senior
Senior plc
Annual Report & Accounts 2012

WHO WE ARE

SENIOR IS AN INTERNATIONAL, MARKET-LEADING, ENGINEERING SOLUTIONS PROVIDER WITH OPERATIONS IN 13 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, SERVICING FIVE KEY MARKET SECTORS.

To find out more visit www.seniorplc.com

Financial highlights

£729.8m
Revenue
(2011 – £640.7m)

13.9%
Adjusted operating margin*
(2011 – 13.8%)

£91.1m
Adjusted profit before tax*
(2011 – £78.0m)

£86.7m
Profit before tax
(2011 – £72.7m)

17.75p
Adjusted earnings per share*
(2011 – 14.55p)

17.11p
Basic earnings per share
(2011 – 13.68p)

4.65p
Dividends per share
(2011 – 3.80p)

26.9%
Return on capital employed
(2011 – 26.8%)

£57.6m
Free cash flow**
(2011 – £55.6m)

£70.9m
Net debt**
(2011 – £93.0m)

* Adjusted figures include the results from discontinued operations up to the date of disposal but are stated before loss on disposal of fixed assets of £0.1m (2011 – £0.3m), a £4.3m charge for amortisation of intangible assets acquired on acquisitions (2011 – £4.4m), a £1.9m pension curtailment charge (2011 – £nil), acquisition costs of £0.6m (2011 – £0.6m) and profit on disposal of business of £2.5m (2011 – £nil). Adjusted earnings per share takes account of the tax impact of these items.

** See Notes 35(b) and 35(c) for derivation of free cash flow and of net debt, respectively.

The Group's principal exchange rates for the US dollar and the Euro, applied in the translation of revenue, profit and cash flow items at average rates were $1.59 (2011 – $1.60) and €1.23 (2011 – €1.15), respectively. The US dollar and Euro rates applied to the balance sheet at 31 December 2012 were $1.63 (2011 – $1.55) and €1.23 (2011 – €1.20), respectively.

Group revenue	+14%
Adjusted operating margin	+0.1ppts
Adjusted profit before tax	+17%
Adjusted earnings per share	+22%
Dividends per share	+22%
Net debt	£22m decrease
Return on capital employed	+0.1ppts

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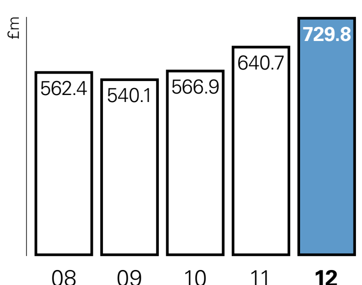
Group at a glance

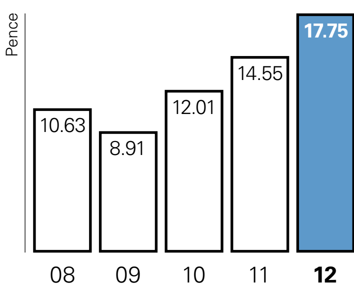
OUR BUSINESS 2008 TO 2012

The Group has made significant progress in the implementation of its strategy in the last five years with strong growth achieved in all of the following financial key performance indicators (see also KPI analysis on pages 12 and 13).

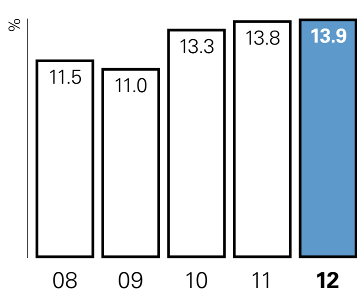
Revenue



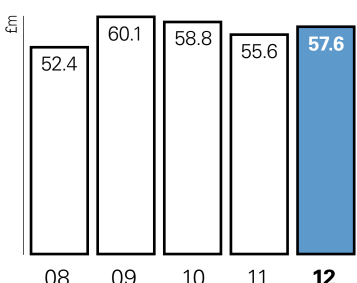
Adjusted earnings per share



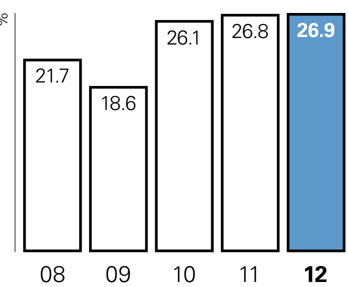
Return on revenue margin



Free cash flow



Return on capital employed



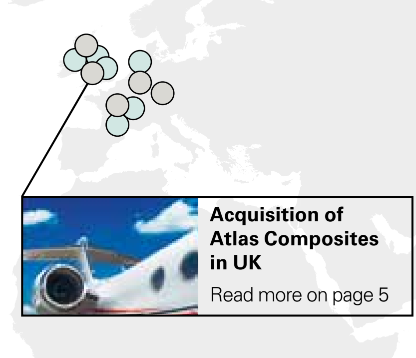
WORLDWIDE

Aerospace locations

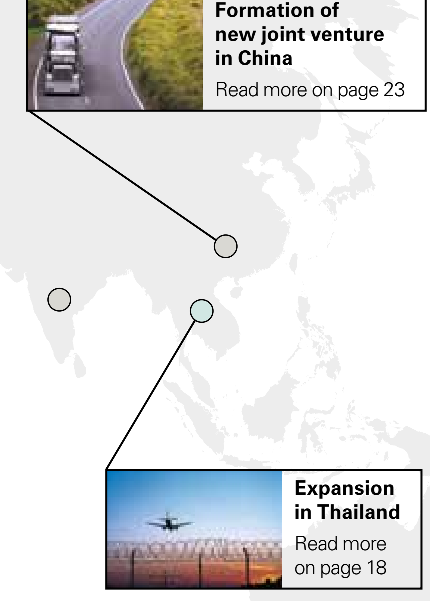
Flexonics locations

Increased large commercial aircraft build rates in US
Read more on page 16

Expanding capabilities in Mexico
Read more on page 4



Acquisition of Atlas Composites in UK
Read more on page 5



Formation of new joint venture in China
Read more on page 23

Expansion in Thailand
Read more on page 18

Aerospace

66%
of Group revenue

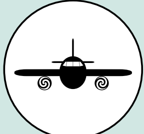
£470.5m
Revenue +23%

£72.1m
Adjusted operating profit +21%

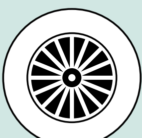
15.3%
Adjusted operating margin -0.3ppts

3,578
Employees worldwide

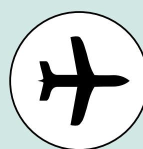
What we do



Fluid conveyance systems
- High pressure and low pressure engineered ducting systems (metal and composite)
- Engineered control bellows, sensors and assemblies



Gas turbine engines
- Precision machined and fabricated engine components (rotating and structural)
- Fluid systems ducting and control products



Structures
- Precision machined airframe and system components and assemblies

Flexonics[1]

34%
of Group revenue

£242.0m
Revenue +1%

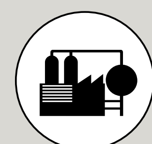
£37.3m
Adjusted operating profit +7%

15.4%
Adjusted operating margin +0.8ppts

2,557
Employees worldwide

What we do

Land vehicle emission control
- Exhaust gas recycling coolers
- Fuel mixing and distribution systems
- Flexible couplings



Industrial process control
- Engineered expansion joints, dampers and diverters
- Flexible hose assemblies and control bellows
- Fuel cells and heat exchangers

[1] Continuing businesses.

Highlights of the year

Mexico developments

APRIL/JULY/OCTOBER

Good progress is made with the development of the Group's capabilities in Saltillo, Mexico as Senior Aerospace Mexico delivers its first package of machined parts to Boeing, wins a new programme with Bell Helicopters to supply a 60-part package on the Bell 212 and 419 helicopters, and also commences assembly of flexible exhaust connectors for Daimler Freightliner in both Mexico and the US.

AUGUST

Senior Flexonics Wuhan Technologies joint venture is formed in Wuhan, China representing Senior's first operational presence in the People's Republic of China ("PRC"). The joint venture will manufacture common rail diesel fuel components for Cummins engines, which are required to meet the latest round of emission regulations due to be implemented in the PRC in 2013.

GA acquisition enhances capabilities

NOVEMBER

GAMFG Precision LLC (Franklin, Wisconsin) is acquired by Senior Flexonics Division. GA is a manufacturer of precision machined components for fuel systems, pumps and hydraulic systems for off-road heavy-duty diesel engine applications and has a growing aerospace industry presence. GA's commercial footprint and operational capabilities are highly complementary to Senior's existing portfolio.

JUNE

Senior Flexonics starts manufacture of one of its largest ever contracts, worth $15m and comprising over 150 large industrial expansion joints, to supply a catofin plant in Tianjin, China. Utilising its manufacturing resources located in the US, Canada and Brazil, the majority of the contract was delivered prior to the end of 2012 to stringent delivery schedules. The contract will be completed early in 2013.

OCTOBER

Navistar announce the selection of Cummins 15L diesel engines in the USA in place of their own engine, representing additional growth for Senior Flexonics due to the presence of Senior's EGR cooler on this engine.

Capacity expansion in Thailand

NOVEMBER

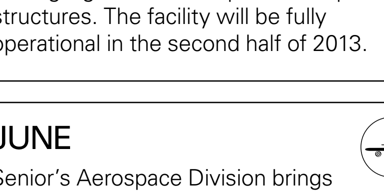
Weston SEA (Thailand) completes significant capacity expansion for manufacture of additional aerofoils for existing and future generation aircraft engines, as part of Senior's aerospace growth strategy in Thailand.

JUNE

Senior breaks ground on new structures facility at Weston EU (Earby, UK) to consolidate existing structures operations and enhance capacity for strategic growth in European aerospace structures. The facility will be fully operational in the second half of 2013.

JUNE

Senior's Aerospace Division brings additional capacity on line to meet Boeing's requirements on the B787 Dreamliner programme for a build rate of five aircraft per month.



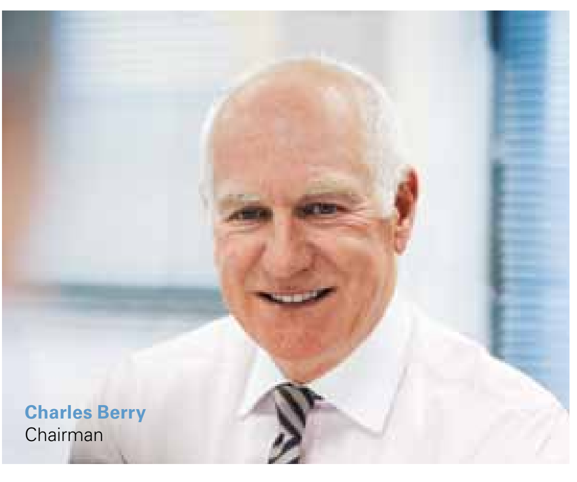
OCTOBER

As part of its stated strategy to enhance the Group's asset portfolio and to provide additional focus to the Flexonics Division, Senior disposes of non-core Senior Hargreaves Limited (Bury, UK), a manufacturer and installer of HVAC ducting primarily in the UK nuclear industry, to a strategic buyer. The Group had owned Hargreaves for nearly 60 years.

OCTOBER/NOVEMBER

Four Senior operations win separate development contracts with various Tier 1 customers for components on the engines that will power the A320neo and B737 MAX next generation narrow body large commercial aircraft. These components principally comprise engine build-up ("EBU") ducting, air ducts and various fuel pump components and valve housings.

Chairman's statement



Charles Berry
Chairman

Senior delivered another strong operating performance during 2012, my first year as Chairman of the Company.

Senior delivered another strong operating performance during 2012, my first year as Chairman of the Company, and I am pleased to report adjusted profit before tax of £91.1m, an increase of 17% over the prior year. Weston, the aerospace business acquired towards the end of 2011, delivered a better than expected first year's performance. Group cash generation also remained strong. Accordingly, in line with the Group's dividend policy, the Board is proposing a final dividend of 3.27 pence per share. This would bring total dividends, paid and proposed, for 2012 to 4.65 pence per share, an increase of 22% over 2011.

These record results reflect the Group's strong niche market positions and the positive effect of the continual operational focus across the Group's 30 operating companies, 25 of which I have visited since joining the Board of Senior in March 2012. In each case the enthusiasm and quality of the Group's employees, the standard of the factories and the culture of continuous improvement were good to experience first-hand. Equally encouraging is the work being undertaken at many of the operations in developing products for new programmes and winning market share on others although a number of these opportunities, because of the long-term nature of Senior's business, will not bring meaningful revenue for some years yet.

GAMFG Precision ("GA") is one of the operations I have not yet visited, the company having only been acquired by Senior in November 2012. GA, located in Wisconsin, USA, represents an excellent strategic addition to the Group, with a well-established reputation for high-precision machining for the off-road heavy-duty diesel engine market as well as a growing presence in the commercial aerospace industry. Atlas Composites ("Atlas"), a small UK-based developer of structural composite solutions for the Formula 1 and aerospace markets, is the most recent operation to join Senior, being acquired for £2.4m in February 2013. It, like GA, brings new capabilities to the Group. Senior Hargreaves, the Group's only construction market related business, was sold in October 2012 as part of the Group's strategic management of its operating company portfolio.

On behalf of the Board, I would like to extend a warm welcome to the employees of GA and Atlas and to thank all the Group's employees for their dedicated hard work during 2012.

I would also like to extend the Board's thanks and appreciation to Simon Nicholls, the Group's Finance Director for the past five years, who leaves Senior at the end of April 2013 to take up a similar role at Cobham plc. Simon has made a significant contribution to the success of the Group during this time and we wish him well in his future career. Recruitment of his successor is progressing well.

The Group operates in five strategic market sectors: three in Aerospace and two in Flexonics, with each sector offering healthy, and deliverable, growth opportunities. The Group's strategy has been successful over recent years and, whilst the strategic planning process continues to evolve as the Group gets larger and market conditions change, it continues to provide a solid foundation for the Group's future growth aspirations.

As we enter the start of a new year, Senior's most important end-market, large commercial aerospace, remains strong and, although some other markets are anticipated to be more challenging, the Group continues to expect to make further progress during 2013. Looking further ahead, a healthy number of new aerospace programmes going into production, together with expected market share gains in both the Aerospace and Flexonics Divisions, mean the outlook for Senior remains encouraging.

Charles Berry
Chairman

Cautionary Statement
The Annual Report & Accounts 2012 contains certain forward-looking statements. Such statements are made by the Directors in good faith based on the information available to them at the date of this Report and they should be treated with caution due to the inherent uncertainties underlying any such forward-looking information.

+22%
Full-year dividend increase

A reflection of strong cash generation and in line with the Group's dividend policy.

Chief Executive's statement

Mark Rollins
Group Chief Executive

The Group has achieved record profits with another strong cash performance in 2012. Good progress has also been made in implementation of the growth strategy.

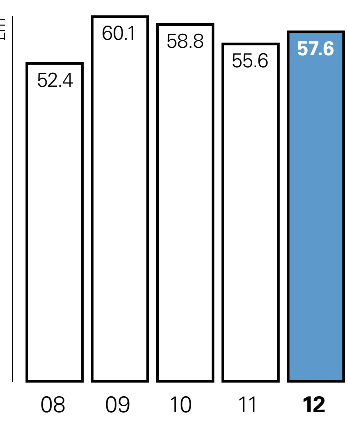
2012 financial results summary
Total Group revenue increased by 14% to £729.8m (2011 – £640.7m) with Weston, the aerospace business acquired at the end of November 2011, delivering sales of £59.6m (2011 – £4.1m) in its first full year in the Group. If Senior Hargreaves, which was sold in October 2012, is excluded then revenue from continuing operations increased by 14% to £712.0m (2011 – £622.3m). Similarly, reported operating profit from continuing operations increased by 14% to £93.7m (2011 – £82.0m) and profit before tax from continuing operations increased by 16% to £83.4m (2011 – £71.7m).

Adjusted operating profit and adjusted profit before tax, the measures which the Board believes most accurately reflects the true underlying performance of the business, increased by 15% to £101.4m (2011 – £88.3m) and by 17% to £91.1m (2011 – £78.0m) respectively. A full derivation of these measures is set out in the Financial review. Weston was responsible for around half of the Group's improvement in adjusted operating profit. Adjusted operating margin increased, for the third year in a row, to 13.9% (2011 – 13.8%).

A lower underlying tax rate of 20.4% (2011 – 25.0%), offset partially by an increase in the number of shares in issue, helped adjusted earnings per share increase by 22% to 17.75 pence (2011 – 14.55 pence). Basic earnings per share rose by 25% to 17.11 pence (2011 – 13.68 pence).

Once again, the Group demonstrated its highly cash-generative nature by delivering free cash flow of £57.6m (2011 – £55.6m) after increased net investment in capital expenditure of £26.0m (2011 – £21.8m). As a result, the level of net debt at the end of 2012 of £70.9m was substantially below the £93.0m at the start of the year, even after expending £28.1m on the acquisition of GA in November 2012. This year-end net-debt level represents 0.6 times (31 December 2011 – 0.8 times) earnings before interest, tax, depreciation and amortisation ("EBITDA") leaving the Group well placed to fund future organic and acquisitive growth.

Free cash flow (£m)
The Group has delivered consistently high levels of cash conversion in the last five years, driven by operational excellence initiatives and effective controls over discretionary expenditure, in particular working capital and capital expenditure.



Dividend
The Board is recommending a final dividend of 3.27 pence per share (2011 – 2.65 pence) which, if approved, would cost £13.5m (2011 final dividend – £10.7m) and would be paid on 31 May 2013 to shareholders on the register at close of business on 3 May 2013. This would bring the total dividends, paid and proposed, in respect of 2012 to 4.65 pence per share, an increase of 22% over 2011 in line with the increase in adjusted earnings per share. At the level recommended, the full-year dividend would be covered 3.8 times (2011 – 3.8 times) by adjusted earnings per share.

Delivery of Group strategy
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 strategic market sector offers healthy, and deliverable, growth opportunities. Senior's products are typically single sourced, highly engineered and require advanced manufacturing processes for their production.

The Group business model and Group strategy are set out in more detail on pages 9 and 10 respectively, with significant progress being made during 2012 in delivering the stated strategy. In addition to the progress made in improving the financial performance of the Group and

increasing shareholder value, the Group continued to enhance its operating company portfolio, invest in new product development, technologies and geographies and reinforce its entrepreneurial culture whilst still maintaining a strong control framework.

The acquisitions of GA and Atlas have added further high-precision machining and structural composite capabilities to the Group. When combined with the global reach, financial strength and key customer relationships of the existing Senior operations, these acquisitions offer significant additional commercial synergies that will enhance the performance of the Aerospace and Flexonics Divisions over the coming years. The disposal of Senior Hargreaves, the Group's only construction market related business, has provided further focus to the Flexonics Division's activities as well as improving its adjusted operating margin, which at 15.4% for 2012, is now on a par with the performance of the Aerospace Division.

2012 also saw notable progress on extending the Group's global footprint: a joint venture was set up in Wuhan, China, for the production of heavy-duty diesel engine common rails for the domestic Chinese truck market; an exhaust connector manufacturing cell began production in Mexico to serve a local heavy-truck manufacturer; and significant investment was made in Thailand to increase aerofoil machining capacity for existing and future customers.

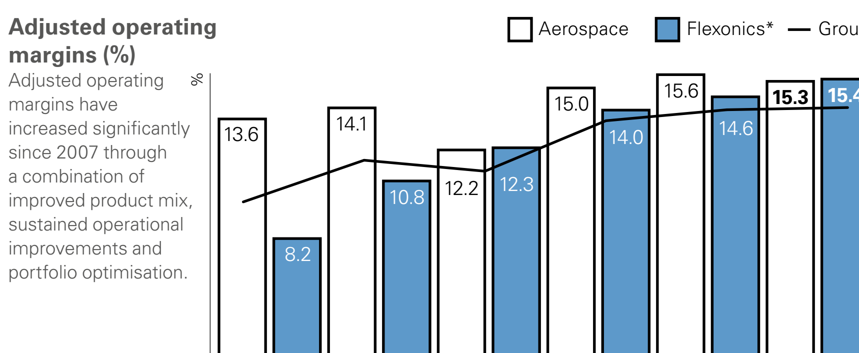
Successfully delivering targeted acquisitions is one of the Group's six key growth drivers, with the others being: higher global GDP; gaining market share; the impact of increasing environmental legislation; winning healthy content on new programmes; and the increase in the build rate of large commercial aircraft, which market represents 33% of Group revenue. As explained in the Divisional business reviews, good progress was made during 2012 in taking products from the design and development stage through to initial production on a number of new programmes and towards winning further meaningful market share in both Divisions. A number of these opportunities are expected to be awarded during 2013.

Whilst the achievements of Senior over recent years provide tangible evidence of success in implementing the Group's stated strategy, it is very important that this strategy continues to evolve and be updated as the Group grows and markets, technology and global economics change. As a consequence, 2012 saw an increased emphasis on the strategic planning process with improvements being made at the operating company, Divisional and Group level. This focus is expected to continue during 2013.

Employees and the Board
As a result of healthy organic growth and the acquisition of GA, the Group's headcount increased to 6,171 at the end of 2012 (31 December 2011 – 5,878). Excluding the effect of GA and the disposal of Senior Hargreaves, underlying headcount increased by 126 people or 2% of the workforce.

Adjusted operating margins (%)

Adjusted operating margins have increased significantly since 2007 through a combination of improved product mix, sustained operational improvements and portfolio optimisation.



* Continuing operations.

The Group's employees are one of its most valuable assets, with the financial and operational progress made during 2012, and earlier years, largely due to their hard work and dedication. In recognition, Senior has sought to improve employee development at all levels of the organisation, from increasing the frequency and range of shop-floor health and safety "tool-box talks" to expanding the Group Development Programme for its future leaders and investing in specialist strategic leadership courses for its most senior executives. Employee development, together with a renewed focus on the recruitment and succession planning processes, will remain an important focus for the Group in the future.

As planned, Charles Berry joined the Board on 1 March 2012 and took over from Martin Clark as the Company's Chairman at the conclusion of the Group's Annual General Meeting on 27 April 2012. Martin had served on the Board for 11 years, the last five as its Chairman, firstly assisting the Group's turnaround as a non-executive Director and then ably supporting the executive management team in successfully growing the business during his tenure as Chairman. Charles brings a broad experience of listed companies and industrial markets, most recently as Chairman of Drax Group plc and has made a strong contribution to the governance and strategic direction of Senior in his first year with the Group.

After five years as the Group Finance Director, Simon Nicholls has decided to take up a similar role with Cobham plc, starting at the end of April 2013. Simon has made a significant contribution to the success of Senior during this time and I, together with my executive colleagues, have enjoyed and appreciated working alongside him. We wish him well in his future career. The recruitment process for his replacement is progressing well with an appointment expected to be made from outside the Group in due course.

15.4%
Flexonics Division operating margin*

Further gains in operational efficiency and the impact of portfolio optimisation mean that the operating margin in the Flexonics Division is now on a par with the Aerospace Division.

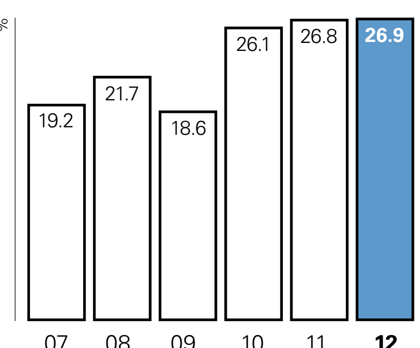
Outlook

The first few weeks of 2013 have seen the Group perform in line with the Board's expectations. The Flexonics Division is benefiting from solid sales to the North American heavy-truck market, but being impacted by weakening European passenger vehicle production, and the Aerospace Division is seeing healthy volumes from large commercial aircraft but a continuing decline in the military and defence market. Engineering activity remains high as work gathers pace to design and produce products for early stage test aircraft and engines for new aircraft programmes, such as the CSeries, A320neo, and A350, and also Exhaust Gas Recycling ("EGR") cooler prototypes for potential new heavy-truck engine customers. These high levels of engineering cost are anticipated to peak in the first half of 2013. The construction of a new UK facility to accommodate Weston's growing aerospace structures business is due to be completed in spring 2013 and the business relocated over the following months, with the majority of the costs being incurred in the first half. The Board consequently expects a stronger operating performance in the second half of the year than the first, on the assumption that North American heavy-truck volumes gradually improve from current levels, aircraft build rates, notably the Boeing 787, ramp up as planned and the expected orders for large industrial expansion joints materialise in the coming months. Overall, the Board continues to anticipate that the Group will perform in line with its expectations and make further progress in 2013.

