The Company operates a Savings-Related Share Option Plan for eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs rules for such savings plans. No such options have been awarded since 8 April 2009.

The following options were outstanding as at 31 December 2010 and 2009:

	Year ended 2010		Year ended 2009	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**10,730,699**	**27.03p**	1,537,845	79.50p
Granted	**–**	**–**	11,098,072	25.00p
Exercised	**(432,136)**	**72.34p**	–	–
Forfeited	**(754,044)**	**26.76p**	(1,905,218)	57.53p
Expired	**–**	**–**	–	–
Outstanding at 31 December	**9,544,519**	**25.01p**	10,730,699	27.03p
Exercisable at 31 December	**950**	**79.50p**	–	–

The weighted average share price at the date of exercise for share options exercised during the period was 124.53p (2009 – nil p). The options outstanding at 31 December 2010 had exercise prices of 25.00p and 79.50p per share, and a weighted average remaining contractual life of 2.0 years. 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.

36. Retirement Benefit Schemes

The Group operates a number of pension plans in the UK, North America and Europe. These include both defined contribution arrangements and defined benefit arrangements. The largest defined benefit arrangement for the Group and Company, the Senior plc Pension Plan, is a funded scheme in the UK, providing benefits based on final pensionable emoluments for the employees of the Group and Company. This plan was closed to new employees from April 2008. 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 2010 and, for the purposes of accounting under IAS 19, this valuation has been rolled forward to 31 December 2010.

In addition, the Group operates two defined benefit plans 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 plans 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 13 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 (2009 – £3.9m).

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

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

	31 December 2010				31 December 2009			
	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	**(195.8)**	**(33.6)**	**(5.1)**	**(234.5)**	(188.8)	(30.0)	(4.7)	(223.5)
Fair value of plan assets	**166.0**	**30.3**	**–**	**196.3**	149.2	26.2	–	175.4
Plan deficit per balance sheet	**(29.8)**	**(3.3)**	**(5.1)**	**(38.2)**	(39.6)	(3.8)	(4.7)	(48.1)

36. Retirement Benefit Schemes continued

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

	31 December 2010				31 December 2009			
	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	**188.8**	**30.0**	**4.7**	**223.5**	162.8	31.1	4.6	198.5
Current service costs	**1.0**	**0.4**	**0.3**	**1.7**	0.9	0.7	0.1	1.7
Interest cost	**10.6**	**1.8**	**0.2**	**12.6**	10.2	1.7	0.3	12.2
Contributions by plan participants	**0.7**	**–**	**–**	**0.7**	0.7	–	–	0.7
Actuarial losses	**3.2**	**2.0**	**0.2**	**5.4**	28.9	1.0	0.4	30.3
Benefits paid	**(8.5)**	**(1.3)**	**(0.2)**	**(10.0)**	(8.4)	(1.2)	(0.1)	(9.7)
Curtailment gain	**–**	**–**	**–**	**–**	(6.3)	–	–	(6.3)
Exchange differences	**–**	**0.7**	**(0.1)**	**0.6**	–	(3.3)	(0.6)	(3.9)
At 31 December	**195.8**	**33.6**	**5.1**	**234.5**	188.8	30.0	4.7	223.5

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

	31 December 2010				31 December 2009			
	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	**149.2**	**26.2**	**–**	**175.4**	125.5	21.8	–	147.3
Expected return on plan assets	**8.4**	**2.0**	**–**	**10.4**	6.5	1.5	–	8.0
Actuarial gains	**5.0**	**0.8**	**–**	**5.8**	8.6	1.7	–	10.3
Contributions from employer	**11.2**	**2.0**	**–**	**13.2**	16.3	4.9	–	21.2
Contributions by plan participants	**0.7**	**–**	**–**	**0.7**	0.7	–	–	0.7
Benefits paid	**(8.5)**	**(1.3)**	**–**	**(9.8)**	(8.4)	(1.2)	–	(9.6)
Exchange differences	**–**	**0.6**	**–**	**0.6**	–	(2.5)	–	(2.5)
At 31 December	**166.0**	**30.3**	**–**	**196.3**	149.2	26.2	–	175.4

e) Amounts recognised in the Income Statement in respect of these defined benefit schemes are as follows:

	31 December 2010				31 December 2009			
	UK plans funded £m	**US plans funded £m**	**Unfunded plans £m**	**Total £m**	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost	**1.0**	**0.4**	**0.3**	**1.7**	0.9	0.7	0.1	1.7
Curtailment gain	**–**	**–**	**–**	**–**	(6.3)	–	–	(6.3)
Charge/(credit) included within operating profit	**1.0**	**0.4**	**0.3**	**1.7**	(5.4)	0.7	0.1	(4.6)
Interest cost	**10.6**	**1.8**	**0.2**	**12.6**	10.2	1.7	0.3	12.2
Expected return on plan assets	**(8.4)**	**(2.0)**	**–**	**(10.4)**	(6.5)	(1.5)	–	(8.0)
Included within finance costs	**2.2**	**(0.2)**	**0.2**	**2.2**	3.7	0.2	0.3	4.2
Amount recognised in the Income Statement	**3.2**	**0.2**	**0.5**	**3.9**	(1.7)	0.9	0.4	(0.4)

Of the current service cost for the year, £0.9m (2009 – £1.0m) has been included in cost of sales, and £0.8m (2009 – £0.7m) has been included in administrative expenses. The curtailment gain of £nil (2009 – £6.3m) has been included in administrative expenses.

Actuarial gains of £0.4m (2009 – £20.0m losses) have been recognised in the Statement of Comprehensive Income. The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income as at 31 December 2010 is £36.5m (2009 – £36.9m).

36. Retirement Benefit Schemes continued

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Fair value of plan assets				
Equities	**55.3**	62.5	**–**	9.1
Bonds	**57.1**	52.1	**30.3**	16.0
Gilts	**54.6**	33.1	**–**	–
Cash and net current (liabilities)/assets	**(1.0)**	1.5	**–**	1.1
Total	**166.0**	149.2	**30.3**	26.2
Actual return on plan assets	**13.4**	15.1	**2.8**	3.2
Major assumptions (per annum %)				
Inflation	**3.4%**	3.5%	**n/a**	n/a
Increase in salaries	**2.0%**	2.0%	**4.0%**	4.0%
Increase in pensions	**3.3%**	3.4%	**0.0%**	0.0%
Increase in deferred pensions	**3.4%**	3.5%	**0.0%**	0.0%
Rate used to discount plan liabilities	**5.4%**	5.7%	**5.3%**	5.9%
Expected return on assets at 31 December	**5.0%**	5.6%	**5.5%**	7.5%
Life expectancy of a male aged 65 at the year-end	**20.6**	20.5	**17.7**	17.7
Life expectancy of a male aged 65, 20 years after the year-end	**22.5**	22.4	**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.

36. Retirement Benefit Schemes continued

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

	2010 %	2009 %
Equities	**6.9**	7.4
Bonds	**4.7**	4.8
Gilts	**3.4**	3.6
Cash	**3.7**	3.9
Total	**5.0**	5.6

For the UK plan, the estimated impact on the plan deficit at 31 December 2010 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	9.0

For the UK plan, the Group has agreed with the Trustees to fund the plan deficit over a nine-year period. The estimated amounts of contributions expected to be paid during 2011 to the UK plan is £8.1m (£6.6m of which is to fund the past service deficit) and to the USA funded plans is £1.1m.

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £2.8m (2009 – £2.8m), unfunded closed pension and post-retirement healthcare plans in the USA £0.6m (2009 – £0.5m) and provision for post-retirement payments in France of £1.7m (2009 – £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 5.3%, 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 4.7%, 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	**2010 £m**	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	**(195.8)**	(188.8)	(162.8)	(172.8)	(172.1)
Fair value of plan assets	**166.0**	149.2	125.5	142.3	141.3
Plan deficit	**(29.8)**	(39.6)	(37.3)	(30.5)	(30.8)
Experience gain/(loss) on plan liabilities	**3.8**	0.6	0.1	12.8	(2.2)
Experience gain/(loss) on plan assets	**5.0**	8.6	(24.9)	(5.2)	0.7