Looking further ahead, the new aircraft programmes mentioned above, along with others on which the Group has, or can expect to have, healthy content such as the A400M military transporter, Joint Strike Fighter, Mitsubishi Regional Jet and Boeing 737 MAX, are all anticipated to come into service in the coming years and provide strong growth opportunities for the Group. In Flexonics, substantial progress has been made in positioning the Group to win another EGR cooler customer, the acquisition of GA is already presenting cross-selling opportunities and a healthy number of large expansion joint projects are now reaching the tendering stage.

Pre-tax return on capital employed (%)

The Group's pre-tax return on capital employed has increased by 40% since 2007. This is the result of successful strategy implementation, in particular increased asset utilisation.



Customers in both Divisions are increasingly looking at consolidating their supply chain and placing more work with suppliers like Senior who are financially strong, operationally focused and have a global footprint, with the Group's operations in Mexico, China and Thailand generating healthy levels of interest at present. Environmental legislation also continues to tighten across the globe, driving greater demand for the Group's land vehicle products and the development of more fuel-efficient passenger aircraft on which Senior has potential content.

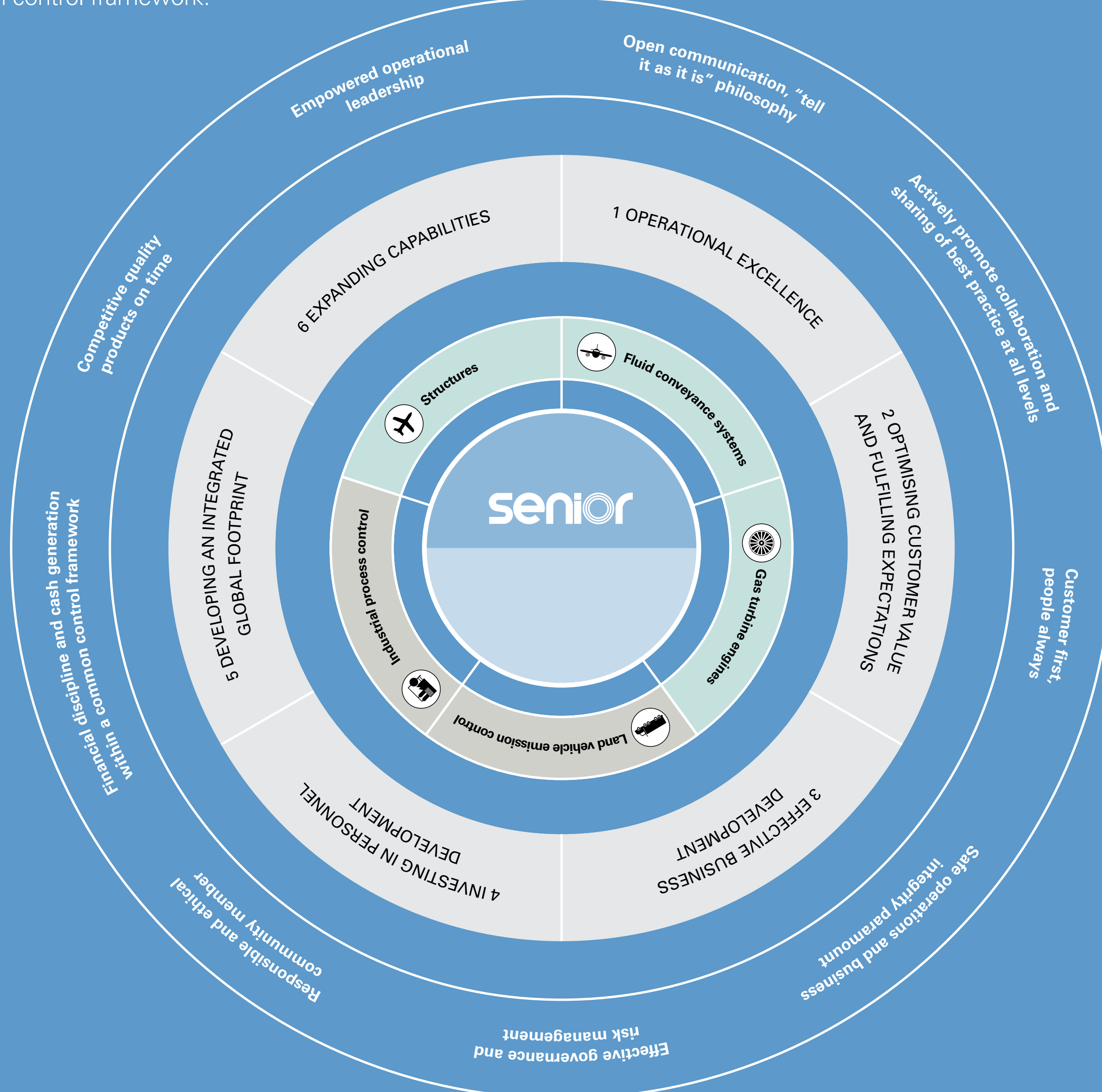
As well as the organic growth opportunities mentioned above, Senior's cash-generative nature and strengthening market and financial position provide a solid platform from which the Group can continue to pursue acquisitive growth opportunities on a targeted basis. Such activity has proven to be successful in recent years, providing growth and enhancing shareholder value, and the opportunity remains for it to continue to be so in the future when carried out in a controlled and prudent manner.

Whilst Senior will undoubtedly face challenges as it pursues its growth agenda, the opportunities and reputation that the Group is developing mean the prospects for the future remain encouraging.

Mark Rollins
Group Chief Executive

Business model

The Group's business model, illustrated in the diagram below, is designed to create long-term sustainable growth in shareholder value. It comprises six key elements and is supported by the Group's core values, culture and common control framework:



1 OPERATIONAL EXCELLENCE
Senior's long-standing emphasis on operational excellence is based on the principles of Lean, striving at all times for continuous improvement and the elimination of non-value-added activities and processes. Success in this area is one of the principal reasons for the Group's significant improvement in financial performance over recent years.

2 OPTIMISING CUSTOMER VALUE AND FULFILLING EXPECTATIONS
The Group seeks to deliver competitive products utilising its engineering expertise to optimise customer value and fulfil their expectations whilst continuing to meet its performance objectives.

3 EFFECTIVE BUSINESS DEVELOPMENT
Provision of innovative, market-leading solutions for customers in the Group's chosen principal market sectors (each exhibiting fundamental macro long-term growth characteristics), is the key driver of effective business development. This consistently creates new opportunities for additional programme wins and market share gains, often for products or systems that assist the improvement of fuel efficiency in aircraft and land vehicle engines, or to help meet increasingly stringent global emission control regulations.

4 INVESTING IN PERSONNEL DEVELOPMENT
Continually developing the capabilities and competencies of its personnel, to support its primary performance objectives, is critical to Senior's future success. The Group has increased its investment in management development and training significantly in recent years, seeking to enhance underlying performance and in particular strengthen business development and operational management whilst also maintaining the strength of Senior's underlying entrepreneurial culture.

5 DEVELOPING AN INTEGRATED GLOBAL FOOTPRINT
Senior continues to develop an integrated global commercial and operational footprint to enable it to supply key programmes to its OEM customers cost-effectively and to meet growing domestic demand in emerging markets.

6 EXPANDING CAPABILITIES
The Group's strong level of free cash flow generation allows it to target a select number of complementary strategic acquisitions in growth markets to expand its capabilities, accelerate growth and enhance its asset portfolio.

Strategy

The Group's primary performance objective is to create long-term 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. The Group uses five financial and two non-financial metrics to measure progress in implementing its strategy as set out in detail on pages 12 and 13.

OPTIMISING VALUE

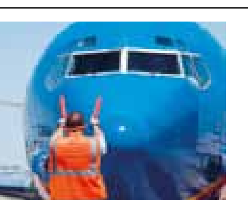
Optimising the value of the Group's existing operations portfolio by consistently meeting customer expectations through advanced process engineering and excellent operational execution, leading to market differentiation and continued growth in organic revenue, operating margins and cash flow delivery.

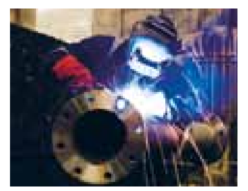
The Group has enjoyed increasing success in recent years, driving value creation through the implementation of its operational excellence initiatives based around Lean principles, and sustained superior performance in the eyes of its customers. This is the principal reason that, at 13.9% in 2012, the Group's adjusted operating margin is at record levels, having more than doubled since 2006.

TARGETED INVESTMENT

Targeted investment in new product development, technologies and geographic regions, for markets having higher than average growth potential, to further enhance organic growth opportunities.

Many of the Group's products are developed to help customers achieve their objectives for improved operating costs, particularly fuel efficiency in aircraft platforms and land vehicle engine applications, and to meet increasingly stringent global emission regulations. The Group's level of investment in these growth areas and on expanding its geographic footprint, which now includes Thailand and China, continues to increase.





PORTFOLIO ENHANCEMENT

Portfolio enhancement through focused acquisitions and disposal of non-core assets, with decisions in both cases being subject to strict financial criteria, the operation's long-term outlook and the Group's anticipated funding position.

The Group has a good track record of acquiring and successfully integrating new businesses, and also of rationalising and enhancing the overall asset portfolio through disposals, utilising a framework that has been developed as part of the strategic planning process. The key enabler of this programme is the significant balance sheet capacity that has been generated in recent years through strong free cash flow generation. In 2012, the Group acquired one business and made one disposal, both in the Flexonics Division, and a small Aerospace acquisition was completed in February 2013. Further details of these transactions are given on pages 97, 98 and 105.

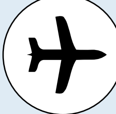
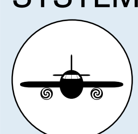
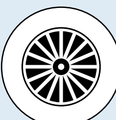
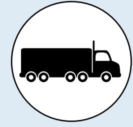
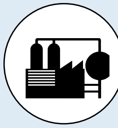
CORPORATE CULTURE

Creating an entrepreneurial culture within a strong control framework and continuously striving for improvements amongst its operating businesses, whilst operating in a legal, safe and socially responsible manner.

The Group's culture is based around empowerment of its autonomous operations within a well-defined control framework, whilst also promoting collaboration to support best practice sharing and to provide more complete customer programme solutions. Governance procedures are designed to allow each operation to embrace and manage key risks effectively, and to comply with all legal and regulatory requirements, without imposing an unnecessary administrative burden. They also aim to ensure that all employees act at all times safely, with integrity and in an ethical manner. Further details are contained in the Corporate social responsibility report on pages 32 to 34.

STRATEGIC OBJECTIVES

The application of the Group's four key principles in strategy formulation and implementation outlined opposite has resulted in the development of the following strategic objectives in each of the Group's five key market sectors. The Group's progress against these objectives is also included in the table below:

Sector	Strategic objectives	Progress
STRUCTURES 	• Extend customer base via increased collaboration • Continue focus on operational excellence to drive customer value and increase market share • Develop capabilities and build a business of increased scale in Thailand • Expand process capabilities to enhance added value for customers • Invest in new technologies to complement growth	• New programme wins with Bell Helicopters in Mexico and Connecticut, and Woodward in Washington state • Acquired land in Thailand for potential expansion of Structures operation in SE Asia • Additional hard metal and precision machining and processing capabilities have been acquired. Adding further processing capabilities is under review • Potential exists for complementary expansion into structural composites
FLUID CONVEYANCE SYSTEMS 	• Growth through content on new platforms • Further develop strategic customer relationships • Successful introduction of new programmes • Expand engineered product portfolio • Acquire new or adjacent technologies	• Development contracts for ducting components secured for the engines that will power the A320neo and B737 MAX, due to enter service in 2015 and 2017 respectively • Increased investment in engineering and programme management to ensure new programmes enter production profitably • Acquisition of Atlas in February 2013 brings additional and adjacent composite capabilities
GAS TURBINE ENGINES 	• Target higher value-added engineered or flight critical parts (e.g. rotating) • Develop cross-business customer relationships • Further develop low-cost country footprint • Secure further content on engines for next generation narrow body and wide-body commercial aircraft • Expand process capabilities via new technology investment or acquisition	• First rotating parts won as part of outsourcing contract from Rolls-Royce. Further products being targeted at other customers • Acquisition of GA brings new precision machining capabilities to enhance potential cross-business customer relationships • New programme aerofoils now being manufactured in Thailand, with additional opportunities being developed with existing and new customers • Development contracts for fuel system components secured for the engines that will power the A320neo and B737 MAX
LAND VEHICLE EMISSION CONTROL 	• Develop product portfolio as emission regulation thresholds increase • Invest further in emerging market footprint, in growth markets • Capitalise on expanded capabilities following acquisition of GA • Continue to invest and expand in heavy-duty truck/off-highway sector • Investment in passenger car niches to support development of global platform capabilities	• Continued investment in heat exchanger technology resulting in increased presence on latest generation of heavy-duty diesel engines, via EGR coolers, in North American and European markets • Investment in emerging market operations to support new programme wins for EGR tubes and other components as emission regulations are tightened • Acquisition of GA brings significant opportunities for cross-business commercial synergies with existing businesses in both on-road and off-road applications • New joint venture in China brings further expansion of global footprint to support global platform requirement for existing and new land vehicle customers
INDUSTRIAL PROCESS CONTROL 	• Expand global presence via offshore partners for large projects • Secure growth from tightening emission standards in developed markets • Seek proprietary adjacent products • Participate in new technology developments and applications (e.g. combined heat and power, concentrated solar power)	• Collaboration between Group operations in USA, Canada and Brazil results in improved competitiveness and execution • Increase in new work awarded as a result of emission regulations enacted in the US leads to additional damper contract awards • Increased sales of fuel cell components in USA • Focus on additional proprietary adjacent products in existing and emerging markets • Additional concentrated solar power contracts awarded in Europe and USA

Key performance indicators

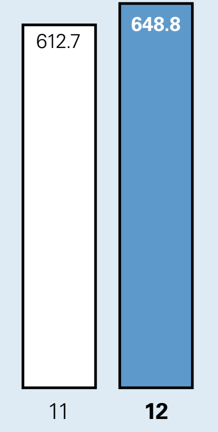
The Group uses five financial and two non-financial metrics to measure progress in implementing its strategy. The Group's financial objectives are as follows:

- 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**:**

- to reduce the Group's rate of energy intensity by 10% in the five-year period to 2015; and

Organic revenue (£m) +6%
The main drivers of organic revenue growth in the Aerospace Division were increased build rates on large commercial aircraft programmes, as well as additional demand in the Group's business jet programmes and in military markets on the Joint Strike Fighter programme. In Flexonics, demand for truck engine components in North America improved and increases in organic revenue were also achieved in global petrochemical and in US power and energy markets.



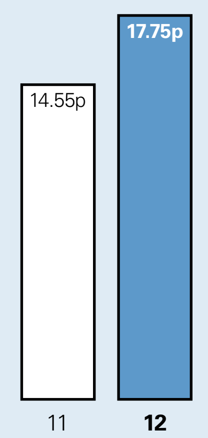
Organic revenue growth[1]
average annual movement
2006 to 2012

+5% p.a.

Strategic principles
(see page 10)

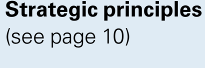
1 2

Adjusted earnings per share (p) +22%
Increased revenue, resulting from the Weston acquisition and strong underlying market demand in most of the Group's end-markets, combined with continued effective operational execution and a reduced tax rate, arising principally due to changes in geographical profit mix, resulted in a significant increase in adjusted earnings per share in 2012 of 22%.

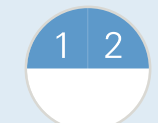


Adjusted earnings per share[2]
average annual movement
2006 to 2012

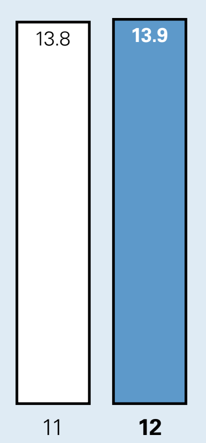
+28% p.a.



Strategic principles
(see page 10)



Return on revenue margin (%) +0.1ppts
A record Group adjusted operating profit margin of 13.9% was achieved in 2012. The increase was primarily attributable to improved operational efficiency across the Group, but in particular in the Flexonics Division, which resulted in the positive impact of increases in revenue being translated into improved underlying Group profitability.

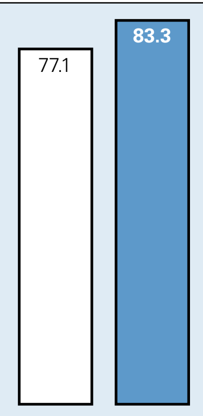


Return on revenue margin[3]
average annual movement
2006 to 2012

+1.2ppts p.a.

Strategic principles
(see page 10)

Net cash from operating activities (£m) +8%
The Group's cash conversion was again very strong, with net cash from operating activities increasing by 8% to a record level of £83.3m in 2012. The main drivers of this result were the increase in Group profitability, and continued effective control over working capital which remains below 10% of annualised sales. As a result, the Group has been able to fund an increased level of capital expenditure of 1.3 times depreciation and propose a 22% increase in the annual dividend.



Net cash from operating activities[4]
average annual movement
2006 to 2012

+30% p.a.

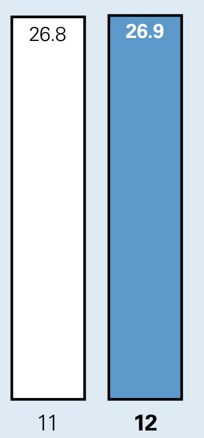
Strategic principles
(see page 10)

1 2 3

- to reduce the number of recordable injuries which incur lost time by 20% in the five-year period to 2015.

Senior delivered record profits in 2012 and all of the Group's financial targets were met. The Group's energy intensity target was also met and the Group remains on track to meet its 2015 safety improvement goal, although progress in 2012 was below expectation. Further details of the Group's performance record in this regard, including its long-term performance trends, are shown on pages 32 to 34.

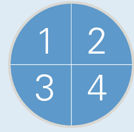
Return on capital employed (%) +0.1ppts
The Group maintained its record level of return on capital employed in 2012 close to 27%. This was achieved through a combination of earnings enhancements and continued balance sheet efficiency, in particular increased earnings from acquisitions, effective allocation of capital expenditure and asset utilisation on profitable growth programmes, as well as continued effective control over working capital requirements at operational level.



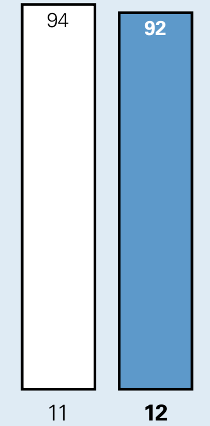
Return on capital employed[5] average annual movement 2006 to 2012

+2.2ppts p.a

Strategic principles
(see page 10)



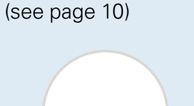
Carbon dioxide emissions (tonnes/£m revenue) 2% improvement
Through more efficient use of resources and improved asset utilisation, the Group continues to make good progress on its published five-year target of improving energy efficiency by 10% between 2011 and 2015. This is the seventh consecutive year that Senior has reduced its environmental impact.



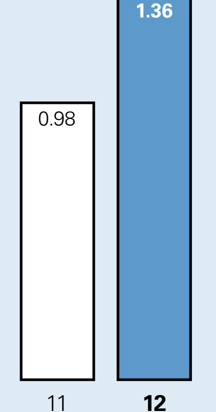
CO_2 emissions / £m revenue[6] average annual movement 2006 to 2012

-3% p.a.

Strategic principles
(see page 10)



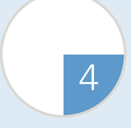
Lost time injury frequency rate increased by 0.38 incidents per 100 employees p.a.
The number of lost time injuries increased to 1.36 per 100 employees in 2012, due to the inclusion of acquired businesses and an increase in incidents in organic operations in the Flexonics Division. This disappointing result is the first annual increase since the Group launched its current HSE programme in 2006. The Group continues to take a proactive approach to the health and safety of all employees, as described more fully in the Corporate social responsibility report on pages 32 to 34, and despite the increase in incidents this year has more than halved the number of lost time injury incidents since 2006.



Lost time injury frequency rate[7] average annual movement 2006 to 2012

0.24 fewer incidents p.a.

Strategic principles
(see page 10)



[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, pension curtailment charge and profit on disposal of business) 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] Net cash from operating activities is the Group's free cash flow before interest and net capital expenditure.
[5] 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.
[6] CO_2 emissions/£m revenue is an estimate of the Group's carbon dioxide emissions in tonnes divided by the Group's revenue in £m.
[7] Lost time injury frequency rate is the number of OSHA (or equivalent) recordable injury or illness cases involving days away from work per 100 employees.

All KPIs were calculated as the simple average of year-on-year movements in these KPIs over the period 2006 to 2012.

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.

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 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 commercial aircraft platforms achieved in recent years that will continue to support future growth.

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 form of 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.

CONTENT ON NEW PROGRAMMES

Securing programme wins, in particular content on new aircraft or land vehicle programmes with significant growth prospects, is a key focus for Senior that drives sustainable long-term growth in revenues and profits. The Group has developed strong relationships with its key customers in order to be positioned to bid for new opportunities as they emerge. Examples of recent success in this area include the Boeing B787 Dreamliner, B737 MAX, the Airbus A350, A320neo and both Bombardier's and Gulfstream's next families of business jets. Senior is developing new heat exchanger and other exhaust gas recycling solutions within its land vehicle businesses for the next generation of heavy-duty diesel engines, and is also pursuing potential growth opportunities for both heavy-duty diesel engine components and industrial products in a number of emerging markets, including China.

LARGE COMMERCIAL AIRCRAFT BUILD RATES

The Group has healthy shipset content on all key large commercial aircraft platforms, and the Boeing and Airbus order books have continued to grow in 2012, now standing at record levels and representing over seven years' production at current build rates. The Group's most significant existing platforms include Boeing's B737, B777, and the Airbus A320 and A330 where planned increases in build rates are now being implemented. These will be complemented by the B787, where the Group has its largest shipset content ever, the Airbus A350 and Bombardier's CSeries aircraft as production of these platforms ramp up in the coming years.

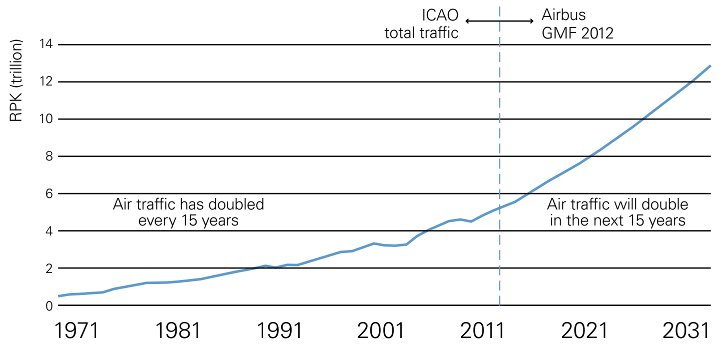
ACQUISITIONS

In line with its stated strategy, the Group continued to utilise available balance sheet capacity to enhance its overall portfolio via the acquisition of GAMFG Precision LLC in November 2012. This acquisition brings new complementary precision machining capabilities to the Flexonics Division as well as a complementary customer base in both off-road land vehicle and commercial aerospace markets. Further details are given on page 97. Following the year-end the Group completed the acquisition of Atlas Composites Limited in February 2013. Atlas brings complementary new structural composites capabilities to the Group's Aerospace Division.

Source: ICAO, Airbus

World annual traffic – revenue passenger km

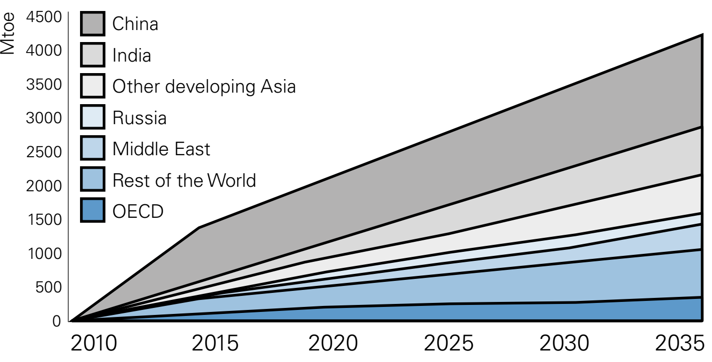
Forecast annual growth in global passenger air traffic is the key driver of demand for new commercial aircraft, and hence for many of Senior's core aerospace products.



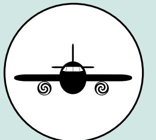
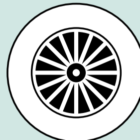
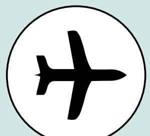
Source: OECD/IEA 2011

World energy outlook

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.



Aerospace

www.seniorplc.com/aerospace/index.cfm

MARKET OVERVIEW

Demand in the large commercial aircraft sector, Senior's largest aerospace market exposure, remains strong with order books at record levels.

Capabilities
- Design and manufacture of systems for delivery of air, hydraulic fluids and fuel to critical airborne system functions in composite and metallic materials
- Design and manufacture of maintenance-free solutions for harsh operating environments
- Precision machined complex products and assemblies for airframe structures and systems
- Provision of engine core, ancillary systems and related structural products to major gas turbine engine manufacturers

Large commercial aircraft
- Total revenue growth of 50% including acquisitions, with organic revenue growth of 15% underpinned by increasing build rates in Airbus and Boeing large commercial aircraft platforms
- Build rates on most major platforms expected to increase in 2013 and beyond
- Boeing delivered 46 B787s in 2012 as the build rate increased to five per month during the year as planned
- Strong order intake for Boeing and Airbus again in 2012, in particular for re-engined narrow body A320neo and B737 MAX platforms, where total orders now stand at 2,798 aircraft, and which are due for delivery in 2015 and 2017 respectively
- Total OEM order books remain at record levels, representing over seven years of production at current build rates

Military aerospace
- Revenue increased by 7%, reflecting a robust footprint on well-established platforms and increased activity on new programmes such as the F-35 Joint Strike Fighter
- Demand on the Group's main military programmes, the C-130J transport aircraft and the Black Hawk helicopter, held up well for most of the year although began to weaken in the fourth quarter
- Short-term outlook on a number of platforms is weaker, with likelihood of reduced build rates due to downward pressure on US defence expenditure
- Healthy shipset content on new programmes such as the A400M transport aircraft, the P-8A Poseidon naval reconnaissance aircraft and the F-35 Joint Strike Fighter should partially mitigate the impact of any reduction in funding that may affect established programmes

Regional and business jets
- Business jet revenue growth of 12%, ahead of the market, due to increased demand from large cabin platforms (e.g. Bombardier Challenger and Gulfstream G650)
- Revenue from regional jet sector broadly unchanged with markets weaker but Senior's performance aided by recoverable development expenditure on new platforms
- Continued modest recovery in business jet sector is forecast for 2013, with regional demand remaining subdued
- Senior's regional jet market revenue is likely to increase in the medium-term as new platforms come to market, such as the Bombardier CSeries and Mitsubishi MRJ

BUSINESS REVIEW

The Aerospace Division consisted of 18 operations throughout 2012. These are located in North America (11), the United Kingdom (three), continental Europe (three) and Thailand. In addition, after the year-end, the Group acquired Atlas Composites Limited ("Atlas"), a small UK-based developer and manufacturer of composite structural products, bringing new capabilities into the Group.

In 2012, the Division accounted for 66% (2011 – 61%) of continuing Group revenue.

The Aerospace Division's main products are engine structures and mounting systems (28% of 2012 divisional sales), airframe and other structural parts (25%), metallic ducting systems (18%), helicopter machined parts (7%), composite ducting systems (7%) and fluid control systems (5%). The remaining 10% of divisional sales were to non-aerospace, but related technology markets, including the energy, semi-conductor and medical markets. The Division's largest customers include Boeing, representing 16% of 2012 divisional sales, Rolls-Royce (15%), United Technologies (11%), Spirit AeroSystems (10%), Airbus (4%), Bombardier (4%) and GKN (3%).

Increasing build rates of large commercial aircraft, together with the inclusion of Weston for the first time, resulted in the Aerospace Division delivering a healthy performance during 2012.

	2012 £m	2011[1] £m	Change
Revenue	**470.5**	382.4	+23%
Adjusted operating profit	**72.1**	59.9	+20%
Operating margin	**15.3%**	15.7%	-0.4ppts

[1] 2011 results translated using 2012 average exchange rates.

Divisional revenue increased by £88.1m (23%) to £470.5m (2011 – £382.4m at constant currency) and adjusted operating profit increased by £12.2m to £72.1m (2011 – £59.9m at constant currency). Excluding the impact of acquisitions, revenue for the Division increased by 7% and adjusted operating profit increased by 10%. Whilst the operating margin declined slightly to 15.3% (2011 – 15.7%), this was principally due to the inclusion of the currently lower margin Weston business as, excluding the effect of acquisitions, the margin increased to 16.0% (2011 – 15.7%).

51% of the Aerospace Division's revenues are derived from the large commercial aerospace market, comprising the aircraft manufactured by Airbus and Boeing and the engines that go on those aircraft. This market remained very strong during 2012 with Boeing and Airbus collectively delivering 1,189 aircraft, an 18% increase over the prior year (2011 – 1,011 deliveries). Boeing and Airbus also recorded strong aircraft orders during 2012 which, at a combined net order intake of 2,036 aircraft (2011 – 2,224 aircraft), was well ahead of aircraft deliveries for the third year in succession. As a consequence, their combined order book grew by nearly 850 aircraft during 2012 to 9,055 aircraft at the end of the year, representing well over seven years of deliveries at current production rates. Due to the strong markets and a full-year contribution from Weston, Senior grew its sales to the large commercial aircraft market by 50% during 2012, with organic growth being 15%.

Equally encouraging was the success Senior had in winning additional content on the A350 and B787, two significant future programmes for the Group with the Airbus A350 due to fly for the first time during 2013 and Boeing planning to double the production rate of the B787 from the current five per month to 10 per month by early 2014. Whilst Boeing has temporarily stopped delivering the B787 to its customers, pending an investigation into an electrical fault, both they and their customers remain highly confident in the long-term future of the B787 aircraft, given its enhanced fuel-economy and passenger comfort. As a consequence, Boeing continues to manufacture the aircraft at the planned production rate and, to date, there has been no effect on the Aerospace Division's financial performance.

The smaller Airbus A320 and Boeing 737 aircraft are the highest volume commercial aircraft platforms, representing 73% (by number) of all commercial aircraft delivered during 2012, and as a result they are currently the most important programmes for Senior by value. Both aircraft are currently being redesigned to accommodate modern, more fuel-efficient, aircraft engines with the new aircraft being designated as the A320neo and B737 MAX respectively. These aircraft, which are scheduled to come into service in 2015 and 2017 respectively, represent an excellent opportunity for Senior to increase its shipset content. Encouraging progress was made in this regard during 2012, with the Group now anticipating having at least 50% more content on the A320neo than the A320 and for the B737 MAX content to be greater than that on the current B737.

50%
increase in revenue

from the large commercial aircraft sector, driven by increasing build rates in Airbus and Boeing aircraft platforms and the acquisition of Weston EU and SEA.

CASE STUDY

DEVELOPING AEROSPACE CAPABILITIES IN SOUTH-EAST ASIA

Senior's operation in Thailand, Weston SEA Limited ("SEA"), was acquired in November 2011 as part of the acquisition of Weston EU Limited ("Weston"). The business is situated approximately one hour's drive from Bangkok international airport and strategically close to Sriracha, the largest seaport in Thailand.

SEA represents Senior's first step into the aerospace industry in south-east Asia, satisfying a key Group strategic objective. The operation is a world-class facility, with management and operational expertise that is at least comparable to any similar operation in the Senior portfolio.

SEA was set up as a greenfield site by Weston in 2005. At the date of acquisition by Senior, SEA was operating only at approximately one-third capacity. The development potential of the business, at a time when the aerospace industry in the region is expanding rapidly, was one of the key attractions for Senior in the acquisition of Weston. This potential was confirmed by the award of a significant aero-foil work package from Rolls-Royce on the date of the acquisition. Senior has invested over £3.5m to expand machine capacity for this new award and full rate production will come on stream during the first half of 2013.

A number of Senior's major OEM and Tier 1 customers have now opened facilities in the region, notably in Malaysia and in Singapore, to manufacture airframe structures and gas turbine engines which creates excellent strategic alignment with SEA's developing capabilities. The Group is in discussion with these customers regarding future growth programmes and, in addition to the land purchased in February 2013 for £2.1m, has plans to invest further in SEA as required, to optimise the development of this important part of the Group.

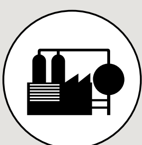
Aerospace Business review continued

The Aerospace Division recorded a 7% increase in revenue from the military and defence sector during 2012, despite the declining end-markets in North America and Europe, with the F-35 Joint Strike Fighter seeing increased activity for Senior and the Weston acquisition making an initial contribution. Whilst the 2012 outcome was highly satisfactory, the Group saw revenue from the Black Hawk helicopter programme start to decline in the second half of the year and an announcement that production volumes for the C-130J military transport aircraft would decrease by at least 35% in 2013. These are the Group's two highest-value military programmes and it is unlikely that growing volumes on other platforms, such as the A400M transporter and P-8A reconnaissance aircraft, will fully offset these reductions in the near future. As a result, it is expected that the military and defence sector, which represented 25% of Aerospace divisional revenue in 2012, will decline in its relative importance during 2013.

The business jet sector represented around 9% of divisional sales in 2012 and due to the Group's greater exposure to newer and larger business jets, rather than smaller and older aircraft, revenue derived from this sector increased by 12% over 2011, despite 2012 deliveries of business jet aircraft declining by 3% to 672 aircraft (2011 – 696 aircraft). The 2012 delivery level is now approximately half the level seen at the peak in 2008, when 1,315 business jets were delivered, with the expectation that the industry will now see a slow and gradual improvement over the coming years. In the regional jet sector, a beneficial mix and revenue being earned from development work on new programmes, such as the Mitsubishi regional jet, meant that the Group recorded broadly unchanged revenue in 2012, despite the two largest manufacturers, Bombardier and Embraer, seeing a 24% decline in their combined regional jet deliveries. Bombardier's largest ever commercial aircraft, the CSeries, is due to fly for the first time during 2013 and because the Group has a large content on this aircraft ($448k per aircraft), its potential future commercial success would be advantageous for the Group.

Around 11% of the Aerospace Division's revenue is derived from other markets such as space, non-military helicopters, power and energy, medical and semi-conductor where the Group manufactures products using very similar technology to that used for certain aerospace products. Overall, these markets were slightly lower in 2012, with power and energy and semi-conductor seeing some year-on-year weakness.

Flexonics



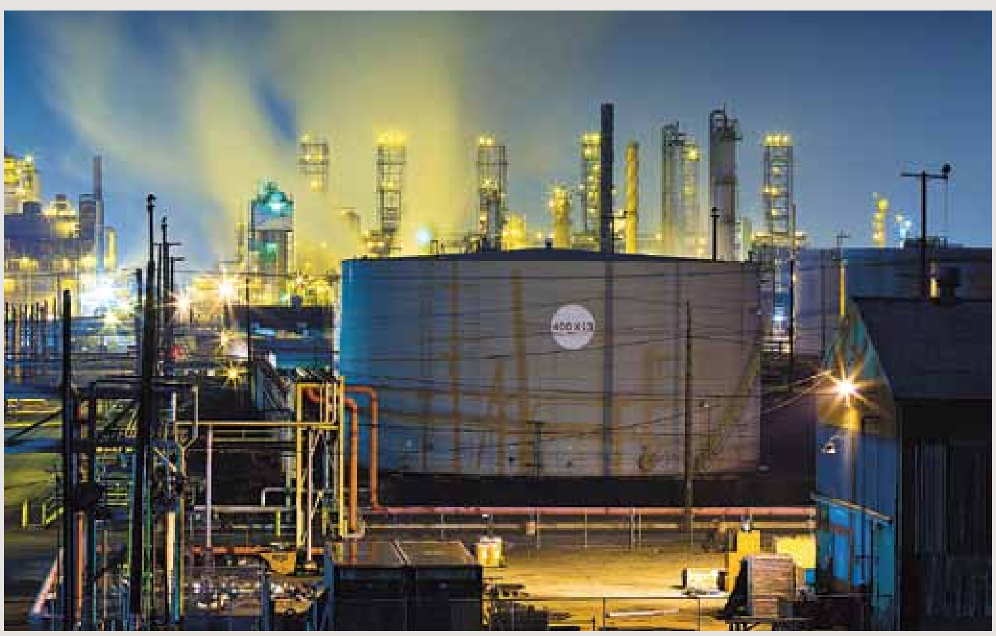
www.seniorplc.com/senior_flexonics/index.cfm

MARKET OVERVIEW

Senior's principal end-market exposures in the Flexonics Division are to medium- and heavy-duty diesel engine markets in North America, passenger cars in Europe and to global industrial process control markets including petrochemical, HVAC and power and energy markets.

Capabilities

- Development and production of emission control and fuel distribution products for the truck and off-road transport sector as well as for select passenger car applications
- Design and manufacture of engineered expansion joints and dampers for industrial process control applications, to meet an increasingly stringent regulatory environment



Industrial process control

- Industrial revenues increased by 8% reflecting robust demand in petrochemical markets in Asia and the start of a potential recovery in demand in US power generation markets
- First damper order delivered in Brazil, into the steel industry. Further opportunities are in development
- European industrial markets remained subdued for most of the year
- Disposal of non-core Senior Hargreaves in October 2012 enhances the return from the industrial portfolio and significantly reduces the Group's exposure to European HVAC markets
- Additional contracts were won for concentrated solar power plants in the USA and Europe for the benefit of 2012 and 2013

Land vehicle emission control

- Total truck and off-highway sales increased by 20% principally due to increased production of medium- and heavy-duty truck engines in North America
- Group sales to European truck programmes grew by 5% despite weak end markets
- Expansion of capabilities via acquisition of GA in November 2012, bringing precision machining capabilities and potential customer synergies
- Formation of a joint venture in China is an important expansionary step for the Group's footprint in emerging markets
- The Group commenced assembly of flexible exhaust connectors in Mexico to supply a key customer's local production plant and its US facilities
- Sales in the passenger car sector declined by 13% due to reduced demand in European markets and slight declines for the Group's products in Brazil and the USA

BUSINESS REVIEW

Following the acquisition of GAMFG Precision ("GA") in November 2012 and the setting up of the Chinese joint venture in August 2012, the Flexonics Division now has 12 operations. These are located in North America (four), continental Europe (three), the United Kingdom, South Africa, India, Brazil and China.

In 2012, the Flexonics Division accounted for 34% (2011 – 39%) of continuing Group revenue. The percentage of Group sales arising from the passenger vehicle sector declined to 8% in 2012 (2011 – 12%) with sales to the heavy-duty diesel engine market increasing to 10% (2011 – 9%). Sales to industrial markets represented 16% of Group revenue in 2012 (2011 – 18%).

The land vehicle sales comprise cooling and emission control components (26% of 2012 divisional sales), flexible mechanisms for vehicle exhaust systems (17%), diesel fuel distribution pipework (9%) and off-highway hydraulics (1%). The industrial product revenue is derived from the power and boiler markets (19%), oil and gas and chemical processing industries (13%), HVAC and solar markets (5%) and a range of other markets (10%).

The Division's largest individual end users are land vehicle customers, including Cummins (representing 19% of 2012 divisional sales), Ford (5%), PSA (5%), General Motors (4%), Renault (3%) and Caterpillar (3%). Individual industrial customers rarely account for more than one or two per cent of divisional sales and, given the generally bespoke and project nature of the Group's industrial products, the customers vary significantly each year. Bloom Energy and a single expansion joint project in Tianjin, China, each accounted for 3% of divisional sales in 2012.

Many of the Flexonics Division's end-markets saw little growth during 2012 due to generally challenging global economic conditions, particularly in Europe, and so it is pleasing to report a much improved financial performance for the Division.

Continuing operations	**2012 £m**	2011[1] £m	Change
Revenue	**242.0**	230.7	+5%
Adjusted operating profit	**37.3**	33.3	+12%
Operating margin	**15.4%**	14.4%	+1.0ppts

[1] 2011 results translated using 2012 average exchange rates.

The previous table is for continuing operations only and excludes the £0.8m of adjusted operating profit generated by Senior Hargreaves prior to its sale in October 2012 (2011 full year – £1.0m). On this basis, divisional revenue grew by 5% to £242.0m (2011 – £230.7m) with the acquisition of GA in November 2012 and the growth in heavy-truck and petrochemical markets more than offsetting a marked decline in the demand for passenger vehicles in Europe. This mix change, combined with operational improvements and favourable raw material pricing, resulted in adjusted operating profit increasing by 12% to £37.3m (2011 – £33.3m). It is particularly notable that the operating margin for the Division, on a continuing basis, rose to a record level of 15.4% in 2012 (2011 – 14.4%).

Overall, Group sales to truck and off-highway markets increased by 20% whilst Group sales to passenger vehicle markets declined by 13%. The Flexonics Division's main land vehicle market exposures are to the North American truck market (8% of Group sales in 2012, with Cummins being responsible for the vast majority) and the European passenger vehicle market (6% of Group sales, with the largest customers being PSA, Ford and Renault). These two markets fared quite differently during 2012: North American medium- and heavy-duty truck sales increased by 14% over 2011, with the first half of 2012 being stronger than the second; whereas European passenger vehicle demand fell by 8%, to reach its lowest level since 1995. Within this weak market, the Group's three largest European land vehicle customers reported a collective sales decline of 15%. Elsewhere, passenger vehicle demand was up by over 10% in North America, and slightly ahead in India and Brazil, whereas European truck demand mirrored that of passenger vehicles in falling by 8%. Against this backdrop the Group's German operation's recent success in winning new programmes meant that its sales to the medium- and heavy-duty truck market actually increased by 5%.

12%

increase in adjusted operating profit

resulting from product mix changes combined with targeted operational improvements and favourable raw material pricing.

Flexonics Business review continued

Despite generally weak land vehicle markets, tightening emission legislation, combined with the Group's operational excellence and product development skills, mean market-share opportunities regularly arise. The Group's operation in the Czech Republic is already benefiting from new programme wins from existing customers, and the French operation, having been awarded work from new customers such as Jaguar Land Rover and Liebherr during 2012, is expected to benefit in the coming years. 2012 also saw good progress being made in North America towards winning a second major customer, in addition to Cummins, for the Group's EGR cooler product.

Largely due to the successful delivery of a very large expansion joint project to China for the petrochemical industry, total divisional industrial market revenue increased by 8% over the prior year. Outside Europe, where demand was generally weak, most industrial markets remained at satisfactory levels with the Group benefiting in North America from increased demand for its fuel-cell bellows as well as its damper control products, where the benefits of selling on a global basis through the wider Senior sales network are now being seen. Whilst global industrial project activity continues at encouraging levels, which bodes well for the longer-term future, the short-term nature of the order book means that the 2013 outcome for a number of the Group's industrial businesses remains dependent upon the timing, as well as the size and nature, of the anticipated project awards.

CASE STUDY

EXPANDING INTEGRATED GLOBAL LAND VEHICLE FOOTPRINT

Many of Senior's existing land vehicle engine components are designed to help original equipment manufacturers meet varying global emission standards or increase fuel efficiency in the latest generation of truck and passenger car engines. As these emission standards continue to tighten, the cost of fuel continues to rise, and customers increasingly look for single global platform solutions, the need for Senior Flexonics to be able to supply land vehicle components cost-effectively, on a global basis, will be critical to the continuing success of the Division.

In response to this need Senior has been investing for some years in an integrated global manufacturing land vehicle footprint. The latest addition occurred in August 2012 through the formation of Senior Flexonics Technologies (Wuhan) Limited, a joint venture in Wuhan, China that will manufacture heavy-duty diesel engine components for Cummins' engine plants in China. Senior has additional land vehicle operations in the USA, South Africa, Brazil, India, Czech Republic, France, Germany, the UK and Mexico with combined capabilities to manufacture and supply the full range of the Group's land vehicle products cost-effectively in all markets, whilst maintaining commercial and engineering expertise close to its customers' decision-making centres to ensure bid opportunities on future programmes are maintained.

Financial review

Simon Nicholls
Group Finance Director

The Group's balance sheet capacity has continued to grow during the year, driven by increasing levels of profitability and excellent cash conversion.

Financial summary
A summary of the Group's operating results is set out in the table below. Further detail on the performance of each Division is included on pages 16 to 23.

	Revenue	
	2012 £m	2011 £m
Aerospace	**470.5**	382.6
Flexonics	**242.0**	240.1
Share of results of joint venture	**–**	–
Inter-segment sales	**(0.5)**	(0.4)
Central costs	**–**	–
Continuing operations	**712.0**	622.3
Discontinued	**17.8**	18.4
Group total	**729.8**	640.7

	Adjusted operating profit[1]	
	2012 £m	2011 £m
Aerospace	**72.1**	59.6
Flexonics	**37.3**	35.0
Share of results of joint venture	**(0.1)**	–
Inter-segment sales	**–**	–
Central costs	**(8.7)**	(7.3)
Continuing operations	**100.6**	87.3
Discontinued	**0.8**	1.0
Group total	**101.4**	88.3

	Margin	
	2012 %	2011 %
Aerospace	**15.3**	15.6
Flexonics	**15.4**	14.6
Share of results of joint venture	**–**	–
Inter-segment sales	**–**	–
Central costs	**–**	–
Continuing operations	**14.1**	14.0
Discontinued	**4.5**	5.4
Group total	**13.9**	13.8

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

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

	2012 £m	2011 £m
Operating profit per Financial Statements	**93.7**	82.0
Profit for the period from discontinued operations	**3.3**	1.0
Loss on sale of fixed assets	**0.1**	0.3
Exceptional pension charge	**1.9**	–
Amortisation of intangible assets from acquisitions	**4.3**	4.4
Acquisition costs	**0.6**	0.6
Profit on disposal of business	**(2.5)**	–
Adjusted operating profit	**101.4**	88.3

Total Group revenue increased by 14% (£89.1m) in 2012 including the adverse impact of foreign exchange movements (16% revenue increase on a constant currency basis). This increase included £63.2m from acquisitions: £55.6m related to 11 months' incremental revenue from the acquisition of Weston which had taken place at the end of November 2011; £4.0m being three months' incremental revenue from the acquisition of Damar AeroSystems at the end of March 2011; and £3.6m due to the acquisition of GA in November 2012. In addition, total Group revenue includes discontinued operations revenue of £17.8m (2011 – £18.4m) from Senior Hargreaves Limited which was sold in October 2012. Excluding acquisitions and discontinued operations, revenue in the Group's organic operations (at constant currency) increased by 6%.

In aerospace markets, the Group benefited from increasing build rates in the large commercial aircraft sector and an increase in demand from the Group's main programmes in the business jet sector. Revenue in the military sector increased slightly, in particular on the F-35 Joint Strike Fighter programme, with build rates in the Group's key military platforms remaining satisfactory for the majority of the year, although weakening in the fourth quarter. Regional jet markets remained subdued, with

15% increase in adjusted operating profit

due to a combination of the increase in organic operations' revenue, further operational improvements and year-on-year acquisition contributions of £6.4m.

total revenue largely unchanged in this sector. Total revenue in land vehicle markets increased overall although activity levels were mixed, with strong increases in North American truck markets, notably in the first half of the year, but a further decline in European passenger vehicle registrations throughout the year. Passenger vehicle markets in India continued to grow steadily but declined marginally overall in Brazil. Activity levels in the Group's industrial markets were positive, with increases in demand for large expansion joints experienced in global petrochemical markets and for dampers in US power and energy markets.