US plan funded	**2010 £m**	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	**(33.6)**	(30.0)	(31.1)	(21.3)	(21.8)
Fair value of plan assets	**30.3**	26.2	21.8	19.3	18.6
Plan deficit	**(3.3)**	(3.8)	(9.3)	(2.0)	(3.2)
Experience gain/(loss) on plan liabilities	**0.6**	(0.3)	0.1	0.3	0.1
Experience gain/(loss) on plan assets	**0.8**	1.7	(5.2)	(0.4)	1.4

Unfunded plans	**2010 £m**	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit obligations	**(5.1)**	(4.7)	(4.6)	(3.8)	(3.5)
Fair value of plan assets	**–**	–	–	–	–
Plan deficit	**(5.1)**	(4.7)	(4.6)	(3.8)	(3.5)
Experience gain/(loss) on plan liabilities	**–**	–	–	–	–

37. Related Party Transactions

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

	Year ended 2010 £m	Year ended 2009 £m
Transactions in year		
Management charges	**0.4**	0.4
Pension recharges	**0.9**	0.4
Gain/(loss) on foreign exchange contracts held for trading	**0.5**	(8.1)
Interest receivable	**8.2**	6.6
Interest payable	**(1.1)**	(0.7)
Dividend received	**30.0**	–
Balances at year-end		
Investments in subsidiaries	**179.0**	179.0
Amounts due from subsidiaries	**109.3**	113.4
Fair value of currency derivative (liabilities)	**(0.6)**	(0.7)
Amounts due to subsidiaries	**(50.3)**	(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 38 to 45.

Five Year Summary

Group income statement	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Revenue					
Continuing operations	**566.9**	540.1	562.4	470.7	387.9
Adjusted operating profit					
Continuing operations	**75.4**	59.4	64.5	45.0	26.2
Profit/(loss) on sale of fixed assets	**0.2**	(0.1)	–	(0.7)	(0.4)
Release of provision from previous acquisition	**–**	–	–	0.5	–
Exceptional pension gain	**–**	6.3	–	–	–
Amortisation of intangible assets from acquisitions	**(4.6)**	(4.6)	(4.7)	(3.3)	(1.3)
Impairment of goodwill	**(8.7)**	–	–	–	–
Acquisition costs	**(0.1)**	–	–	–	–
Operating profit	**62.2**	61.0	59.8	41.5	24.5
Investment income/finance costs, net	**(7.9)**	(7.2)	(6.8)	(6.4)	(5.6)
Net finance cost of retirement benefit obligations	**(2.2)**	(4.2)	(1.7)	(0.8)	(0.8)
Profit before tax	**52.1**	49.6	51.3	34.3	18.1
Tax	**(11.7)**	(10.6)	(12.1)	(6.4)	(2.9)
Profit for the year	**40.4**	39.0	39.2	27.9	15.2
Depreciation and amortisation of intangibles	**24.6**	25.4	23.4	17.9	13.9
Gross capital expenditure (including finance lease assets)	**14.2**	12.6	24.5	19.5	20.7
Basic earnings per share	**10.11p**	9.79p	9.92p	7.17p	4.35p
Diluted earnings per share	**9.76p**	9.58p	9.78p	7.00p	4.25p
Adjusted earnings per share	**12.01p**	8.91p	10.63p	7.71p	4.65p
Dividends in respect of year – per share	**3.12p**	2.600p	2.600p	2.400p	2.000p
– value	**12.5**	10.4	10.4	9.4	7.5
Group balance sheets					
Non-current assets	**292.2**	299.1	343.7	223.4	217.5
Net current assets	**93.3**	63.5	44.5	26.5	42.4
Non-current liabilities	**(159.6)**	(177.8)	(212.0)	(100.0)	(132.8)
Net assets	**225.9**	184.8	176.2	149.9	127.1
Net borrowings	**(63.7)**	(102.3)	(174.5)	(94.8)	(96.7)
Group cash flow					
Net cash from operating activities	**70.2**	69.8	74.6	35.3	22.3
Interest received	**0.7**	2.6	1.7	0.8	1.3
Proceeds from disposal of property, plant and equipment	**2.1**	0.3	0.6	1.9	2.2
Purchase of property, plant and equipment – cash	**(13.5)**	(12.3)	(23.8)	(19.0)	(20.1)
– finance leases	**–**	–	–	–	–
Purchase of intangible assets	**(0.7)**	(0.3)	(0.7)	(0.5)	(0.6)
Free cash flow	**58.8**	60.1	52.4	18.5	5.1
Dividends paid	**(10.8)**	(10.4)	(10.3)	(8.1)	(6.5)
Acquisitions less disposals	**(8.3)**	0.5	(43.6)	(8.1)	(79.7)
Share issues	**0.3**	0.1	1.3	0.2	34.8
Sale of shares held by employee benefit trust	**1.4**	–	–	–	–
(Decrease)/increase in loans	**(4.6)**	(15.5)	17.5	(5.1)	46.0
Decrease in finance leases	**(0.2)**	(0.2)	(0.2)	(0.2)	(0.2)
Cash (outflow)/inflow on forward contracts	**–**	(25.2)	(13.0)	0.4	(0.2)
Increase/(decrease) in cash and cash equivalents	**36.6**	9.4	4.1	(2.4)	(0.7)