The Group's free cash flow and net debt for 2012 and the prior year were:

	2012 £m	2011 £m
Free cash flow	**57.6**	55.6
Net debt	**70.9**	93.0
Net debt: EBITDA ratio	**0.6x**	0.8x

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:

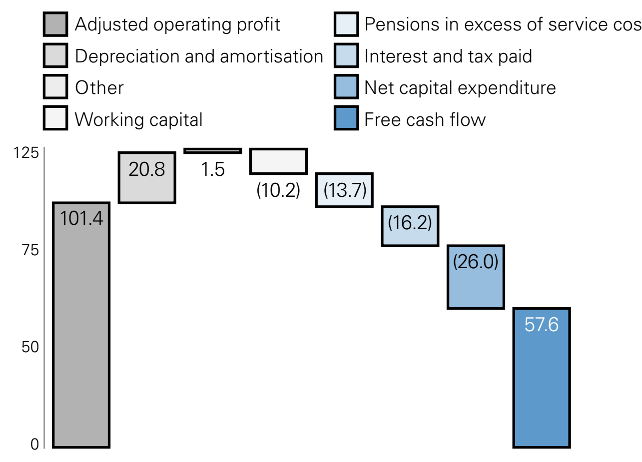
	2012 £m	2011 £m
Net cash from operating activities	**83.3**	77.1
Interest received	**0.3**	0.3
Proceeds on disposal of tangible fixed assets	**0.1**	0.3
Purchases of tangible fixed assets	**(25.3)**	(21.1)
Purchases of intangible assets	**(0.8)**	(1.0)
Free cash flow	**57.6**	55.6

The Group generated significant free cash flow of £57.6m in 2012 (2011 – £55.6m), a strong performance for the year, and marginally ahead of 2011 despite an increase in capital expenditure on future growth programmes in the commercial aerospace and heavy-duty diesel engine sectors. The principal drivers of the positive underlying cash performance were the increase in operating profits combined with sustained tight controls over working capital levels, ultimately resulting in an excellent level of cash conversion. The free cash flow performance was after the Group had contributed a further £13.7m in excess of service costs (2011 – £7.8m) into its defined benefit pension plans in the UK and the USA, including a one-off voluntary contribution of £6.0m following the disposal of Senior Hargreaves Limited.

The strong cash flow enabled the Group to fund the GA acquisition from existing cash and debt facilities, for a total initial consideration of £28.1m, and still resulted in a satisfactory decline in net debt of £22.1m during the year (including favourable foreign exchange movements of £4.1m). Net debt at the year-end was £70.9m (2011 – £93.0m).

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.



Financial detail

Revenue

Group revenue increased by £89.1m (14%) to £729.8m (2011 – £640.7m), including £17.8m (2011 – £18.4m) from a discontinued operation, Senior Hargreaves, which was sold in October 2012. Excluding this, total Group revenue from continuing operations increased by £89.7m (14%) including an incremental £63.2m from three acquisitions: GA acquired in November 2012 and the full-year effect of the acquisitions of Weston made in November 2011 and Damar AeroSystems in March 2011. If the effect of acquisitions and a year-on-year adverse exchange impact of £9.6m are excluded, underlying revenue from organic operations increased by 6% on a constant currency basis. In 2012, 66% of sales from continuing operations originated from North America, 14% from the UK, 13% from the Rest of Europe and 7% from the Rest of the World.

Operating profit

Adjusted operating profit increased by £13.1m (15%) to £101.4m (2011 – £88.3m), due to a combination of the increase in organic operations' revenue, further operational improvements and year-on-year acquisition contributions of £6.4m. Adjusted operating profit includes £0.8m operating profit from Senior Hargreaves (2011 – £1.0m), but is before finance costs, loss on disposal of fixed assets of £0.1m (2011 – £0.3m), acquisition costs of £0.6m (2011 – £0.6m), amortisation of intangible assets arising on acquisitions of £4.3m (2011 – £4.4m) and an exceptional pension charge of £1.9m relating to the disposal of Senior Hargreaves (2011 – £nil). The Group suffered adverse foreign currency movements of £1.4m on translation of comparative profits and, if these are excluded together with the incremental profit contribution of £6.4m from acquisitions, underlying adjusted operating profit from organic operations increased by 10% on a constant currency basis. The Group achieved a record operating margin of 13.9% in 2012 (2011 – 13.8%), with underlying margin improvements in both the Aerospace and Flexonics Divisions. These were achieved through a combination of the positive impacts of increased volumes in key core markets, in particular the large commercial aircraft market, and further benefits from operational efficiency improvements, in particular in North American truck operations.

Total Group reported operating profit from continuing operations increased by 14% to £93.7m (2011 – £82.0m), after charges for the amortisation of intangible assets from acquisitions, acquisition costs, loss of disposal of fixed assets and an exceptional pension charge as described on page 24.

Finance costs

Total finance costs, net of investment income of £0.3m (2011 – £0.3m), were unchanged at £10.3m (2011 – £10.3m). Net interest costs on borrowings fell slightly to £7.7m (2011 – £7.9m) mainly due to an increased level of average cash deposits during the year. The Group has fixed rate, fully-drawn US private placement facilities of $185m (£113.5m) which attract a fixed interest payment each year. The Group's total net debt was below this level for the whole of 2012 and 2011. Fluctuations in the Group's net interest costs only therefore arise due to changes in cash amounts on deposit, deposit interest rates and variations in the rate of foreign exchange translation, principally between the Pound Sterling and the US dollar.

Pension-related finance charges increased to £2.6m in 2012 (2011 – £2.4m), principally due to a decrease in the expected rate of return on assets, as an increasing proportion of the Group's pension assets are invested in fixed income securities as part of the continuing implementation of liability-driven investment strategies in the Group's defined benefit pension plans.

Profit before tax

Adjusted profit before tax increased by 17% to £91.1m (2011 – £78.0m). Reported profit before tax from continuing operations increased by 16% to £83.4m (2011 – £71.7m). The reconciling items between these two measures are shown in Note 9 of the Financial Statements.

Tax charge

The total tax charge decreased to £16.8m (2011 – £17.7m), despite the increase in the Group's taxable profits. Net tax benefits of £1.8m (2011 – £1.8m) arose from the loss on sale of fixed assets, acquisition costs, amortisation of intangible assets from acquisitions and the exceptional pension charge in 2012. If these are added back, the resultant tax charge of £18.6m (2011 – £19.5m) represented an underlying rate of 20.4% (2011 – 25.0%) on the adjusted profit before tax of £91.1m (2011 – £78.0m). The decrease in the underlying tax rate arose mainly due to a decrease in the tax rate in the USA, a favourable tax ruling in the Czech Republic and an increase in deferred tax assets recognised in the UK arising from the capitalisation of certain historical UK losses that are now anticipated to be available for use following the acquisition of Weston in 2011.

Earnings per share

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 408.5 million (2011 – 402.0 million). Adjusted earnings per share increased by 22% to 17.75 pence (2011 – 14.55 pence). Basic earnings per share increased by 25% to 17.11 pence (2011 – 13.68 pence). See Note 12 of the Financial Statements for details of the basis of these calculations.

Dividends

A final dividend of 3.27 pence per share is proposed for 2012 (2011 – 2.65 pence), which would cost £13.5m (2011 final dividend – £10.7m). This would bring the full-year dividend to 4.65 pence per share, 22% above the prior year. The cash outflow incurred during 2012 in respect of the final dividend for 2011 and the interim dividend for 2012 was £16.4m (2011 – £13.1m).

Research and development

The Group's expenditure on research and development increased to £12.8m during 2012 (2011 – £11.8m). 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 18% in 2012 to £26.1m (2011 – £22.1m), principally representing investment in future growth programmes and necessary replacement and compliance expenditure. The Group's operations remain well capitalised. The disposal of assets no longer required raised £0.1m (2011 – £0.3m). A higher level of capital expenditure is anticipated for 2013, 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 2012 may be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	134.8	–	134.8
Goodwill and intangible assets	238.8	–	238.8
Investment in joint venture	0.8	–	0.8
Current assets and liabilities	192.4	(140.8)	51.6
Other non-current assets and liabilities	13.0	(18.1)	(5.1)
Retirement benefit obligations	–	(37.1)	(37.1)
Total before net debt	579.8	(196.0)	383.8
Net debt	44.5	(115.4)	(70.9)
Total at 31 December 2012	**624.3**	**(311.4)**	**312.9**
Total at 31 December 2011	589.3	(313.0)	276.3

Net assets increased by 13% in the year to £312.9m (2011 – £276.3m), in the main as a result of retained profits of £69.9m. Net assets per share increased by 10% to 75.6 pence (2011 – 68.7 pence). There were 413.9 million ordinary shares in issue at the end of 2012 (2011 – 402.2 million).

Retirement benefit obligations, as calculated in accordance with IAS 19, increased by £2.6m to £37.1m (2011 – £34.5m) principally due to the negative impact of an increase in plan liabilities resulting from a decrease in the discount rate used to discount plan liabilities and a £1.9m curtailment charge in respect of the Senior Hargreaves disposal, partially offset by the positive impact of an increase in the value of fixed income assets in the plans and £13.7m of cash contributions in excess of service costs.

Cash flow

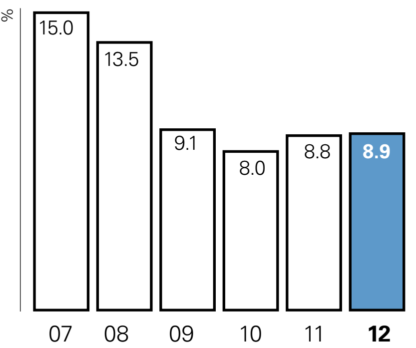
The Group generated significant free cash flow (whose derivation is set out in the table below) of £57.6m in 2012, £2.0m above the £55.6m achieved in 2011. The main driver of the year's performance was cash generated from operations of £99.8m, which is stated after taking into account additional pension contributions in excess of service costs of £13.7m (2011 – £7.8m), including a one-off voluntary payment of £6.0m following the disposal of Senior Hargreaves, and a working capital outflow of £10.2m (2011 – £4.6m outflow).

The positive cash flow from operations was offset by increased net capital expenditure of £26.0m (2011 – £21.8m) and tax and interest payments of £16.2m (2011 – £18.9m).

	2012 £m	2011 £m
Operating profit from continuing operations	**93.7**	82.0
Discontinued operations profit before tax	**0.8**	1.0
Depreciation and amortisation	**25.1**	23.0
Share of loss in joint venture	**0.1**	–
Working capital movement	**(10.2)**	(4.6)
Pension payments above service cost	**(7.7)**	(7.8)
Additional discretionary pension payments	**(6.0)**	–
Other items	**4.0**	2.7
Cash generated from operations	**99.8**	96.3
Interest paid (net)	**(7.6)**	(8.2)
Tax paid	**(8.6)**	(10.7)
Capital expenditure	**(26.1)**	(22.1)
Sale of fixed assets	**0.1**	0.3
Free cash flow	**57.6**	55.6
Dividends	**(16.4)**	(13.1)
Acquisitions	**(28.1)**	(68.6)
Investment in joint venture	**(0.9)**	–
Proceeds on disposal of subsidiary	**4.5**	–
Share issues	**2.3**	–
Purchase of shares held by employee benefit trust	**(1.0)**	–
Finance lease assumed on acquisition and entered into	**–**	(0.9)
Foreign exchange variations	**4.1**	(2.3)
Opening net debt	**(93.0)**	(63.7)
Closing net debt	**(70.9)**	(93.0)

Year-end 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.



Net debt

Net debt decreased by £22.1m in the year to £70.9m (2011 – £93.0m). The main reason for this reduction was the increase in cash generated by operations, which itself was driven by the underlying positive impact of increased profitability and sustained low levels of working capital. The principal elements of other expenditure that partially offset this increase were expenditure on acquisitions and the Group's new joint venture in China, totalling £29.0m (2011 – £68.6m), and gross capital expenditure of £26.1m (2011 – £22.1m). At the year-end, net debt comprised gross borrowings (including finance leases of £1.0m) of £115.4m, with 99% of the Group's gross borrowings in US dollars (31 December 2011 – 98%), and cash and cash equivalents of £44.5m (31 December 2011 – 29.3m).

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 2012, the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 15.7x (31 December 2011 – 13.7x) and the ratio of net debt to EBITDA was 0.6x (31 December 2011 – 0.8x).

Liquidity

As at 31 December 2012, the Group's gross borrowings excluding finance leases were £114.4m (2011 – £120.7m). 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	0.8	–
In the second year	21.6	21.5
In years three to five	33.7	115.5
After five years	58.3	58.3
	114.4	195.3

[1] Gross borrowings include the use of bank overdrafts, other loans and committed facilities, but exclude finance leases of £1.0m.

At the year-end, the Group had committed facilities of £195.3m with a weighted average maturity of 4.1 years. The Group is in a strong funding position, with headroom of £124.4m under these facilities and no borrowings due for repayment until a private placement loan of £21.5m matures in October 2014.

Going concern basis

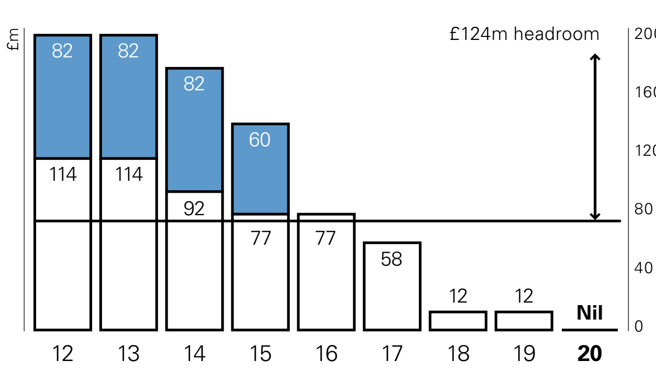
The Group's business activities, performance and position are set out in the Financial Review above and the Divisional Business Reviews on pages 16 to 23. These include a description of the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, a review 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 22.

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 2012, 98% of the Group's gross debt was financed via revolving credit and private placement facilities, with an average maturity of 4.1 years. The Group is profitable, cash generative and well funded with net debt of £70.9m compared to £195.3m of committed borrowing facilities, and has no major borrowing facility renewal before October 2014.

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 exchange rate is important to the Group's financial performance given that around 66% of the Group's profits in 2012 were earned in the USA and 99% of its gross borrowings at 31 December 2012 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, and the Board has continued to adopt the going concern basis in preparing the Group's Annual Report & Accounts 2012.

Maturity profile of credit facilities (£m)

Senior has significant funding headroom of £124m under its committed borrowing facilities with no refinancing due until 2014.



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 2011, 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.

Simon Nicholls
Group Finance Director

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 guidance on Risk Management and Internal Control. 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 42 and 43.

An integrated risk management framework continues to evolve 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 process areas previously identified for increased focus are strategic planning and objective setting, and the Group's approach to internal audit, business continuity, IT policies, internal controls over financial reporting and risk reporting. Good progress has been made with the implementation of these process improvements which are becoming embedded in the Group's operations.

Senior's risk philosophy, embodied in a Risk Philosophy Statement which has been rolled out across the Group, 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 developmental 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 exceeding 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 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 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 and discussion 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 and discussion 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. In between formal updates, the Board monitors progress in the management of individual risks via regular Executive and Divisional reporting procedures and review and discussion of these reports at Board meetings.

Principal Group risks
Overall, the Group's risk profile is largely unchanged in 2012 compared to 2011. 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 on pages 30 and 31.

Risks and uncertainties continued

Key

Increased risk **Decreased risk** **Constant risk**

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.	• Additional focus has been placed on the strategic planning process, to ensure that the Group formulates the most appropriate strategy to capitalise, over time, on the significant breadth of potential growth opportunities in its chosen market sectors. • The process now includes more regular strategy sessions at operational, Executive Committee and Board level. • The annual Capital Markets day includes presentation of the Group's strategy to enhance further the external communication process. 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, industrial, and emission-related sectors of land vehicle markets, where increasingly stringent legislation should ensure that long-term demand for the Group's products remains healthy. • The Group's financing position improved again in 2012 as cash conversion remained strong, and with no major borrowing facilities expiring before October 2014. • Through diversity of its end-market exposures and a robust financing position, the Group remains well placed to be able to withstand 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. • Customer value is driven through 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. • 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 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. • The above are all critical components that ensure continued profitable participation in existing and future development programmes.
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.	• Consistently strong free cash flow generation gives the Group capacity to continue to execute a targeted acquisition programme. • The Group has a well-established acquisition framework that includes proven valuation, due diligence and integration processes. • Post-acquisition reviews are performed on all acquisitions, comprising a full retrospective review of each deal process, integration effectiveness, operational performance compared to expectation and sharing of lessons learned with the Board and across the senior management team.
NEW AIRCRAFT PLATFORM DELAYS	Significant shipset content has been secured on a number of new aircraft platforms currently under development or in initial phases of production. These include the Boeing 787 Dreamliner, Bombardier's CSeries regional jet and the Airbus A350. Delays in the launch or ramp up in production 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. • A cautious approach is taken to both capital investment in new programmes, to minimise the time between installation and utilisation of new capital equipment, and to the projected build rates and associated revenue in financial projections. • The growing breadth of Senior's exposure to a comprehensive and diverse range of aerospace and land vehicle platforms, together with its broad exposure in global 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
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 is able to attract experienced senior executives from within the industry, in part attributable to its culture which is described in the Business model on page 9. • The Group sponsors the development and training of key managers, at all levels, through an increasingly comprehensive in-house management development programme. • Senior management turnover ratios remain low, a further indication of success in this important area.
IMPORTANCE OF EMERGING MARKETS	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. In addition, certain customers require global programme support as they respond to increasing domestic demand in a number of these emerging markets.	• The Group's strategy of developing a portfolio of high value-added engineering manufacturing companies has meant that over time it has generally evolved away from products where the direct threat of low-cost country manufacture is significant. • The Group successfully employs a strategy of retaining commercial and engineering expertise close to customers' locations, principally in North America and Europe. This enables effective support to be readily given to its customers whilst increasing manufacturing at above-average growth rates in low-cost country locations where it makes sense to do so and with customer agreement. • The Group has an increasing presence in emerging markets via its facilities in Mexico, Thailand, Czech Republic, South Africa, Brazil, India and China. Each of these operations, individually and in combination, has a healthy number of viable opportunities for further expansion either to supply domestic markets or to support customers' increasingly global needs.
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 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 financial policies and exposure limits are reviewed by the Group's Treasury Committee on a regular basis. • The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on operations' trading activities in foreign currencies and does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. • The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, and by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities and paying close attention to the projected level of headroom under the covenants contained in its committed borrowing facilities. For further details see Note 22.
CORPORATE GOVERNANCE BREACH	Corporate governance legislation (such as the UK Bribery Act and the US Foreign Corrupt Practices Act), regulations and guidance (such as the UK Corporate Governance Code and global health and safety regulations) are increasingly complex and onerous. A serious breach of these rules and regulations could have a significant impact on the Group's reputation, lead to a loss of confidence on the part of investors, customers or other stakeholders and ultimately have a material adverse impact on the Group's enterprise value.	• The Group has well-established governance policies and procedures in all key areas, including a Group Code of Business Conduct, Health and Safety Charter, anti-bribery procedures and various policies and procedures over the review and reporting of risk management and internal control activities. • The Group Finance Director, the Group Company Secretary and the Head of Internal Audit collectively retain principal responsibility for maintaining and reporting on governance changes that may have an impact on the Group. • Periodic governance updates are provided to the Board and Executive Committee at appropriate intervals, and to key operational management. Recent examples of developments in this area include formulation of a Business Continuity Framework, IT Policy Guidelines, and anti-bribery training.

Corporate social responsibility

Operating with integrity in an ethical, environmentally and socially sustainable manner is core to the future success of the Group. How our people perform is as important as how our products operate.

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

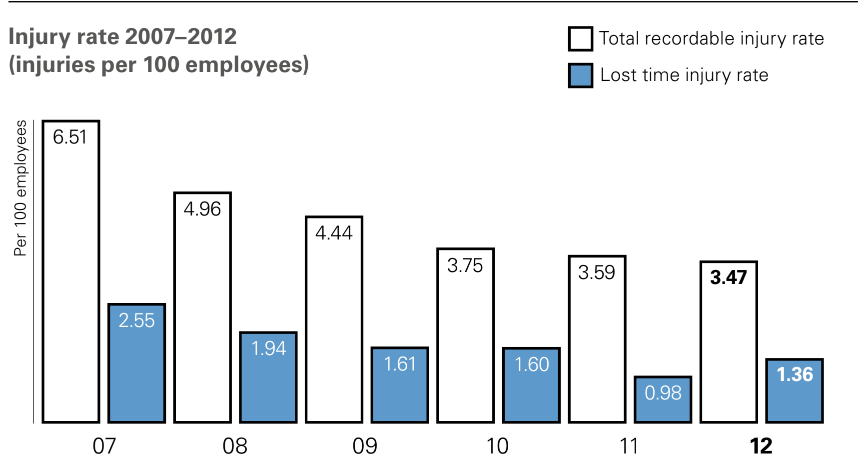
- developing employees by creating a working environment that attracts and retains the best people;
- operating with integrity by acting in an ethical and responsible manner; and
- ensuring safe working conditions and reducing the Group's environmental footprint by continuously improving the management of health, safety and the environment ("HSE").

The Group's 2012 achievements in these key areas of CSR focus, together with its objectives and targets identified for 2012 and beyond, are shown in the table on page 13.

Developing 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 its 6,171 employees and in 2012 Senior enhanced its Group-wide 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. Additionally, individual training and development plans are also run by each operation, focusing on their local needs.



Contributing to communities
The Group's operations are encouraged to involve themselves in their local communities and to support local charities. These long-standing relationships with non-profit-making organisations and local charities involve employees volunteering their time, making financial donations and raising funds to help those in need of support within their local communities.

5% increase in energy efficiency

Operating with integrity
During 2011, the Code of Business Conduct (the "Code") was revised to reflect recent legislative changes, such as the introduction of the UK Bribery Act. Additionally, a separate code of business conduct for agents and company representatives was introduced. The Code applies to Senior plc, all of its subsidiaries, joint ventures and associated companies.

The Code states that employees must avoid situations in which their personal interests may conflict, or appear to conflict, with those of the Group, including: bribery and corruption; above normal levels of hospitality, promotional and other business expenditure; personal business interests; work for third parties; confidentiality of information; and dealing in the shares of Senior plc. In response to the UK Bribery Act 2010, an online anti-bribery training

course was implemented for the Group's employees, to educate them on this legislation, its potential impact on the Group and to reinforce what is or is not acceptable behaviour. The Group does not make donations to political parties, and employees are not permitted to use corporate funds for this purpose. Charitable donations are permitted by the Group's operations and an official record of these is maintained.

The Group's Head of Internal Audit is required to have regard to the Code in his auditing activity, to continually review the Group's exposure to ethical risks, and to report any infringement of the Code to the Group Company Secretary and Audit Committee.

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 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. 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.

Health, safety and the environment

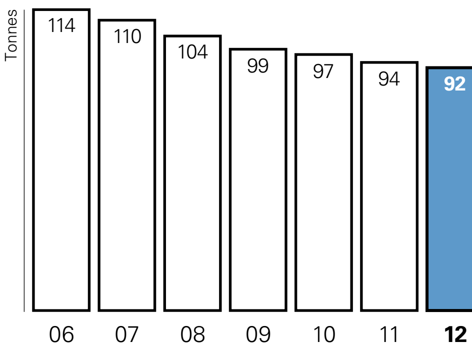
Senior is committed to continuous improvement in health and safety performance. Its goal is zero preventable accidents. To lead and oversee this goal, Senior operates a Health, Safety and Environment Committee which meets quarterly. The Committee is chaired by the Group Chief Executive, who leads the Board's efforts in improving the Group's ethical, social, health, safety and environmental performance and is also responsible for external stakeholder issues. The chief executives of the Group's two divisions and the Group HSE Manager also sit on the Committee.

The basis of Senior's HSE programme is set out in the Group's Environmental Health and Safety Charter (the "Charter"). The Charter has an established set of principles, practices and programmes that each operation should adhere to. A core component of the Charter is the development of local safety and environmental improvement plans that each operation is required to develop annually.

Verification of each operation's plans, programmes and performance is conducted through a Group HSE audit programme.

In 2012, there were reductions in the number of recordable injuries, the Group's principal health and safety measure. Disappointingly however, the lost time injury frequency rate rose following five years of year-on-year reduction; corrective action has been taken to drive future improvements in the Group's safety performance.

CO_2 to turnover
(tonnes of CO_2 emitted per £m sale)



To improve the understanding of effective safety within the business, in 2012 the Group introduced a series of health and safety standards.

In 2012 the Group also introduced a new approach to investigating accidents and incidents to ensure that the lessons learned from each incident are applied.

Environment

Senior's most significant environmental impact is in the form of CO_2 emissions. In 2012, the Group emitted 60,537 tonnes of CO_2; when normalised to sales, this represents a 2% improvement compared to 2011. The Group's largest source of CO_2 emissions is its energy usage and in acknowledgment of this, a five-year target was established in 2010 to improve energy efficiency by 10%.

In 2012, the Group made significant progress against the target, improving its energy efficiency by 5%. Although this trend is in the right direction, the Group remains committed to further improve this performance. Water usage and waste generation represent the Group's other significant environmental impacts. To reflect changes in production and the impact of new acquisitions, Senior measures its water consumption against sales revenue. In 2012, the Group used 0.39 megalitres per £m of sales, representing a reduction on 2011 (0.40 megalitres per £m sales). In 2012, the total amount of waste generated by the Group was 12,476 tonnes, an increase on the 2011 levels (10,308 tonnes). The increase was predominantly recycled metals resulting from the inclusion of three additional machining businesses plus additional volume in the Group's existing operations. Senior increased the amount of waste being recycled to 78% on 2011 levels (76%) and is on track to fulfil its goal of recycling 80% of all material by 2015.

2% reduction in CO_2 emissions

3% decline in the rate of accidents

Key areas of CSR focus

	2011	**2012**	Objectives and targets
Environment			
Energy efficiency (MWh/£m turnover)[1]	214	**203**	≤ 207 MWh/£m turnover by 2014
Scope 1 GHG (tCO_2e)[2]	9,409	**10,582**	Incorporated within energy efficiency target
Scope 2 GHG (tCO_2e)[3]	44,146	**49,707**	As per Scope 1
Scope 3 GHG (tCO_2e)[4]	6,982	**7,214**	As per Scope 1
Tonnes CO_2 emitted per £m of revenue	94.47	**92.49**	
Water usage (in megalitres)	256	**289**	
Water usage per £m of revenue	0.40	**0.39**	
Waste generated (in tonnes)	10,308	**12,476**	
Percentage of waste recycled or recovered	76%	**78%**	To increase the percentage of waste recycled or recovered to 80% by 2015
Safety			
Total Recordable Injury Rate measures the number of injuries per 100 employees	3.59	**3.47**	Reduce the 2010 Total Recordable Injury Rate by 20% by 2015 to ≤ 3.00
Lost Time Injury Rate tracks the number of injuries per 100 employees with one day or more away from work	0.98	**1.36**	Reduce the 2010 Lost Time Injury Rate by 20% by 2015 to ≤ 1.28
Business ethics and compliance			
Revise and reissue Business Code of Conduct		**Completed**	
Investigate 100% of all complaints received regarding whistle-blowing		**Completed**	

[1] Energy efficiency is a measure of the Group's energy consumption relative to sales. The baseline for the 10% improvement is the 2009 data. These targets exclude the impact of any new acquisitions.
[2] Scope 1 GHG emissions emanate from direct sources which Senior owns and operates, such as natural gas or oil furnaces.
[3] Scope 2 GHG emissions emanate from indirect sources, such as purchased electricity.
[4] Scope 3 GHG emissions result from support and ancillary activities, including business travel, movement of goods and waste disposal. Some of this data is based on estimated values.

Executive Committee

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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 the three Divisional CEOs, Group Head of Business Development and Group Financial Controller. Biographies of the Committee members are set out below.

1 Mark Rollins Group Chief Executive, see page 37 for biography.

2 Simon Nicholls Group Finance Director, see page 37 for biography.

3 Launie Fleming CEO – Aerospace Fluid Systems. A US citizen, he has worked for the Group for 15 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.

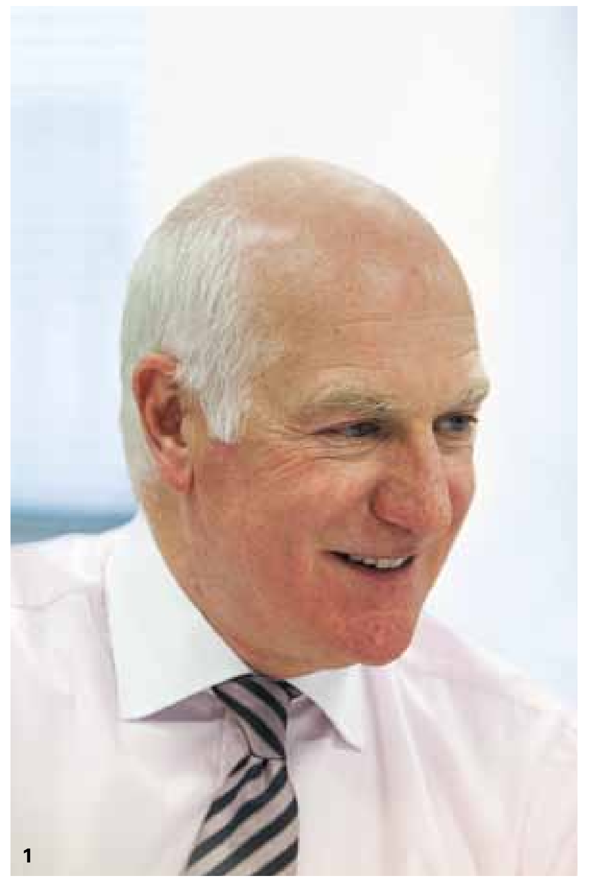
4 Jerry Goodwin CEO – Aerospace Structures. A US citizen, he joined the Group in June 2007 as the Chief Executive of Senior Aerospace AMT. He was appointed Chief Executive of Aerospace Structures in December 2010. Prior to joining Senior, Jerry served as Vice President and General Manager at C & D Zodiac, a composites aerospace manufacturing company.

5 Mike Sheppard CEO – Flexonics. A US citizen, he has worked for the Group for more than 20 years and is the Chief Executive of Senior Flexonics. A qualified engineer, Mike's previous positions within the Group included operational roles at the two largest Flexonics businesses, Pathway and Bartlett.

6 Bindi Foyle Group Financial Controller. A Chartered Accountant, she joined the Group in 2006 as the Group Financial Controller. She is a member of the Executive Committee and acts as its secretary; she also sits on the Group's Treasury Committee. Prior to joining Senior, she held a number of finance positions at Amersham plc and GE Healthcare.

7 Peter Woolfrey Group Head of Business Development. Joined the Group in 2009. He has an engineering background with extensive international experience in the Aerospace industry, having worked for Smiths Aerospace and GE Aviation in a number of business development roles.

Board of Directors



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Main Board
Membership and the attendance record of the main Board and its Committees is shown in the table below.

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Chairman[(i),(ii)]	Charles Berry	David Best	Charles Berry	Ian Much
Total number of meetings	10	3	2	4
Charles Berry[(i)]	8/8	–	1/1	2/2
David Best	10/10	3/3	2/2	4/4
Martin Clark[(ii)]	3/3	–	1/1	2/2
Andy Hamment	10/10	3/3	2/2	–
Ian Much	9/10	2/3	2/2	4/4
Simon Nicholls	10/10	–	–	–
Mark E. Vernon	10/10	–	2/2	4/4
Mark Rollins	10/10	–	–	–

(i) Charles Berry – appointed a non-executive Director on 1 March 2012 and became Chairman of the Board on 27 April 2012
(ii) Martin Clark – Chairman until he retired from the Board on 27 April 2012

Health, Safety & Environment Committee
Mark Rollins (Chairman), Mike Sheppard (Chief Executive of Flexonics), Jerry Goodwin (Chief Executive of Aerospace Structures), Launie Fleming (Chief Executive of Aerospace Fluid Systems) and James Pomeroy (Group HSE Manager). James Pomeroy was appointed to the Committee in May 2012; prior to this date he had been invited to attend all Committee meetings. The Committee met four times during the year.

Non-executive Directors
1 Charles Berry Non-executive Chairman. Was appointed to the Board in March 2012 and became non-executive Chairman and Chairman of the Nominations Committee when Martin Clark retired from the Board at the Company's Annual General Meeting on 27 April 2012. He is also the Chairman of Drax Group plc and a non-executive director of Impax Environmental Markets plc, the Securities Trust of Scotland plc and of The Weir Group PLC, the latter with effect from 1 March 2013.

2 David Best Non-executive Director. Joined the Board in 2007. 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.

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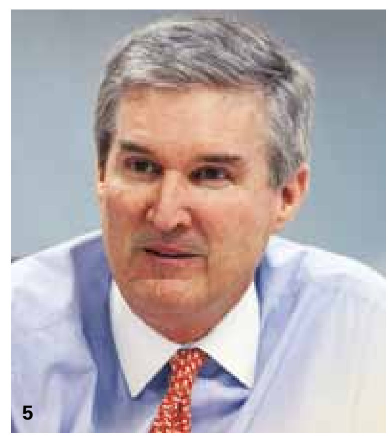
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3 Ian Much Non-executive Director and Senior Independent Director. Joined the Board in 2005 and is also non-executive director of Chemring Group PLC and BTG plc. He was formerly Chief Executive of De la Rue plc. He is Chairman of the Remuneration Committee.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

4 Andy Hamment Non-executive Director. Joined the Board in April 2011. He stepped down from his role as the Group Marketing Director of Ultra Electronics PLC in March 2012; he was formerly Managing Director of Dowty's Controls business and participated in the management buyout process that created Ultra Electronics. The Board considers Andy Hamment to be independent.

5 Mark E. Vernon Non-executive Director. Joined the Board in April 2011 and is also Group Chief Executive of Spirax-Sarco Engineering plc. He was previously Group VP of Flowserve's Flow Control Business Unit and of Durco International and President of Valtek International. The Board considers Mark E. Vernon to be independent.

Martin Clark Non-executive Chairman and Chairman of the Nominations Committee until his retirement from the Board on 27 April 2012.

Executive Directors

6 Simon Nicholls Group Finance Director. A Chartered Accountant, he joined the Group and was appointed to the Board in 2008; he was a non-executive director of Hamworthy plc until the completion of its acquisition by Wärtsilä in February 2012. He was previously Chief Financial Officer for Hanson plc's North American operations.

It has been announced that Simon Nicholls will leave the Company at the end of April 2013 to become Chief Financial Officer of Cobham plc; the search for his successor is progressing.

7 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 was a non-executive director of WSP Group plc until its merger with GENIVAR Inc. on 1 August 2012.

Group Company Secretary

8 Andrew Bodenham Chartered Secretary, joined as Group Company Secretary in 2002. He acts as Secretary to the Senior plc Board and its Committees and also sits on the Group's Treasury Committee.

Report of the Directors

The Directors present their Report and supplementary reports, together with the audited Financial Statements for the year ended 31 December 2012.

Activities and Business review
Senior plc is a holding company. The nature of the Group's operations, its principal activities and comments on Divisional results and activities in 2012 are set out in the Chief Executive's statement, Business model, Strategy, Key growth drivers, Key performance indicators, Aerospace and Flexonics Business reviews, Financial review and Risk and uncertainties on pages 6 to 31. These reviews also include 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. The Group's principal group undertakings are shown on page 107.

Acquisitions and disposals
On 2 November 2012, the Senior Group acquired 100% of the issued share capital of GAMFG Precision LLC and its parent company GAMCO Acquisition Company for a total consideration of US$45.0m (£28.1m); further details of this business are given in Note 33.

During the year, the Group set up and has a 49% interest in Senior Flexonics Technologies (Wuhan) Limited, a jointly controlled entity incorporated in China. The Group's investment of £0.8m represents the Group's share of the joint venture's net assets as at 31 December 2012.

On 8 February 2013, the Group acquired 100% of the issued share capital of Atlas Composites Limited and its parent company Castlegate 408 Limited (collectively "Atlas"). Atlas, based in Ilkeston, Derbyshire, UK, designs and manufactures composite structures, components and tooling for aerospace, motor sport, defence and communications markets. The cash consideration, net of cash acquired of £0.1m, was £2.4m and the acquisition was funded from the Group's existing debt facilities.

On 16 October 2012, the Senior Group disposed of 100% of the issued share capital of Senior Hargreaves Limited; further details of this disposal are shown in Note 34.

Results and dividends
The results for the year are shown in the Consolidated Income Statement on page 60.

An interim dividend of 1.38 pence per share (2011 – 1.15 pence) has already been paid and the Directors recommend a final dividend of 3.27 pence per share (2011 – 2.65 pence). The final dividend, if approved, will be payable on 31 May 2013 to shareholders on the register at the close of business on 3 May 2013. This would bring the total dividend for the year to 4.65 pence per share (2011 – 3.80 pence).

Share capital
The Company has one class of ordinary shares, which carries no right to a fixed income. Each share carries the right to vote at general meetings of the Company. Changes in the Company's issued share capital during 2012 were:

Shares in issue at 1 January 2012	402,249,100
Senior plc Long-Term Incentive Plan	2,679,044
Senior plc Savings-Related Share Option Plan	8,923,725
Shares in issue at 31 December 2012	413,851,869

Further share capital details are given in Note 27 to the Financial Statements on page 94. Details of employee share plans are set out on pages 100 and 101.

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the 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 pages 40 and 41. 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 22 to the Financial Statements on pages 87 to 92 contains disclosures on Financial Instruments.

Directors
Details of the Directors who served during the year can be found on pages 36 and 37. The Directors' interests in the shares of the Company are included in the Directors' remuneration report on page 57. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings.

The provisions of the UK Corporate Governance Code require that all Directors of FTSE350 companies should be subject to annual election by shareholders. Charles Berry, David Best, Andy Hamment, Ian Much, Mark Rollins and Mark E. Vernon will all stand for re-election at the Annual General Meeting in April 2013. It has been announced that Simon Nicholls will be leaving the Group at the end of April 2013 and so will not stand for re-election.

Nominations Committee
The terms of reference of the Nominations Committee can be found on the Company's website. The Nominations Committee comprises all the independent non-executive Directors together with the Chairman of the Board. The Chairman also acts as chairman of the Committee. The quorum necessary for the transaction of business is two.

Only members of the Committee have the right to attend committee meetings. However, the Group Chief Executive and others may be invited to attend for all or part of any meeting when appropriate. The Company Secretary is secretary to the Nominations Committee.

The Nominations Committee met twice during the year and discussed the Chairman's succession, which resulted in the appointment of Charles Berry on 1 March 2012 ahead of the retirement of Martin Clark on 27 April 2012. The Committee also discussed the appointment of a new Group Finance Director, following the announcement by Simon Nicholls that he was to take up a similar role with Cobham plc in April 2013. The succession of non-executive Directors was also discussed.

When appointing new members of the Board, the Committee is fully cognisant of the benefits of Board diversity. The Committee considers a wide range of candidates and will appoint the strongest and most appropriate candidate for such a role. The Board remains committed to diversity, having an aspirational goal of 15% female Board representation by the end of 2013 and a larger percentage thereafter.

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 2012, the Group incurred £12.8m (2011 – £11.8m) on research and development before recoveries from customers of £1.5m (2011 – £1.3m). 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 £123,000 (2011 – £113,000), principally to local charities serving the communities in which the Group operates. No political donations were made during the year.

Disabled employees and employee consultation
The Group's policies in respect of disabled employees and job applicants, are set out in the Corporate social responsibility report on pages 32 to 34.

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

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 12 (2011 – 32). Payment terms adhered to by the Company are typically in the range of 30 to 45 days.

Major shareholdings
The Company had been notified that the following shareholders were interested in 3% or more of the issued share capital of the Company:

	06.02.13	31.12.12
BlackRock Investment Management	14.55%	15.37%
Henderson Global Investors	7.97%	7.40%
Legal & General Investment Management	5.73%	5.78%
Scottish Widows Investment Partnership	4.39%	5.13%
Schroder Investment Management	3.92%	4.03%
Standard Life Investments	3.82%	3.73%
Kames Capital	3.51%	3.56%

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 UK Corporate Governance Code
The statements of compliance with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council are set out on page 40.

Directors' remuneration report
The Company's policy on executive Directors' remuneration is set out in the Directors' remuneration report on pages 44 to 57. The Directors' remuneration report is to be put to shareholder vote at the forthcoming Annual General Meeting.

Annual General Meeting
The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held at 11.30 am on Friday 26 April 2013 at One Moorgate Place, London EC2R 6EA.

Acquisition of the Company's own shares
The Company purchased no ordinary shares of 10p each in the capital of the Company during the year. At the end of the year, the Directors had authority, under the shareholders' resolutions dated 27 April 2012, 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 of the Company 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.

Resolutions to re-appoint Deloitte LLP as the Company's Auditor and to authorise the Directors to set the Auditor's remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Andrew Bodenham
Secretary
22 February 2013

Corporate governance report

This Corporate governance report describes the manner in which the Company has applied the Main Principles as set out in Sections A to E inclusive of the UK Corporate Governance Code ("the Corporate Governance Code").

Statement of compliance with the Corporate Governance Code
The Company has been in compliance with the provisions set out in Sections A to E of the Corporate Governance Code throughout the year.

Application of the principles of the Corporate Governance Code
The Company has applied the Principles set out in the Corporate Governance Code, including both the Main Principles and the Supporting Principles, by complying with the Corporate Governance Code as reported above. The Principles of good corporate governance are detailed in the Corporate Governance Code under five areas. These Principles have each been reviewed by the Directors and are commented upon below:

Section A: Leadership

The Board is structured under a non-executive Chairman, and includes two executive Directors, and four 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 members of the Board and of the Executive Committee are included on pages 35 to 37.

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 (ten times in 2012); in addition there were three meetings of the Audit Committee in 2011, together with four meetings of the Remuneration Committee, two meetings of the Nominations Committee and four meetings of the HSE Committee. There was full attendance at every Board meeting and Committee of the Board during the year with the exception noted on page 36. Other committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from all Committee meetings are available to the Board.

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

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

Section B: Effectiveness

The Company's 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 Charles Berry, and its composition is shown on page 36, its Terms of Reference may be found on the Company's website.

The appointment of new Directors to the Board is controlled by the Nominations Committee, assisted by an appropriate external recruitment consultant; when considering new appointments, the Committee seeks to ensure that the Board and all of its Committees have the necessary balance of skills and knowledge. In conjunction with the external consultant, consideration is given to the role and the capabilities required for a particular appointment. Based on agreed criteria, the consultant then produces a shortlist of candidates. The Committee members interview the shortlisted candidates, and then present their recommendation to the Board. When appointing non-executive Directors, consideration is also given to the number of other posts held by the candidates, and their ability to devote sufficient time to discharge their duties as a non-executive Director.

Charles Berry was appointed a non-executive Director in March 2012 and became Chairman in April 2012, upon the retirement of Martin Clark; his appointment was in accordance with the Company's formal and rigorous Board appointment procedures described above. Simon Nicholls has announced that he will be leaving the Group at the end of April 2013; the recruitment process to appoint his successor is progressing well. All Directors receive induction upon joining the Board and are encouraged to update their knowledge and skills on a regular basis.

To enable the members of the Board and its Committees to discharge their duties effectively, the Company Secretary seeks to ensure that all relevant information is provided to the Directors in a timely manner in advance of meetings and following recommendations made by the Committees and resolutions made by the Board.

During the year, Independent Audit Limited undertook a formal review of the Board and its Committees to evaluate their performance. The report's findings showed the Board operated effectively throughout the period and made some suggestions for its future development. The report was welcomed by the Board and will be used to help support the development of the Board as the Group continues with its strategy to grow profitability both organically and by acquisition.

In addition, the Chairman undertook a review of the performance of individual Directors by way of 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 Charles Berry provided effective leadership of the Board. Based on the results of the performance evaluation process, the Chairman considers that all members of the Board, the Board collectively, and its Committees, continue to contribute effectively to the running of the Company.

In compliance with the Corporate Governance Code, all Directors offered themselves for election or re-election at the Company's Annual General Meeting 2012. At the forthcoming Annual General Meeting, all Directors will again offer themselves for re-election, with the exception of Simon Nicholls, who has announced that he will be leaving the Group at the end of April 2013.

Section C: Accountability

The Board determines the nature and extent of the significant risks that it is willing to take to achieve its strategic objectives and maintains a sound system of internal control. Details of the Group's system of internal control can be found on pages 29 to 31. To enable it to determine the acceptable significant risks, the Company's Audit Committee reports to and advises the Board of Directors. The Audit Committee Report on pages 42 and 43 describes the role and activities of the Audit Committee and its relationship with the internal and external auditor.

As part of its internal control procedures, the Company has a Whistle-blowing Policy that is communicated throughout the Group. This policy provides employees with the opportunity to report unethical or illegal corporate conduct. Ian Much is the Company's Senior Independent Director. His position provides employees with an alternative channel of communication to resolve issues if they have a concern that the Chairman, Group Chief Executive or Group Finance Director have failed to resolve these, or where such contact is not appropriate. The Group's ethical procedures and Code of Business Conduct have been reviewed in the light of the UK Bribery Act 2010 and anti-bribery training was rolled out across the Group in 2012; this training is now routinely operated on an ongoing basis to new employees and as a refresher course to existing employees, as and when appropriate.

Section D: Remuneration

The Directors' remuneration report on pages 44 to 57 describes the Board's approach to remuneration matters.

Section E: Relations with shareholders

The Company maintains regular contact with its institutional shareholders. Twice a year, the Group Chief Executive and Group Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the preliminary full-year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2012, the Company's non-executive Chairman also attended the preliminary full-year and interim results announcements made to analysts, in February and July respectively. No shareholder requested a meeting with any of the 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 Meetings to communicate with its private investors. A presentation of the Company's performance is given following completion of the formal business at each Annual General Meeting, and a copy of the presentation, together with other investor relations material, is available on the Company's website.

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.

The total issued share capital of the Company as at 1 March 2012 (the date of the Notice of the AGM 2012), was 405 million ordinary shares of 10p each. The total number of proxy votes received for the AGM 2012 represented approximately 75.47% (2011 – 74.7%) of the issued share capital of the Company.

All resolutions put to shareholders at the AGM 2012 were passed on a show of hands. Details of the proxy voting received by the Company for the AGM 2012 resolutions are set out in the table below:

Proxy voting for the AGM 2012 resolutions

Resolution number	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To receive Report & Financial Statements 2011	305,468,010	6,200	198,811	1,500	305,674,521
2. To approve Directors' remuneration report 2011	285,373,009	5,709,128	227,931	14,364,453	305,674,521
3. To declare final 2011 dividend	305,467,278	10,172	195,138	1,933	305,674,521
4. To elect Charles Berry	304,477,896	902,343	204,683	89,599	305,674,521
5. To elect Andy Hamment	304,392,023	1,007,356	200,123	75,019	305,674,521
6. To elect Mark Vernon	305,025,187	366,626	201,689	81,019	305,674,521
7. To re-elect David Best	304,476,236	990,547	197,038	10,700	305,674,521
8. To re-elect Ian Much	304,435,618	1,007,704	220,499	10,700	305,674,521
9. To re-elect Simon Nicholls	304,635,140	827,618	202,323	9,440	305,674,521
10. To re-elect Mark Rollins	304,634,125	826,297	204,659	9,440	305,674,521
11. To re-appoint Deloitte LLP as Auditor	298,478,916	3,232,484	196,938	3,766,183	305,674,521
12. To determine the Auditor's remuneration	303,467,943	1,977,843	214,718	14,017	305,674,521
13. General power to allot shares	301,696,251	1,564,619	215,194	2,198,457	305,674,521
14. General power to disapply pre-emption rights	305,163,824	241,603	214,114	54,980	305,674,521
15. To purchase the Company's own shares	305,283,147	169,063	214,114	8,197	305,674,521
16. To retain 14 day notice period	292,101,407	13,325,385	216,180	31,549	305,674,521

Audit Committee report

David Best
Non-executive Director

Members
The Audit Committee consists entirely of non-executive Directors.

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 UK Corporate Governance Code to chair the Committee. Two members constitute a quorum for the Committee.

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

- the principles of, contents of, and developments in financial reporting, including the applicable accounting standards and statements of recommended practice;
- the key aspects of the Group's operations, including corporate policies, Group financing, products and systems of internal control;
- the matters that could 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.

The Audit Committee's Terms of Reference may be found on the Company's website.

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, for it to put to the Company's shareholders for approval, 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 the award of work of a material nature to be 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;
- monitoring the integrity of the half-year and annual Financial Statements and formal Company announcements, and reviewing significant financial reporting judgements contained within them, before their submission 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 activities and management's response; ensuring co-ordination between the Head of Internal Audit 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 financial controls and the external auditor's management letter and management's response;
- reviewing the effectiveness of the Group's internal control and risk management systems 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;
- reviewing the Group's Whistle-blowing Policy, to ensure that there are in place appropriate procedures for employees to raise, in confidence, any concerns that they may have concerning suspected malpractice, illegal acts, omissions or other unethical corporate conduct, relating to financial or other matters; and ensuring that arrangements are in place for investigation of such matters and follow-up action; 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 which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken.