Principal Group Undertakings

Operating companies	Business units	Locations
Senior Hargreaves Limited (incorporated in England and Wales)	Senior Hargreaves	Bury
Senior UK Limited (incorporated in England and Wales)	Senior Aerospace Bird Bellows	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
	Senior Aerospace Metal Bellows	Sharon, Massachusetts
	Senior Aerospace Mexico	Saltillo, Mexico
	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 Flexonics Blois	Blois, France
Senior Flexonics SA (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 Berghofer	Kassel, Germany
Senior India Private Limited (incorporated in India)	Senior Flexonics New Delhi	New Delhi, India
Senior Flexonics Czech s.r.o.** (incorporated in the Czech Republic)	Senior Flexonics Olomouc	Olomouc, Czech Republic
Senior do Brasil Ltda (incorporated in Brazil)	Senior Flexonics São Paulo	São Paulo, Brazil
Senior Operations (Canada) Limited (incorporated in Canada)	Senior Flexonics Canada	Brampton, Ontario

* WahlcoMetroflex, Inc. was acquired on 16 August 2010, and was merged into Senior Operations LLC on 31 December 2010. It operates as part of Senior Flexonics Pathway.

** Senior Automotive S.A. (Pty) Limited changed its name to Senior Flexonics SA (Pty) Limited on 13 September 2010. Senior Automotive Czech s.r.o. changed its name to Senior Flexonics Czech s.r.o. on 1 January 2011.

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

Additional Shareholder Information

Analysis of Shareholders at 31 December 2010

	Shareholders		Issued shares	
	Number	%	Millions	%
By category				
Corporate bodies	780	22.69	385.63	96.19
Other shareholders	2,657	77.31	15.28	3.81
	3,437	**100.00**	**400.91**	**100.00**
By range of holdings				
1 – 24,999	3,001	87.31	12.60	3.14
25,000 – 49,999	123	3.58	4.20	1.05
50,000 – 249,999	149	4.34	16.27	4.06
250,000 – 499,999	45	1.31	15.14	3.78
500,000 – 999,999	40	1.16	26.96	6.72
1,000,000 – and over	79	2.30	325.74	81.25
	3,437	**100.00**	**400.91**	**100.00**

The number of shares in issue at 31 December 2010 was 400,906,086.

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 96, 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 28 April 2011 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 2011 AGM Notice of Meeting and Form of Proxy.

2011 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.

28 February
Preliminary announcement of the 2010 Annual Results.

11 March
Publication of Annual Report & Accounts 2010.

27 April
Interim Management Statement.

28 April
Annual General Meeting.

4 May
Shares ex-dividend for 2010 final dividend.

6 May
Record date for shareholders on the register to receive the 2010 final dividend.

31 May
Payment of 2010 final dividend.

29 June
Pre-Close Trading Statement.

1 August
Preliminary announcement of the 2011 Interim Results.

5 August
Publication of Interim Report 2011.

25 October
Interim Management Statement.

26 October
Shares ex-dividend for 2011 interim dividend.

29 October
Record date for shareholders on the register to receive the 2011 interim dividend.

30 November
Payment of 2011 interim dividend.

15 December
Pre-Close Trading Statement.

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