Meetings
The Audit Committee normally invites the non-executive Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller, Head of Internal Audit, and senior representatives of the external audit firm to attend all of its meetings, although it reserves the right to request any of these individuals to withdraw from any meeting. The Audit Committee also holds separate discussions with the Head of Internal Audit and the external auditor without the presence of executive management.

External audit
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 that its recommendations are implemented, where appropriate. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditor. In 2012, £0.5m (2011 – £0.4m) was paid in fees to the external auditor for non-audit work; these fees related to tax compliance and tax advice and for corporate finance services in 2012 for services provided in respect of potential acquisitions. The Committee considered it was beneficial for the Company to retain Deloitte LLP for this work because of its expertise in this area and knowledge of the Group. However, the Committee will continue to closely monitor the nature and level of such non-audit work, in order to balance the maintenance of objectivity and value for money.

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

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

- a report from the external auditor describing the arrangements that had been made to identify, report and manage any conflicts of interest and to maintain their independence;
- the overall extent of non-audit services provided by the external auditor; and
- the FRC's Audit Inspection Unit public report on Deloitte LLP.

The Audit Committee is satisfied with the effectiveness and independence of the external auditor. As a consequence of its satisfaction with the results of the activities of the external auditor, the Audit Committee has recommended to the Board that Deloitte LLP is re-appointed in 2013.

Internal audit
Audit Committee and the 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 Group internal audit function. In 2012, the Audit Committee:

- considered and approved the remit of the internal audit function, and its resources;
- ensured that the Head of Internal Audit continued to have adequate standing, free from management or other restrictions;
- ensured that the Head of Internal Audit had appropriate access to information and people to enable him to perform effectively and in accordance with the relevant professional standards;
- monitored and reviewed the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- reviewed and approved the annual internal audit plan for 2012 and 2013;
- 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 2011, and the Interim Report 2012, 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 2011 and the work carried out on the Interim Report 2012;
- reviewed the effectiveness of the Group's risk management and internal control systems and disclosures made in the Annual Report 2011;
- reviewed and agreed the going concern basis to be adopted for the 2011 Financial Statements;
- assessed the effectiveness of the 2011 audit;
- reviewed and agreed the scope of the audit and client service plan to be undertaken by the external auditor for 2012;
- agreed the fees to be paid to the external auditor for the audit of the Financial Statements 2012 and the review of the Interim Report 2012, and the fees to be paid for any non-audit work;
- reviewed progress in implementation of revised 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;
- 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.

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 2013 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
22 February 2013

Remuneration report: letter to shareholders

Remuneration Committee Chairman's statement

Dear shareholder

The past 12 months has seen another robust performance by your Company against a background of mixed markets. The civil aerospace industry has continued its strong growth pattern but the markets for land vehicles have been more challenging, particularly for passenger vehicles in Western Europe. Certain global industrial markets contributed positively to the year's performance.

Against this backdrop, it has been a quiet year for the Remuneration Committee with no major decisions required or significant changes made in remuneration policy. However, the Committee has taken account of the forthcoming changes to remuneration reporting announced by the UK Department for Business, Innovation and Skills and has sought to incorporate many of these early, in this year's Directors' remuneration report.

Furthermore, in preparation for next year's binding vote on remuneration policy, the Committee has decided to undertake a thorough review of its policy during 2013. It is a number of years since this has been done and, whilst it is not expected that there will be any significant changes from the current structure, it is appropriate to revisit this issue in the context of the Company's growth, future strategy and current practices amongst our peer group.

It remains the Committee's basic policy to provide executive and senior management remuneration packages which are competitive, but not market leading, by reference to market rates across an appropriate industrial grouping. The Committee is also aware of its responsibility to ensure that remuneration appropriately aligns executive and shareholder interests.

As regards 2013, salary increases for executives and senior management are in line with those awarded to the wider workforce.

Following a review of recent vestings and future Group prospects, the Committee has also decided to modify the metrics for this year's award under the Senior plc 2005 Long-Term Incentive Plan (the "LTIP"). The threshold for initial vesting will increase from RPI +3% p.a. to RPI +4% p.a. and the requirement for full vesting will rise from RPI +8% p.a. to RPI +10% p.a. The Committee is satisfied that the revised targets are no less challenging in the circumstances than the targets set for the initial awards made under the LTIP.

The Committee will report to shareholders next year on its review of policy and structure and will highlight any changes made as a consequence of that work, as well as putting the policy to the vote.

Ian Much
Chairman of the Remuneration Committee
22 February 2013

Summary of executive Directors' remuneration for 2012

In 2012, no changes were made to the remuneration policy.

Element	Purpose and link to strategy	Operation	Maximum	Performance targets
SALARY	• Reflects the performance of the individual, their skills and experience over time and the responsibilities of the role • Provides an appropriate level of basic fixed pay avoiding excessive risk arising from over-reliance on variable income	• Reviewed annually; next review due 1 January 2014 • Benchmarked periodically against companies with similar characteristics and sector companies • Annual increases take account of complexity of the role, market competitiveness, Group performance and the increases awarded to the wider workforce	• N/A	• N/A
BONUS	• Incentivises annual delivery of corporate financial goals • Delivery of a proportion in deferred shares provides alignment with shareholders and assists with retention	• Up to 70% of salary paid in cash with up to 35% of salary paid as a conditional award of deferred shares • Maximum bonus only payable for achieving demanding targets • Deferred shares are released three years after award but are subject to forfeiture by a "bad leaver" and are subject to clawback in certain circumstances, such as misstatement or gross misconduct	• 105% of salary	• Based on key financial objectives, namely, free cash flow (first half and full-year performance) and adjusted earnings per share (year-on-year growth and performance compared to budget)
LONG-TERM INCENTIVE PLAN ("LTIP")	• Encourages 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	• Annual grant of performance shares which vest after three years subject to performance	• 100% of salary	• Awards made since 2008 based on a mix of: – Relative Total Shareholder Return (50% of awards) – Group earnings growth targets (50% of awards) (2009 awards based entirely on relative TSR)

Summary of executive Directors' remuneration for 2012 continued

Element	Purpose and link to strategy	Operation	Maximum	Performance targets
PENSION	• Provides competitive retirement benefits • Final salary pension provision is a key differentiator in the marketplace and assists with recruitment and retention	• Executive Directors are members of the Group's UK final salary pension plan where their benefits accrue with respect to their capped pensionable salary • To the extent that their annual pension accrual is above the Government-imposed Annual Allowance, executive Directors receive a salary supplement equal to the pension benefit accrual foregone	• 2012/13 Plan year pensionable salary cap was £128,600 • Salary supplements in 2012 were: Mark Rollins £nil, Simon Nicholls £10,500	• N/A
OTHER BENEFITS	• Provides a competitive package of benefits that assists with recruitment and retention	• Benefits include provision of a fully expensed car or car allowance, private medical insurance, life insurance and income protection • UK and US employees, including the executive Directors, are eligible to participate in the Group's Sharesave Plan	• The Sharesave Plan has standard terms under which participants can normally enter a three-year savings contract. Up to £250 per month can be saved, in return for which they are granted options to acquire shares at the market value of the shares at the start of the three-year period	• N/A
SHARE OWNERSHIP GUIDELINES	• To provide alignment between executive Directors and shareholders	• Executive Directors are expected to retain at least 50% of shares acquired under the LTIP until they have acquired a shareholding of at least 100% of salary	• N/A	• N/A
NON-EXECUTIVE DIRECTORS AND CHAIRMAN FEES	• Takes account of recognised practice and set at a level that is sufficient to attract and retain high-calibre non-executives.	• Non-executive Directors are paid monthly • When reviewing fee levels account is taken of market movements in non-executive director fees, Board Committee responsibilities, ongoing time commitments and the general economic environment	• Other than when a non-executive Director changes role or where benchmarking indicates fees require realignment, fee increases will not exceed the general level of increases for the Group's employees	• N/A

Directors' remuneration report

Ian Much
Non-executive Director

Members
The Remuneration Committee consists entirely of non-executive Directors.

Other attendees at Remuneration Committee meetings
The Group Chief Executive attends meetings by invitation and the Group Company Secretary acts as secretary to the Committee but no executive Director or other employee is present during discussions relating to their own remuneration.

Advisers
All advisers to the Remuneration Committee are appointed and instructed by the Committee. During the year, the Committee was advised by New Bridge Street (an Aon Hewitt company, part of Aon plc) and Lane Clark & Peacock ("LCP") 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 LCP is appointed by the Trustee of the Senior plc Pension Plan to act as the Plan's Actuary and Investment Adviser. During 2012, the Company incurred fees of £18,692 from New Bridge Street and £24,030 from LCP.

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 Company.

Remuneration policy statement

Introduction
The Directors present their remuneration report for the year ended 31 December 2012 in accordance with Regulation 11 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the 2008 Regulations") and the relevant provisions of the Listing Rules of the Financial Services Authority. The Report also describes how the Board has applied the principles of the UK Corporate Governance Code in relation to Directors' remuneration.

The 2008 Regulations require the external auditor to report to the Company's members on certain parts of the Directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the 2008 Regulations.

In preparing this year's report, the Committee has paid regard to the new reporting requirements announced by the Department for Business, Innovation and Skills ("BIS") that will come into force with effect from next year's Report & Accounts and has sought to adopt a number of the new requirements where it is practical to do so while still remaining compliant with the existing Regulations. This year's report consists of two sections:

- a remuneration policy section, which describes the Company's policy for the remuneration of executive and non-executive Directors for the coming year and which is not subject to audit; and
- an implementation section on pages 54 to 57, parts of which are subject to audit, which provides details of the Directors' emoluments, shareholdings, long-term incentive awards and pensions for the year ended 31 December 2012.

In accordance with the 2008 Regulations, a resolution inviting shareholders to approve this report will be put to the Annual General Meeting on 26 April 2013.

The Remuneration Committee and its advisers
The Remuneration Committee has been established by the Board and is responsible for executive remuneration. 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 200 other senior managers. The Terms of Reference of the Remuneration Committee, available in full on the Company's website, are summarised below:

Summary of the Committee's terms of reference
- determine and agree with the Board the framework or broad policy for the remuneration of the Chairman of the Board, the executive Directors and other members of the executive management as it is designated to consider;
- within the terms of the agreed policy and in consultation with the Chairman and/or Group Chief Executive, as appropriate, determine the total individual remuneration package of the Chairman, each executive Director, and other designated senior executives including bonuses, incentive payments and share options or other share awards;
- approve the design of, and determine targets for, any performance-related pay plans operated by the Company and approve the total annual payments made under such plans;

- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made and if so, the overall amount of such awards, the individual awards to executive Directors, and other designated senior executives and the performance targets to be used;
- determine the policy for, and scope of, pension arrangements for each executive Director and other designated senior executives;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is recognised; and
- oversee any major changes in employee benefits structures throughout the Group.

Remuneration policy section

General policy

In determining remuneration for 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. Performance-related elements of remuneration form a significant proportion of the total remuneration package of each executive Director, details of which are set out below. These performance-related elements, which take into account 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 that it is fully aware of comparative external remuneration practice as well as legislative and regulatory developments. The Committee also considers publicly available sources of information relating to executive remuneration.

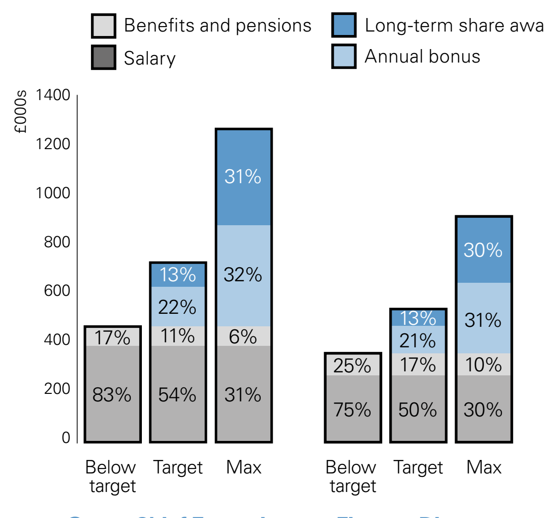
There are five main elements of the remuneration package for executive Directors and senior management:

- base salary;
- benefits;
- pension arrangements;
- annual bonus; and
- long-term incentives.

The Company also operates share ownership guidelines for its executive Directors. These are described in further detail on page 46.

Remuneration scenarios for executive Directors

The chart below shows how the composition of each of the executive Directors' remuneration packages varies at different levels of performance under the General policy set out above.



[1] For the annual bonus the target and maximum vesting is 41.25% and 105% of salary respectively.

[2] For performance share awards the target and maximum vesting is 25% and 100% of salary respectively.

How employees' pay is taken into account

The Committee is also responsible for reviewing the salaries of more than 200 senior managers and therefore is fully cognisant of pay levels throughout the Group when determining the pay of the executive Directors.

In addition, the Committee's policy is that salary increases for the executive Directors and senior executives should not normally be greater than the general level of increases awarded to other employees in the Group other than when an executive changes role or when it is necessary in order to ensure levels of remuneration remain market competitive. Increases for the general workforce for 2013 are approximately 3%.

Summary of the main elements of pay in 2013 for each executive Director

	Mark Rollins	Simon Nicholls
Base salary as at 1 January 2013[1]	£400,000	£278,000
Base salary as at 1 January 2012[2]	£390,000	£270,000
Percentage increase in salary	3.0%	3.0%
Pension	Final salary pension accrual up to cap of £131,165 (for the 12 months from April 2013) plus cash pension allowance on value of contributions in excess of the HMRC Annual Allowance	
On-target bonus (% of salary)	41.25%	41.25%
Maximum bonus (% of salary)	105%	105%
LTIP award (% of salary)	100%	100%
Shareholding guidelines – target (% of salary)	100%	100%
Contract	12 months	12 months

[1] Mark Rollins' 2013 base salary is £453,000 although he has elected to waive £53,000 of his salary and therefore will receive a salary of £400,000. His bonus will be based on salary before waiver.

[2] Mark Rollins' 2012 base salary was £440,000 although he elected to waive £50,000 of his salary and therefore received a salary of £390,000. His bonus was based on salary before waiver.

Mark Rollins originally waived part of his salary increase in 2011 so that his percentage increase was broadly in line with the average percentage increase awarded to Group employees.

How executive Directors' remuneration policy relates to the wider group

The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Company. Lower aggregate incentive quantum operates at below executive level with levels driven by market comparatives and the impact of the role.

Employees are provided with a competitive package of benefits that includes participation in the Group's occupational pension arrangements, provision of a fully expensed car or car allowance, private medical insurance, life insurance and income protection.

The majority of Senior's managers are eligible to participate in annual bonus arrangements with targets linked to challenging targets tied to the performance of their employing entity and Division and their personal performance.

Long-term incentives are provided to the most senior executives and those anticipated as having the greatest potential to influence performance levels within the Company. However, in order to encourage wider employee share ownership, the Company operates a Sharesave Plan in which UK and US employees, including executive Directors, have participated. During 2013, the Sharesave Plan is also to be offered to employees in other territories so that a greater proportion of the Group's employees may participate.

Relative importance of spend on pay

The following chart sets out the percentage change in profit, dividends and overall spend on pay in the financial year ended 31 December 2012 compared to the financial year ended 31 December 2011.

	2012/13 £m	2011/12 £m	Percentage change
Profit after tax	69.9	55.0	27.1
Dividends	16.4	13.1	25.2
Employee remuneration costs	209.0	192.7	8.5

How shareholders' views are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. Shareholders' views were key inputs when shaping the remuneration policy.

In addition, the Committee consults with its major shareholders prior to making significant changes to its policy. The last such consultation took place in January 2011.

Planned application of the policy for 2013

Base salary and benefits

The executive Directors' base salaries are reviewed annually by the Committee, and adjustments made, if appropriate, to take into account the pay practice of other companies and the performance of that Director.

Benefits consist of a fully expensed company car or car allowance and private medical insurance.

Pension

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, and are based upon their restricted pensionable salaries for the 2012/13 Plan year of £128,600 (2011/12 – £126,000). Mark Rollins and Simon Nicholls both contribute 9% of their restricted pensionable salary.

The executive Directors continue to be members of the Plan 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 executive Directors have, since 6 April 2011, received a salary supplement equal to the pension benefit accrual foregone. In 2012, Mark Rollins received no salary supplement and Simon Nicholls received a salary supplement of £10,500.

If the executive Directors and other senior UK managers do not wish to continue in 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; there is a choice of contribution rates for executive Directors, namely: 3% employee, 15% employer; or 5% employee, 20% employer. 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.

Annual bonus

The Committee's policy is for performance-related pay to be a significant proportion of the total pay package. The annual performance-related bonus scheme provides for a maximum bonus potential of 105% of salary of which 70% would be payable in cash and 35% would be payable in deferred shares. The deferred share bonus scheme (the "Enhanced SMIS"), introduced in 2011, requires that 35% of the award is earned in shares and released three years after the award. The deferred shares are subject to forfeiture by a "bad leaver" over that deferral period. Provisions also enable the Company to claw back an element of the Enhanced SMIS bonus in certain circumstances such as misstatement or misconduct.

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 annual performance-related bonus scheme to focus on these two elements. The approximate weightings given to each target in 2012 were cash flow 36% and EPS 64%. Details of actual performance against the targets, and therefore the bonuses paid in respect of 2012, are set out in the implementation section on pages 54 to 57.

The bonus structure and weighting of performance measures will remain unchanged for 2013.

Long-term incentives

All executive Directors are eligible to participate in the LTIP. The Remuneration Committee considers that the 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 with a market value of up to 100% of annual salary can be made to executive Directors and other senior managers. Awards over shares with a market value of up to 100% of salary will again be made in 2013. An award with a market value of up to 200% of salary in the case of recruitment can be made, although no greater than 100% has been awarded in such circumstances to date.

The awards made to the executive Directors in 2012 under the LTIP were 100% of salary. The awards are conditional allocations, where the executives will receive free ordinary shares in the Company automatically on the vesting of their award. Awards will normally vest on, or shortly following, the third anniversary of grant, once the Committee has determined the extent to which the applicable performance conditions (see below) have been satisfied, and provided that the participant is still employed within the Group.

All LTIP awards, except the award made in 2009, have two performance conditions: Total Shareholder Return ("TSR") performance (50% weighting) and Earnings Per Share ("EPS") growth (50% weighting). 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. The award made in 2009 was conditional on TSR performance alone.

For the EPS-based element of the award, the Remuneration Committee calculates the EPS growth using the audited adjusted EPS for the third financial year of the LTIP performance period. New Bridge Street advises the Remuneration Committee to the extent that the TSR-based element of the award has been achieved.

The performance scale for the vesting of the LTIP awards is as follows:

Vesting percentage	Ranking of Company's TSR against comparator group of companies	EPS performance
0%	Below median	Below threshold
25%	Median	Threshold
100%	Upper quintile (top 20%)	Stretch
Pro rata on a straight-line basis between 25% and 100%	Between median and upper quintile	Between threshold and stretch

TSR performance condition

The TSR comparator group applicable to LTIP awards consists of manufacturing companies within the following FTSE All Share sectors: Aerospace & Defence; Automobiles & Parts; Electronic & Electrical Equipment; and Industrial Engineering. The constituent comparator companies for each year of award from 2009 are set out in the table below:

2009 and 2010	2011	2012	2013 (proposed)
BAe Systems	BAe Systems	Avon Rubber	Avon Rubber
Bodycote	Bodycote	BAe Systems	BAe Systems
Castings	Castings	Bodycote	Bodycote
Charter International	Charter International	Chemring Group	Chemring Group
Chemring Group	Chemring Group	Cobham	Cobham
Chloride Group	Cobham	Dialight	Dialight
Cobham	Domino Printing Sciences	Domino Printing Sciences	Domino Printing Sciences
Domino Printing Sciences	e2v technologies	e2v technologies	e2v technologies
e2v technologies	Fenner	Fenner	Fenner
Fenner	GKN	GKN	GKN
GKN	Halma	Halma	Halma
Halma	Hampson Inds.	Hill & Smith	Hill & Smith
Hampson Inds.	Hill & Smith	IMI	IMI
Hill & Smith	IMI	Meggitt	Meggitt
IMI	Invensys	Melrose	Melrose
Invensys	Laird	Morgan Crucible	Morgan Crucible
Laird Group	Meggitt	Oxford Instruments	Oxford Instruments
Manganese Bronze Hdg.	Melrose	Qinetiq Group	Qinetiq Group
Meggitt	Morgan Crucible	Renishaw	Renishaw
Melrose	Oxford Instruments	Rolls-Royce Group	Rolls-Royce Group
Morgan Crucible	PV Crystalox Solar	Rotork	Rotork
Oxford Instruments	Qinetiq Group	Senior	Senior
PV Crystalox Solar	Renishaw	Severfield-Rowen	Severfield-Rowen
Qinetiq Group	Rolls-Royce Group	Spectris	Spectris
Raymarine	Rotork	Spirax-Sarco	Spirax-Sarco
Renishaw	Senior	TT Electronics	TT Electronics
Rolls-Royce Group	Severfield-Rowen	Ultra Electronics	Ultra Electronics
Rotork	Spectris	Umeco	Vitec Group
Senior	Spirax-Sarco	Vitec Group	Volex
Severfield-Rowen	TT Electronics	Volex	Weir Group
Spectris	Ultra Electronics	Weir Group	Xaar
Spirax-Sarco	Umeco	Xaar	XP Power
TT Electronics	Vitec Group	XP Power	
Ultra Electronics	Weir Group		
Umeco	Xaar		
Vitec Group			
VT Group			
Weir Group			
Xaar			

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 since 2005 have been, or will be, determined on the following basis:

	2005–2008	2009	2010	2011–2012	2013
	Company's average annual adjusted EPS performance in excess of RPI	100% TSR	Growth in Company's adjusted EPS over three-year performance period	Company's average annual adjusted EPS performance in excess of RPI	Company's average annual adjusted EPS performance in excess of RPI
Below threshold	Less than 5% p.a.	N/A	Less than 10%	Less than 3% p.a.	Less than 4% p.a.
Threshold	5% p.a.	N/A	10%	3% p.a.	4%
Stretch	12% p.a.	N/A	25%	8% p.a.	10% p.a.
Between threshold and stretch	Between 5% and 12% p.a.	N/A	Between 10% and 25%	Between 3% and 8% p.a.	Between 4% and 10% p.a.

The performance condition for awards which will be made in 2013 will again be based on growth in EPS (50% weighting) and relative TSR measured against a peer group (50% weighting) and will have the same performance scale as for 2012 as set out in the table on page 50.

Shareholding guidelines

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 that vest under the LTIP, after allowing for tax liabilities, until a shareholding equivalent in value to 100% of base salary is built up. Based on the Company's closing share price on 31 December 2012 of 199.6p and the executive Directors' 2012 base salaries, Mark Rollins had a holding of 329% of base salary and Simon Nicholls had a holding of 125% of base salary.

Other schemes

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. The Sharesave Plan has standard terms and there are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs ("HMRC") rules for savings-related share option plans.

Dilution

The Company complies with the dilution guidelines contained within "Executive Remuneration – ABI Guidelines on Policies and Practices". At 31 December 2012, awards outstanding and shares issued in the previous 10 years under all share plans (the 1999 Executive Share Option ("the 1999 Plan"), the Senior plc 2005 Long-Term Incentive Plan ("the LTIP") and the 2006 Savings-Related Share Option Plan (the "Sharesave Plan")) amounted to 7.02% of the issued ordinary share capital of the Company. At 31 December 2012, awards outstanding and shares issued in the previous 10 years under executive (discretionary) plans (the 1999 Plan and the LTIP) amounted to 4.51% of the issued ordinary share capital of the Company.

Typically, share awards are satisfied by the issue of new shares, except for the Enhanced SMIS deferred bonus share award where market purchased shares are used. 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.

Service contracts and policy on exit

The table below summarises the key provisions of each executive Director's contract:

Provision	Detailed terms
Contract dates	Mark Rollins – 9 November 2007 Simon Nicholls – 1 April 2008
Notice period	12 months from both the Company and the executive Director
Termination payment	Contracts may be terminated without notice by the payment of a sum equal to the sum of salary due for the unexpired notice period, plus a performance-related bonus calculated pro rata to the termination date, and the value of pension contributions and other benefits such as use of company car, life cover and private healthcare There are no provisions in the agreements, or otherwise, for additional termination payments Payments may be made in monthly instalments and, in these circumstances, there is a requirement for the Director to mitigate loss
Remuneration entitlements	Mark Rollins' contract contains the following remuneration-related entitlements: • Salary of £320,000 or such other rate agreed between the Company and the executive Director. The Director's salary shall be reviewed (but there is no obligation for it to be increased) at least once every 12 months. Mark Rollins' salary for 2013 is £453,000 although he has elected to waive £53,000 of his salary and therefore will receive a salary of £400,000 • Provision of a fully expensed company car • 4x salary life cover • Private healthcare • Membership of the Main Board section of the Senior plc Pension Plan • Membership of the Group Income Protection Insurance scheme • Participation in an annual bonus on such terms as determined by the Board Simon Nicholls contract contains the following remuneration related entitlements: • Salary of £220,000 or such other rate agreed between the Company and the executive Director. The Director's salary shall be reviewed (but there is no obligation for it to be increased) at least once every 12 months. Simon Nicholls' salary for 2013 is £278,000 • Provision of a fully expensed company car or annual car allowance • 4x salary life cover • Private healthcare • Membership of the Main Board section of the Senior plc Pension Plan • Membership of the Group Income Protection Insurance scheme • Participation in an annual bonus on such terms as determined by the Board Simon Nicholls is stepping down from the Board after the Annual General Meeting in April 2013 to take up a position with another listed company. He will receive payment of his bonus relating to the 2012 financial year and his 2010 LTIP award shall also vest upon its third anniversary in March 2013. All subsequent LTIP awards are to lapse upon resignation and no additional bonus or deferred bonus payments shall be payable

Non-executive Directors

The non-executive Directors do not have service agreements with the Company. Charles Berry, who replaced Martin Clark as Chairman, was appointed to the Board with effect from 1 March 2012. The Chairman's appointment may be terminated on providing 12 months' notice by either party. The appointments of the other non-executive Directors may be terminated by the Company or non-executive Director on providing one month's notice.

Name	Date of original term commenced	Date current term commenced	Expected expiry date of current term
Charles Berry (Chairman)	Joined the Board (1 March 2012) and became Chairman (27 April 2012)	–	–
David Best	May 2007	December 2012[1]	April 2014
Andy Hamment	April 2011		April 2014
Ian Much	December 2005	December 2012[2]	December 2013
Mark E. Vernon	April 2011		April 2014

[1] In December 2012, the appointments of Ian Much and David Best were extended for a further 12 months to December 2013 and April 2014, respectively to provide continuity and support for the incoming Group Finance Director.

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. Annual fee levels for the non-executive Directors are as follows:

Non-executive Director	2013 £	2012 £	Increase
Charles Berry (Chairman)	144,000	140,000	2.9%
David Best	53,400	51,700	3.3%
Andy Hamment	40,400	39,250	2.9%
Ian Much	48,650	47,000	3.5%
Mark E. Vernon	40,400	39,250	2.9%

For 2013, the non-executive Directors' basic annual fee is £40,400 (2012 – £39,250). In addition, Ian Much receives an additional £5,500 (2012 – £5,250) for chairing the Remuneration Committee and £2,750 (2012 – £2,500) for his role as Senior Independent Director, and David Best receives an additional £7,500 (2012 – £7,250) for chairing the Trustee Board of the Senior plc Pension Plan and £5,500 (2012 – £5,250) for chairing the Audit Committee.

No additional fees were payable for Committee membership.

Implementation section

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 performance graph.

Shareholder voting at AGM

At last year's AGM, 27 April 2012, the Directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of Total votes cast
For	285,373,009	93.36
Against	5,709,128	1.87
Votes cast (for and against)	291,082,137	95.23
Discretionary	227,931	0.07
Votes withheld[1]	14,364,453	4.70
Total votes cast (including withheld and discretionary votes)	305,674,521	100.00

[1] A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'For' and 'Against' a resolution.

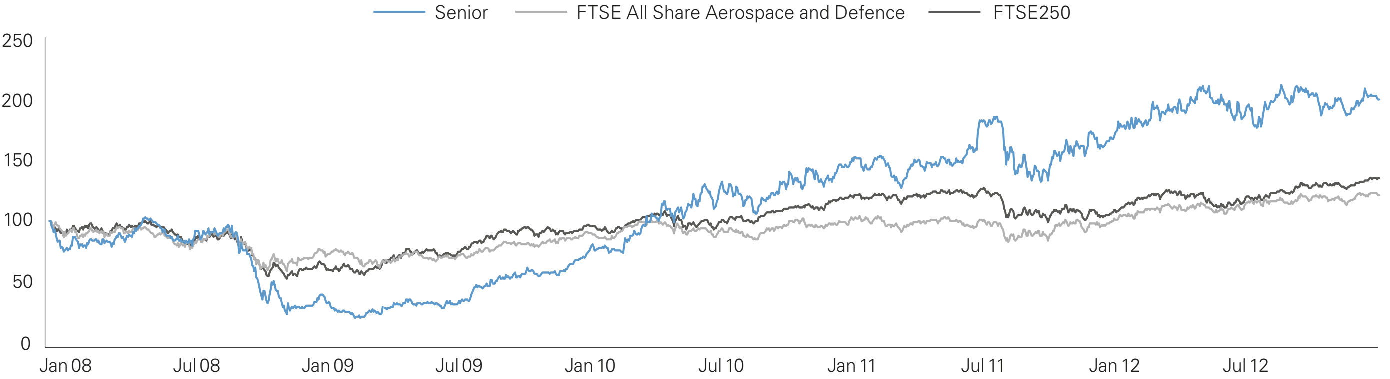
Performance graph

Share price performance

The closing middle market price of the shares at 31 December 2012 was 199.6p (2011 – 171.0p). During 2012, the shares traded in the range of 171.0p to 213.0p.

Senior plc Total Shareholder Return

The following graph compares the Total Shareholder Return of the Company's shares against the FTSE All-Share, Aerospace & Defence index, and the FTSE250 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' emoluments

	Salaries and fees £000s	Bonus (cash and shares)[3] £000s	Cash in lieu of pension[4] £000s	Taxable benefits and allowances £000s	**Total 2012 £000s**	Total 2011 £000s
Executives						
Mark Rollins[1]	390	283	0	18	**691**	690
Simon Nicholls	270	174	12	13	**469**	465
Non-executives						
Charles Berry (Chairman) (from 1 March 2012)	117	–	–	2	**119**	–
David Best	52	–	–	–	**52**	50
Martin Clark (to 27 April 2012)	42	–	–	–	**42**	106
Andy Hamment[2]	39	–	–	–	**39**	26
Ian Much	47	–	–	–	**47**	44
Mark E. Vernon[2]	39	–	–	1	**40**	26
Total remuneration[3]	996	457	12	34	1,499	1,407

[1] Mark Rollins chose to waive £50,000 of his awarded 2012 salary of £440,000, so receiving £390,000. His bonus was based on his salary before the waiver.
[2] Andy Hamment and Mark E. Vernon's 2011 totals reflect their joining part way through the year, 29 April 2011.
[3] Awards under the Enhanced SMIS in respect of 2012 performance will be granted in March 2013 (see page 56). Awards granted in 2011, the first made under the Enhanced SMIS, are shown on page 57. The deferred shares to be granted to Mark Rollins and Simon Nicholls in March 2013 will be equivalent in value to 32.15% of 2012 base salary, namely £141,460 and £86,805 respectively.
[4] A salary supplement equivalent to the pension accrual foregone that is in excess of the Annual Allowance.

Senior managers' emoluments

In addition to setting the remuneration of the executive Directors, the Remuneration Committee oversees the remuneration of more than 200 other senior managers. The table below shows the cumulative benefits of the six Divisional Directors and the four most senior corporate managers.

	2012 Total £000s	2011 Total £000s
Short-term employee benefits	**2,581**	2,543
Post-employment benefits	**182**	166
Share-based payments	**826**	467
Total	**3,589**	3,176

Details of variable pay earned in the year

Annual bonus plans

The Committee's policy is for performance-related pay to be a significant proportion of the total pay package. For the executive Directors, there is a bonus potential of up to 105% of salary, consisting of a cash bonus of up to 70% of salary together with a deferred share bonus (the "Enhanced SMIS") worth up to 35% of salary. Any shares earned will be released three years after the award and are subject to forfeiture by a "bad leaver" over that deferral period. Provisions also enable the Company to claw back an element of the Enhanced SMIS bonus in certain circumstances such as misstatement or misconduct.

Consistent with recent years, the 2012 bonus has been determined by earnings per share and cash flow performance as set out in the table on page 56. Maximum payouts under each measure require at least 20% outperformance of the target or prior year benchmark.

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 annual performance-related bonus scheme to focus on these two elements. The 2012 scheme provided a maximum bonus potential of 105% of salary (2011 – 105%), of which 70% would be payable in cash and 35% would be payable in deferred shares. The 2012 bonus award for the executive Directors delivered a bonus of 96.45% of salary (2011 – 104.7%), of which 64.3% of salary was payable in cash (2011 – 69.8% of salary) and 32.15% of salary was paid in deferred shares (2011 – 34.9%) as the Group exceeded both the interim and full-year maximum cash flow targets – interim: £12.91m, full-year: £48.25m. The Group exceeded the maximum adjusted earnings per share year-on-year growth target of 20% but did not reach its maximum adjusted earnings per share internal target of 19.60 pence.

A summary of the measures, weightings, targets and performance achieved in 2011 and 2012 is provided in the table below.

	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
2012 bonus to be paid	**10.0**	**15.0**	**14.3**	**25.0**	**64.3**
2011 bonus to be paid	10.0	15.0	19.8	25.0	69.8
Enhanced SMIS – maximum share award	5.0	7.5	10.0	12.5	35.0
2012 share award earned	**5.0**	**7.5**	**7.15**	**12.5**	**32.15**
2011 share award earned	5.0	7.5	9.9	12.5	34.9

Long-term incentives

Details of Long-Term Incentive Plan awards outstanding

Awards made to executive Directors under the LTIP are shown in the table below:

	Number of shares under award									
	Date of award	At 31 Dec 2011	Awarded during the year	Lapsed during the year	Vested during the year	Market price on vesting	Gains on vesting 2012	**At 31 Dec 2012**	Date of vesting	Share price on date of award (p)
Mark Rollins	12.03.09	491,228	–	–	491,228	190.2p	£934,512	**–**	March 2012	28.50
	15.03.10	275,590	–	–	–	–	–	**275,590**	March 2013	95.25
	18.03.11	314,814	–	–	–	–	–	**314,814**	March 2014	135.00
	26.03.12	–	224,833	–	–	–	–	**224,833**	March 2015	195.70
Simon Nicholls	12.03.09	322,807	–	–	322,807	190.2p	£614,108	**–**	March 2012	28.50
	15.03.10	181,102	–	–	–	–	–	**181,102**	March 2013	95.25
	18.03.11	192,592	–	–	–	–	–	**192,592**	March 2014	135.00
	26.03.12	–	137,966	–	–	–	–	**137,966**	March 2015	195.70

The performance condition attaching to the 2009 LTIP award was 100% based on the Company's relative TSR performance compared to a group of 35 other listed companies. Full vesting of the LTIP would be achieved if the Company delivered upper quintile (top 20%) TSR performance during the LTIP performance period. During the three-year performance period, the Company achieved a TSR performance of 311.9%. The comparator group's top quintile TSR performance was 227.2%; therefore, the 2009 LTIP vested in full.

Participation in the LTIP is at the discretion of the Remuneration Committee and currently includes the executive Directors and senior managers. The following LTIP awards were made during the year:

Date of award	Total number of shares awarded	Number of participants receiving awards
26 March 2012	1,721,305	35

Sharesave Plan

Awards under the Senior plc Sharesave Plan

	Date of grant	At 31.12.11	Granted 2012	Exercised 2012	Date of exercise/ vesting	Market price on exercise 2012	Gains on exercise 2012	Forfeited 2012	Lapsed 2012	At 31.12.12	Exercise period/ maturity date	Option price pence	Estimated gain at 31.12.12
Simon Nicholls	08.04.09	27,376	–	27,376	30.07.12	194.2p	£46,320	–	–	–	6 months to 31.12.12	25.00p	–

Deferred shares

Awards under the Enhanced SMIS

The Enhanced SMIS is a deferred bonus share award that was introduced in 2011 and provides shares up to 35% of base salary to a small number of key executives. Shares equivalent in value to 32.15% of base salary are to be awarded to the executive Directors in March 2013 relating to the 2012 Enhanced SMIS and will vest on the third anniversary of the award. The value of these shares is included in the bonus figures for 2012 in the Directors' emoluments table on page 55.

Details of awards of deferred shares made in 2012 to the executive Directors under the annual performance-related bonus plan are set out below. The values of these shares are included in the total remuneration figures for 2011 in the Directors' emoluments table.

	Number of deferred shares under award						
	At 31 Dec 2011	Awarded during the year	Lapsed during the year	Vested during the year	**At 31 Dec 2012**	Date of vesting	Share price on date of vesting (p)
Mark Rollins	–	76,064	–	–	**76,064**	29.03.2015	–
Simon Nicholls	–	46,533	–	–	**46,533**	29.03.2015	–

Loss of office payments

During the year, no loss of office payments were made.

Directors' pension entitlements

	Gross increase in accrued pension (A) £000s	Increase in accrued pension net of inflation (B) £000s	**Total accrued pension at 31.12.12 (C) £000s**	Value of net increase in accrual over period (D) £000s	Change in transfer value during period (E) £000s	**Transfer value of accrued pension at 31.12.12 (F) £000s**	Transfer value of accrued pension at 31.12.11 (G) £000s
Mark Rollins	5	3	**50**	44	117	**846**	718
Simon Nicholls	4	3	**19**	42	68	**290**	210
Total	**9**	**6**	**69**	**86**	**185**	**1,136**	**928**

(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 2012.
(2) The gross increase in accrued pension during the year (A) includes an increase for inflation; the net increase in accrued pension (B) excludes any such increase.
(3) The transfer values as at 31 December 2011 and 31 December 2012 have been calculated in accordance with the assumptions used by the Plan Trustee to calculate cash equivalent values at the relevant date.
(4) Any additional voluntary contributions paid by the executive Directors and the resulting benefits are not shown.
(5) The value of net increase (D) represents the incremental value to the executive 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 executive Director's contribution.
(6) The change in the transfer value (E) is quoted after deducting the executive Director's contribution.
(7) Transfer values are rounded to the thousand pounds.

Directors' shareholdings

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 that vest under the LTIP, after allowing for tax liabilities, until a shareholding equivalent in value to 100% of base salary is built up.

	Legally owned (No. of shares)		Unvested LTIP awards								
Executive Directors	31.12.12	31.12.11	2010 award	2011 award	**2012 award**	Total	Unvested share options	Unvested deferred shares	Total at 31.12.12	% of 2012 Salary held in shares under shareholding guideline[1]	Guideline met?
Mark Rollins	700,000	650,000	275,590	314,814	**224,833**	815,237		76,064	891,301	329%	Yes
Simon Nicholls[1]	169,376	64,000	181,102	192,592	**137,966**	511,660		46,533	558,193	125%	Yes
Non-executives											
Charles Berry	10,000	–									
David Best	40,195	40,195									
Andy Hamment	19,788	19,788									
Ian Much	20,000	20,000									
Mark E. Vernon	10,000	10,000									

(1) Simon Nicholls is stepping down from the Board after the Annual General Meeting in April 2013 to take up a position with another company. His 2010 LTIP award shall vest upon its third anniversary in March 2013. The 2011 and 2012 unvested LTIP awards and unvested deferred shares are to lapse upon resignation.

Approval of the Directors' remuneration report

The Directors' remuneration report was approved by the Board on 22 February 2013.

Signed on behalf of the Board

I F R 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 Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company Financial Statements under IFRS as adopted by the EU. 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, International Accounting Standard 1 requires that Directors:

- 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 adequate 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.

Responsibility statement
We confirm that to the best of our knowledge:

- 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
- 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
22 February 2013

Simon Nicholls
Group Finance Director
22 February 2013

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 2012 which comprise the Consolidated Income Statement, the Consolidated 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 40. 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 Statement of Directors' Responsibilities, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 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 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Gregory Culshaw ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
22 February 2013

Consolidated income statement

For the year ended 31 December 2012

	Notes	**Year ended 2012 £m**	Year ended 2011 £m
Continuing operations			
Revenue	3	**712.0**	622.3
Trading profit	5	**93.9**	82.3
Loss on sale of fixed assets		**(0.1)**	(0.3)
Share of joint venture loss		**(0.1)**	–
Operating profit[1]		**93.7**	82.0
Investment income	7	**0.3**	0.3
Finance costs	8	**(10.6)**	(10.6)
Profit before tax[2]		**83.4**	71.7
Tax	10	**(16.8)**	(17.7)
Profit for the period from continuing operations		**66.6**	54.0
Discontinued operations			
Operating profit	34	**0.8**	1.0
Profit on disposal	34	**2.5**	–
Profit for the period from discontinued operations	34	**3.3**	1.0
Profit for the period	5	**69.9**	55.0
Attributable to:			
Equity holders of the parent		**69.9**	55.0
Earnings per share			
From continuing and discontinued operations			
Basic[3]	12	**17.11p**	13.68p
Diluted[4]	12	**16.69p**	13.21p
From continuing operations			
Basic	12	**16.30p**	13.43p
Diluted	12	**15.90p**	12.97p
[1] Adjusted operating profit	9	**101.4**	88.3
[2] Adjusted profit before tax	9	**91.1**	78.0
[3] Adjusted earnings per share	12	**17.75p**	14.55p
[4] Adjusted and diluted earnings per share	12	**17.31p**	14.05p

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Year ended 2012 £m	Year ended 2011 £m
Profit for the period	**69.9**	55.0
Other comprehensive income:		
Gains/(losses) on cash flow hedges during the period	**1.2**	(2.3)
Reclassification adjustments for losses included in profit or loss	**0.8**	0.2
Gains/(losses) on cash flow hedges	**2.0**	(2.1)
Gains on revaluation of financial instruments	**–**	0.1
Exchange differences on translation of foreign operations	**(11.1)**	(1.4)
Actuarial losses on defined benefit pension schemes	**(12.3)**	(1.8)
Other comprehensive expense	**(21.4)**	(5.2)
Tax relating to components of other comprehensive income	**2.6**	8.8
Other comprehensive (expense)/income for the period, net of tax	**(18.8)**	3.6
Total comprehensive income for the period	**51.1**	58.6
Attributable to:		
Equity holders of the parent	**51.1**	58.6

Balance sheets

As at 31 December 2012

	Notes	Group Year ended 2012 £m	Group Year ended 2011 £m	Company Year ended 2012 £m	Company Year ended 2011 £m
Non-current assets					
Goodwill	13	**220.1**	209.9	**–**	–
Other intangible assets	14	**18.7**	16.9	**0.2**	0.2
Investments in subsidiaries	15	**–**	–	**251.8**	251.8
Investment in joint venture	16	**0.8**	–	**–**	–
Property, plant and equipment	17	**134.8**	126.4	**0.2**	0.2
Deferred tax assets	23	**12.5**	9.0	**–**	–
Trade and other receivables	20	**0.5**	0.7	**4.7**	4.7
Total non-current assets		**387.4**	362.9	**256.9**	256.9
Current assets					
Inventories	18	**91.2**	90.3	**–**	–
Construction contracts	19	**–**	1.0	**–**	–
Trade and other receivables	20	**101.2**	105.8	**139.0**	126.6
Cash and cash equivalents	35c	**44.5**	29.3	**2.3**	1.3
Total current assets		**236.9**	226.4	**141.3**	127.9
Total assets		**624.3**	589.3	**398.2**	384.8
Current liabilities					
Trade and other payables	25	**122.4**	135.1	**120.0**	113.6
Current tax liabilities		**12.3**	9.2	**0.2**	0.2
Obligations under finance leases	24	**0.5**	0.6	**–**	–
Bank overdrafts and loans	21	**0.8**	1.0	**2.5**	0.4
Provisions	26	**6.1**	5.5	**–**	–
Total current liabilities		**142.1**	151.4	**122.7**	114.2
Non-current liabilities					
Trade and other payables	25	**–**	–	**–**	–
Bank and other loans	21	**113.6**	119.7	**113.5**	119.4
Retirement benefit obligations	37	**37.1**	34.5	**23.3**	25.3
Deferred tax liabilities	23	**17.6**	6.0	**–**	–
Obligations under finance leases	24	**0.5**	1.0	**–**	–
Others		**0.5**	0.4	**–**	–
Total non-current liabilities		**169.3**	161.6	**136.8**	144.7
Total liabilities		**311.4**	313.0	**259.5**	258.9
Net assets		**312.9**	276.3	**138.7**	125.9
Equity					
Issued share capital	27	**41.4**	40.2	**41.4**	40.2
Share premium account	28	**13.7**	12.3	**13.7**	12.3
Equity reserve	29	**3.8**	2.7	**3.8**	2.7
Hedging and translation reserve	30	**(4.6)**	4.5	**(0.3)**	(0.3)
Retained earnings	31	**259.6**	216.6	**81.1**	71.0
Own shares	32	**(1.0)**	–	**(1.0)**	–
Equity attributable to equity holders of the parent		**312.9**	276.3	**138.7**	125.9
Total equity		**312.9**	276.3	**138.7**	125.9

The Financial Statements of Senior plc (registered number 282772) were approved by the Board of Directors and authorised for issue on 22 February 2013. They were signed on its behalf by:

Charles Berry
Director

Simon Nicholls
Director

Statements of changes in equity

For the year ended 31 December 2012

a) Group

	All equity is attributable to equity holders of the parent						
	Issued share capital £m	Share premium account £m	Equity reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1 January 2011	40.1	12.3	2.2	6.2	165.1	–	225.9
Profit for the year 2011	–	–	–	–	55.0	–	55.0
Losses on cash flow hedges	–	–	–	(2.1)	–	–	(2.1)
Gains on revaluation of financial instruments	–	–	–	0.1	–	–	0.1
Exchange differences on translation of foreign operations	–	–	–	(1.4)	–	–	(1.4)
Actuarial losses on defined benefit pension schemes	–	–	–	–	(1.8)	–	(1.8)
Tax relating to components of other comprehensive income	–	–	–	1.7	7.1	–	8.8
Total comprehensive income for the period	–	–	–	(1.7)	60.3	–	58.6
Issue of share capital	0.1	–	(0.1)	–	–	–	–
Share-based payment charge	–	–	1.5	–	–	–	1.5
Tax relating to share-based payments	–	–	–	–	3.4	–	3.4
Transfer to retained earnings	–	–	(0.9)	–	0.9	–	–
Dividends paid	–	–	–	–	(13.1)	–	(13.1)
Balance at 31 December 2011	40.2	12.3	2.7	4.5	216.6	–	276.3
Profit for the year 2012	–	–	–	–	69.9	–	69.9
Gains on cash flow hedges	–	–	–	2.0	–	–	2.0
Exchange differences on translation of foreign operations	–	–	–	(11.1)	–	–	(11.1)
Actuarial losses on defined benefit pension schemes	–	–	–	–	(12.3)	–	(12.3)
Tax relating to components of other comprehensive income	–	–	–	–	2.6	–	2.6
Total comprehensive income for the period	–	–	–	(9.1)	60.2	–	51.1
Issue of share capital	1.2	1.4	(0.3)	–	–	–	2.3
Share-based payment charge	–	–	2.0	–	–	–	2.0
Tax relating to share-based payments	–	–	–	–	(1.4)	–	(1.4)
Purchase of shares held by employee benefit trust	–	–	–	–	–	(1.0)	(1.0)
Transfer to retained earnings	–	–	(0.6)	–	0.6	–	–
Dividends paid	–	–	–	–	(16.4)	–	(16.4)
Balance at 31 December 2012	**41.4**	**13.7**	**3.8**	**(4.6)**	**259.6**	**(1.0)**	**312.9**

b) Company

	All equity is attributable to equity holders of the Company						
	Issued share capital £m	Share premium account £m	Equity reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1 January 2011	40.1	12.3	2.2	(0.3)	41.6	–	95.9
Profit for the year 2011	–	–	–	–	42.1	–	42.1
Actuarial losses on defined benefit pension schemes	–	–	–	–	(0.5)	–	(0.5)
Total comprehensive income for the period	–	–	–	–	41.6	–	41.6
Issue of share capital	0.1	–	(0.1)	–	–	–	–
Share-based payment charge	–	–	1.5	–	–	–	1.5
Transfer to retained earnings	–	–	(0.9)	–	0.9	–	–
Dividends paid	–	–	–	–	(13.1)	–	(13.1)
Balance at 31 December 2011	40.2	12.3	2.7	(0.3)	71.0	–	125.9
Profit for the year 2012	–	–	–	–	32.5	–	32.5
Actuarial losses on defined benefit pension schemes	–	–	–	–	(6.6)	–	(6.6)
Total comprehensive income for the period	–	–	–	–	25.9	–	25.9
Issue of share capital	1.2	1.4	(0.3)	–	–	–	2.3
Share-based payment charge	–	–	2.0	–	–	–	2.0
Purchase of shares held by employee benefit trust	–	–	–	–	–	(1.0)	(1.0)
Transfer to retained earnings	–	–	(0.6)	–	0.6	–	–
Dividends paid	–	–	–	–	(16.4)	–	(16.4)
Balance at 31 December 2012	**41.4**	**13.7**	**3.8**	**(0.3)**	**81.1**	**(1.0)**	**138.7**

Cash flow statements

For the year ended 31 December 2012

	Notes	**Group Year ended 2012 £m**	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Net cash from/(used in) operating activities	35a	**83.3**	77.1	**(25.8)**	(17.3)
Investing activities					
Interest received		**0.3**	0.3	**2.3**	5.8
Dividends received from subsidiaries		**–**	–	**50.0**	50.4
Proceeds on disposal of property, plant and equipment		**0.1**	0.3	**–**	–
Purchases of property, plant and equipment		**(25.3)**	(21.1)	**(0.1)**	(0.1)
Purchases of intangible assets		**(0.8)**	(1.0)	**(0.1)**	(0.2)
Acquisition of GAMFG	33	**(28.1)**	–	**–**	–
Acquisition of Weston		**–**	(53.0)	**–**	–
Acquisition of Damar		**–**	(15.6)	**–**	–
Investment in subsidiaries		**–**	–	**–**	(72.8)
Proceeds on disposal of subsidiary	34	**4.5**	–	**–**	–
Investment in joint venture		**(0.9)**	–	**–**	–
Net cash (used in)/from investing activities		**(50.2)**	(90.1)	**52.1**	(16.9)
Financing activities					
Dividends paid		**(16.4)**	(13.1)	**(16.4)**	(13.1)
Repayment of borrowings		**(0.2)**	(0.2)	**–**	–
Repayments of obligations under finance leases		**(0.6)**	(0.4)	**–**	–
Share issues		**2.3**	–	**2.3**	–
Purchase of shares held by employee benefit trust		**(1.0)**	–	**(1.0)**	–
Net loans (advanced to)/repaid by subsidiaries		**–**	–	**(13.0)**	39.7
Net cash inflow/(outflow) on forward contracts		**–**	0.2	**0.7**	(1.2)
Net cash (used in)/from financing activities		**(15.9)**	(13.5)	**(27.4)**	25.4
Net increase/(decrease) in cash and cash equivalents		**17.2**	(26.5)	**(1.1)**	(8.8)
Cash and cash equivalents at beginning of period		**28.5**	55.9	**0.9**	9.7
Effect of foreign exchange rate changes		**(1.8)**	(0.9)	**–**	–
Cash and cash equivalents at end of period	35c	**43.9**	28.5	**(0.2)**	0.9

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 the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 4 and on pages 6 to 31.

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 Financial review on pages 24 to 28. 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 7 (Amendment) "Disclosures – Transfers of Financial Assets".

IFRS 7 (Amendment) requires enhanced disclosures for transactions involving transfers of financial assets. This amendment does not currently affect the Group's disclosures on Financial Instruments.

The following amendments to Standards are also effective from the current financial year but currently do not impact the Group's Financial Statements: IFRS 1 (Amendments) "Removal of Fixed Dates for First-Time Adopters" and "Severe Hyperinflation" and IAS 12 (Amendment) "Deferred Tax: Recovery of Underlying Assets".

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 not yet effective:

IFRS 1 (Amendments) Government Loans. Effective for annual periods beginning on or after 1 January 2013.

IFRS 7 (Amendments) Disclosures – Offsetting Financial Assets and Financial Liabilities. Effective for annual or interim periods beginning on or after 1 January 2013. Endorsed by EU.

IFRS 9 Financial Instruments. Effective from periods commencing on or after 1 January 2015.

IFRS 10 Consolidated Financial Statements. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

IFRS 11 Joint Arrangements. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

IFRS 12 Disclosure of Interests in Other Entities. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

IFRS 10, IFRS 11 and IFRS 12 (Amendments) Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance. Effective for annual periods beginning on or after 1 January 2013.

IFRS 10, IFRS 12 and IAS 27 (Amendments) Investment Entities. Effective for reporting periods beginning on or after 1 January 2014.

IFRS 13 Fair Value Measurement. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

IAS 1 (Amendments) Presentation of Items of Other Comprehensive Income. Effective for reporting periods beginning on or after 1 July 2012. Endorsed by the EU.

IAS 19 (Amendments) Employee Benefits. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

IAS 27 Separate Financial Statements. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

IAS 28 Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

IAS 32 (Amendments) Presentation – Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after 1 January 2014. Endorsed by the EU.

Annual Improvements to IFRSs 2009 – 2011 Cycle as published in May 2012. Effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. Effective for annual periods beginning on or after 1 January 2013. Endorsed by the EU.

With the exception of IFRS 9, the Directors anticipate that the adoption of these Standards and Interpretations in future period will not have a material impact on these Financial Statements, except for additional disclosures, when the relevant standards come into effect.

IFRS 9 may impact both the measurement and disclosures of the Group's Financial Statements in future periods. However, it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed review has been completed.

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.

The results of joint ventures are accounted for using the equity accounting method.

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.

2. Significant accounting policies continued

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

Leasing

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

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

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

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

Foreign currencies

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

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

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

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

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

	Average rates 2012	Average rates 2011	**Year-end rates 2012**	Year-end rates 2011
US dollar	**1.59**	1.60	**1.63**	1.55
Euro	**1.23**	1.15	**1.23**	1.20

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. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on inital recognition. 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 occasion, 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.

2. Significant accounting policies continued

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

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

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 2012 was £220.1m (2011 – £209.9m). 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 2012 of intangible assets in respect of customer relationships acquired was £16.7m (2011 – £14.9m).

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 liability and deferred tax liability at 31 December 2012 was £12.0m (2011 – £9.0m) and £5.1m (2011 – £3.0m asset), respectively. Further details on these estimates are set out in Notes 10 and 23.

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 2012 was a liability of £37.1m (2011 – £34.5m). Further details on these estimates are set out in Note 38.

3. Revenue

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

	Year ended 2012 £m	Year ended 2011 £m
Sales of goods – continuing operations	**712.0**	622.3
Sales of goods – discontinued operations	**5.7**	6.7
Revenue from construction contracts – discontinued operations	**12.1**	11.7
	729.8	640.7

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 2012 £m	**Flexonics Year ended 2012 £m**	**Eliminations/ central costs Year ended 2012 £m**	**Total Year ended 2012 £m**	Aerospace Year ended 2011 £m	Flexonics Year ended 2011 £m	Eliminations/ central costs Year ended 2011 £m	Total Year ended 2011 £m
Continuing operations								
External revenue	**470.3**	**241.7**	**–**	**712.0**	382.4	239.9	–	622.3
Inter-segment revenue	**0.2**	**0.3**	**(0.5)**	**–**	0.2	0.2	(0.4)	–
Total revenue	**470.5**	**242.0**	**(0.5)**	**712.0**	382.6	240.1	(0.4)	622.3
Continuing adjusted trading profit	**72.1**	**37.3**	**(8.7)**	**100.7**	59.6	35.0	(7.3)	87.3
Share of joint venture loss	**–**	**(0.1)**	**–**	**(0.1)**	–	–	–	–
Continuing adjusted operating profit	**72.1**	**37.2**	**(8.7)**	**100.6**	59.6	35.0	(7.3)	87.3
Loss on sale of fixed assets	**–**	**(0.1)**	**–**	**(0.1)**	–	(0.3)	–	(0.3)
Exceptional pension charge	**–**	**–**	**(1.9)**	**(1.9)**	–	–	–	–
Amortisation of intangible assets from acquisitions	**(4.1)**	**(0.2)**	**–**	**(4.3)**	(4.4)	–	–	(4.4)
Acquisition costs	**–**	**(0.6)**	**–**	**(0.6)**	(0.6)	–	–	(0.6)
Operating profit	**68.0**	**36.3**	**(10.6)**	**93.7**	54.6	34.7	(7.3)	82.0
Investment income				**0.3**				0.3
Finance costs				**(10.6)**				(10.6)
Profit before tax				**83.4**				71.7
Tax				**(16.8)**				(17.7)
Profit for the period from continuing operations				**66.6**				54.0
Discontinued operations								
Operating profit				**0.8**				1.0
Profit on disposal				**2.5**				–
Profit for the period from discontinued operations				**3.3**				1.0
Profit after tax and discontinued operations				**69.9**				55.0

	2012 £m	2011 £m
Continuing operations adjusted operating profit	**100.6**	87.3
Discontinued operations adjusted operating profit	**0.8**	1.0
Adjusted operating profit (See Note 9)	**101.4**	88.3

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4. Segment information continued

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

Assets	**Year ended 2012 £m**	Year ended 2011 £m
Aerospace	**219.5**	221.1
Flexonics	**107.4**	97.2
Corporate	**1.8**	1.3
Segment assets for reportable segments	**328.7**	319.6
Unallocated		
Goodwill	**220.1**	209.9
Intangible customer relationships	**16.7**	14.9
Cash	**44.5**	29.3
Deferred and current tax	**12.8**	9.2
Assets relating to discontinued operations	**–**	5.8
Others	**1.5**	0.6
Total assets per balance sheet	**624.3**	589.3

Liabilities	**Year ended 2012 £m**	Year ended 2011 £m
Aerospace	**63.3**	73.0
Flexonics	**41.8**	44.2
Corporate	**21.1**	18.2
Segment liabilities for reportable segments	**126.2**	135.4
Unallocated		
Debt	**114.4**	120.7
Finance leases	**1.0**	1.6
Deferred and current tax	**29.9**	15.2
Retirement benefit obligations	**37.1**	34.5
Liabilities relating to discontinued operations	**–**	3.6
Others	**2.8**	2.0
Total liabilities per balance sheet	**311.4**	313.0

	Additions to non-current assets Year ended 2012 £m	Additions to non-current assets Year ended 2011 £m	**Depreciation and amortisation Year ended 2012 £m**	Depreciation and amortisation Year ended 2011 £m
Aerospace	**16.4**	14.1	**17.6**	15.9
Flexonics	**9.4**	7.7	**7.2**	6.8
Subtotal continuing operations	**25.8**	21.8	**24.8**	22.7
Unallocated corporate amounts	**0.2**	0.4	**0.1**	0.1
Discontinued operations	**0.1**	0.1	**0.2**	0.2
Total	**26.1**	22.3	**25.1**	23.0

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

	Year ended 2012 £m	Year ended 2011 £m
Aerospace – Structures	**282.7**	207.4
Aerospace – Fluid Systems	**187.6**	175.0
Aerospace total	**470.3**	382.4
Land vehicles	**128.9**	133.7
Industrial	**112.8**	106.2
Flexonics total	**241.7**	239.9
Group continuing	**712.0**	622.3
Discontinued	**17.8**	18.4
Group total	**729.8**	640.7

Included in revenues arising from the Aerospace segment are revenues of approximately £73.1m (2011 – £58.6m) which arose from sales to the Group's largest customer and revenues of approximately £68.7m (2011 – £24.7m) which arose from sales to the Group's second largest customer.

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 2012 £m	Sales revenue Year ended 2011 £m	**Segment non-current assets Year ended 2012 £m**	Segment non-current assets Year ended 2011 £m
USA	**372.2**	341.6	**251.2**	225.9
UK	**110.0**	50.8	**87.0**	89.3
Rest of the World	**229.8**	229.9	**36.7**	36.9
Subtotal continuing operations	**712.0**	622.3	**374.9**	352.1
Unallocated amounts	**–**	–	**12.5**	9.0
Discontinued operations	**17.8**	18.4	**–**	1.8
Total	**729.8**	640.7	**387.4**	362.9

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 2012 £m	Year ended 2011 £m
Revenue	**712.0**	622.3
Cost of sales	**(530.2)**	(459.7)
Gross profit	**181.8**	162.6
Distribution costs	**(3.3)**	(3.8)
Administrative expenses	**(84.6)**	(76.5)
Trading profit	**93.9**	82.3

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

	Year ended 2012 £m	Year ended 2011 £m
Net foreign exchange losses/(gains)	**1.1**	(0.4)
Research and development costs	**12.8**	11.8
Depreciation of property, plant and equipment	**20.1**	18.0
Amortisation of intangible assets included in administration expenses	**5.0**	5.0
Cost of inventories recognised as expense	**544.8**	474.0
Provision for impairment for doubtful receivables	**0.1**	0.7
Staff costs (see Note 6)	**210.9**	192.7
Government grants received	**(0.1)**	(0.4)

All research and development costs were expensed during the year.

5. Trading profit and profit for the period continued

The analysis of the Auditor's remuneration is as follows:

	Year ended 2012 £m	Year ended 2011 £m
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's Auditor and their associates for other services to the Group		
– The audit of the Company's subsidiaries	**0.5**	0.5
Total audit fees	**0.6**	0.6
– Taxation compliance services	**0.1**	0.1
– Other taxation advisory services	**0.1**	0.3
– Corporate finance services	**0.3**	–
Total non-audit fees	**0.5**	0.4

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the Consolidated Financial Statements are required to disclose such fees on a consolidated basis. Fees payable for corporate finance services relate to services provided in respect of potential acquisitions.

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on pages 42 to 43. No services were provided pursuant to contingent fee arrangements.

6. Staff costs

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

	Group Year ended 2012 Number	Group Year ended 2011 Number
Production	**5,198**	4,523
Distribution	**57**	55
Sales	**318**	323
Administration	**508**	473
	6,081	5,374

	Year ended 2012 £m	Year ended 2011 £m
Their aggregate remuneration comprised:		
Wages and salaries	**177.7**	162.4
Social security costs	**21.7**	21.3
Other pension costs – defined contribution (see Note 38a)	**5.4**	4.9
Other pension costs – defined benefit (see Note 38e)	**1.9**	1.7
Share-based payments	**2.3**	2.4
Aggregate remuneration	**209.0**	192.7
Exceptional pension charge (see Note 38)	**1.9**	–
Total	**210.9**	192.7

7. Investment income

	Year ended 2012 £m	Year ended 2011 £m
Interest on bank deposits	**0.3**	0.2
Others	**–**	0.1
Total income	**0.3**	0.3

The Company earned investment income of £2.1m (2011 – £5.7m) on financial assets all of which relate to the "Loans and receivables" category.

8. Finance costs

	Year ended 2012 £m	Year ended 2011 £m
Interest on bank overdrafts and loans	**0.4**	0.5
Interest on other loans	**7.6**	7.6
Interest on obligations under finance leases	**–**	0.1
Net finance cost of retirement benefit obligations (Note 38e)	**2.6**	2.4
Total finance costs	**10.6**	10.6

The Company incurred finance costs of £10.1m (2011 – £8.7m) 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, amortisation of intangible assets acquired on acquisitions, exceptional pension charges, gains or losses from disposal of operations and acquisition costs.

	Year ended 2012 £m	Year ended 2011 £m
Operating profit from continuing operations	**93.7**	82.0
Operating profit from discontinued operations	**0.8**	1.0
Operating profit	**94.5**	83.0
Loss on sale of fixed assets	**0.1**	0.3
Exceptional pension charge	**1.9**	–
Amortisation of intangible assets from acquisitions	**4.3**	4.4
Acquisition costs	**0.6**	0.6
Adjustments to operating profit	**6.9**	5.3
Adjusted operating profit	**101.4**	88.3
Profit before tax from continuing operations	**83.4**	71.7
Profit before tax from discontinued operations	**3.3**	1.0
Profit before tax	**86.7**	72.7
Adjustments to profit as above before tax	**6.9**	5.3
Profit on disposal of discontinued operation	**(2.5)**	–
Adjustments to profit before tax	**4.4**	5.3
Adjusted profit before tax	**91.1**	78.0

10. Tax charge

	Year ended 2012 £m	Year ended 2011 £m
Current tax:		
Current year	**14.4**	14.4
Adjustments in respect of prior periods	**0.7**	(0.9)
	15.1	13.5
Deferred tax (Note 23):		
Current year	**3.7**	4.7
Adjustments in respect of prior periods	**(2.0)**	(0.5)
	1.7	4.2
	16.8	17.7
Attributable to:		
Continuing operations	**16.8**	17.7

The Finance Act 2012, which provides for a reduction in the main rate of corporation tax from 25% to 23%, effective from 1 April 2013, was substantively enacted on 17 July 2012. The impact of the rate reduction has been reflected in the calculation of the UK deferred tax asset recognised at 31 December.

The Government has also indicated that it intends to enact a future reduction in the main tax rate of 1% down to 22% on 1 April 2014. The future 1% main tax rate reduction is expected to result in a reduction to the value of the deferred tax asset recognised in respect of the UK operations.

As this reduction in the UK corporate tax rate has not been substantially enacted at the Balance Sheet date, this is considered a non-adjusting event in accordance with IAS 10 Events After the Reporting Period and no adjustments have been made. The impact of this and any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

UK Corporation Tax is calculated at an effective rate of 24.5% (2011 – 26.5%) of the estimated assessable profit for the year.

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

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

	Year ended 2012 £m	**Year ended 2012 %**	Year ended 2011 £m	Year ended 2011 %
Profit before tax from continuing operations	**83.4**		71.7	
Tax at the UK Corporation tax rate of 24.5% (2011 – 26.5%)	**20.4**		19.0	
Tax effect of income/expenses that are non-taxable/deductible in determining taxable profit	**(8.8)**		(1.5)	
Tax suffered on dividends from subsidiaries	**–**		0.4	
Tax effect of unrelieved tax losses	**0.2**		0.3	
Tax effect of movements in temporary differences not previously recognised	**(0.5)**		(3.2)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	**6.8**		4.1	
Adjustments to tax charge in respect of prior periods	**(1.3)**		(1.4)	
Tax expense and effective tax rate for the year	**16.8**	**20.1**	17.7	24.7

10. Tax charge continued

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 2012 £m	Year ended 2011 £m
Translation of foreign operations	**–**	1.7
Actuarial loss on retirement benefit obligations	**3.1**	6.6
Tax recovery	**(0.5)**	0.5
Total tax recognised directly in other comprehensive income	**2.6**	8.8
Current tax	**–**	0.7
Deferred tax (Note 23)	**2.6**	8.1
	2.6	8.8

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 2012 £m	Year ended 2011 £m
Current tax:		
Excess tax deductions related to share-based payments on exercised options	**3.4**	0.1
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**(4.8)**	3.3
Total tax recognised directly in equity	**(1.4)**	3.4

11. Dividends

	Year ended 2012 £m	Year ended 2011 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2011 of 2.65p (2010 – 2.12p) per share	**10.7**	8.5
Interim dividend for the year ended 31 December 2012 of 1.38p (2011 – 1.15p) per share	**5.7**	4.6
	16.4	13.1
Proposed final dividend for the year ended 31 December 2012 of 3.27p (2011 – 2.65p) per share	**13.5**	10.7

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting 2013 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 2012 Million**	Year ended 2011 Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**408.5**	402.0
Effect of dilutive potential ordinary shares:		
Share options	**10.3**	14.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**418.8**	416.3

	Year ended 2012		Year ended 2011	
Earnings and earnings per share	**Earnings £m**	**EPS Pence**	Earnings £m	EPS Pence
Profit for the period from continuing operations	**66.6**	**16.30**	54.0	13.43
Profit for the period from discontinued operations	**3.3**	**0.81**	1.0	0.25
Profit for the period from continuing and discontinued operations	**69.9**	**17.11**	55.0	13.68
Adjust:				
Amortisation of intangible assets from acquisitions net of tax of £1.6m (2011 – £1.6m)	**2.7**	**0.66**	2.8	0.70
Acquisition costs net of tax of £0.1m (2011 – £nil)	**0.5**	**0.12**	0.6	0.15
Loss on sale of fixed assets net of tax of £0.1m (2011 – £0.2m)	**–**	**–**	0.1	0.02
Exceptional pension charge	**1.9**	**0.47**	–	–
Profit on disposal of discontinued operations	**(2.5)**	**(0.61)**	–	–
Adjusted earnings after tax	**72.5**	**17.75**	58.5	14.55
Earnings per share				
– basic from continuing operations		**16.30p**		13.43p
– basic from continuing and discontinued operations		**17.11p**		13.68p
– diluted from continuing operations		**15.90p**		12.97p
– diluted from continuing and discontinued operations		**16.69p**		13.21p
– adjusted		**17.75p**		14.55p
– adjusted and diluted		**17.31p**		14.05p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2011 – £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

– amortisation of intangible assets acquired on acquisitions

– exceptional pension charges

– profit on disposal of discontinued operations

– acquisition costs

13. Goodwill

	Group Year ended 2012 £m	Group Year ended 2011 £m
Cost		
At 1 January	**218.6**	178.3
Exchange differences	**(8.0)**	1.7
Increases	**0.1**	–
Recognised on acquisition of subsidiaries (see Note 33)	**17.7**	38.6
At 31 December	**228.4**	218.6
Accumulated impairment losses		
At 1 January	**8.7**	8.6
Impairment charge in the year	**–**	–
Exchange differences	**(0.4)**	0.1
At 31 December	**8.3**	8.7
Carrying amount at 31 December	**220.1**	209.9

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 business reviews on pages 16 to 23, the Aerospace Division consists of 18 operations and the Flexonics Division consists of 12 operations. Each of these operations is considered to be a separate CGU. Goodwill has been allocated to 18 of these individual CGUs – 13 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 2012 £m	Group Year ended 2011 £m
Aerospace		
– Capo Industries	**27.9**	29.3
– AMT	**33.0**	34.7
– Weston	**27.6**	27.5
– Jet Products	**15.8**	16.6
– Connecticut	**12.8**	13.5
– BWT	**15.0**	15.0
– Bird Bellows	**12.0**	12.0
– Damar	**10.8**	11.4
– Other Aerospace CGUs	**16.2**	16.6
	171.1	176.6
Flexonics		
– Pathway	**21.8**	22.9
– GAMFG	**17.4**	–
– Other Flexonics CGUs	**9.8**	10.4
	49.0	33.3
Total	**220.1**	209.9

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The 2012 goodwill impairment review was undertaken as at 31 December 2012. The recoverable amounts of all the CGUs are determined from value in use calculations. The calculations 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. For all the CGUs a detailed budget that covers the next financial year is used and for some CGUs this 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 Chief Executive's statement, business reviews and financial review on pages 6 to 31. Cash flows thereafter have been extrapolated based on estimated growth rates. These growth rates do not exceed independently sourced estimated 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 10.8% (2011 – 10.7%). 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 forecast 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 Chief Executive's statement, business reviews and financial review on pages 6 to 31, the business jet market remains subdued. For Capo Industries, which has been impacted by the subdued business jet market since 2008, projections for the initial forecast period have been expanded a further two 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. Different scenarios where the compound annual sales growth over the initial five-year period varies from management's base case of 16% to 2% have been considered. Beyond this combined five-year period, cash flows are projected to grow at a compound annual growth rate of 3.6% from 2018 to 2031, in line with Boeing and Bombardier 20-year market projections, and 2.5% per annum thereafter as noted above. This results in Capo Industries' weighted average recoverable amount exceeding its carrying value by £2m. A reduction in management's base case compound annual sales growth rate of 6 percentage points over the initial five-year period would result in the recoverable amount reducing to a level comparable with its carrying value. Factors that could lead to lower revenue growth than currently estimated over the initial five-year period include: risk of further sustained decline in the business jet market, not securing sufficient new business with existing customers, not introducing sufficient new growth customers, customers transitioning existing work to alternative or low cost suppliers and not being able to introduce additional in-house capabilities. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying amount of AMT, Weston, Jet Products, Connecticut, BWT, Bird Bellows, Damar 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 and GAMFG 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. Management believes that any reasonable possible change in the key assumptions would not cause the carrying amount of Pathway or GAMFG to exceed its recoverable amount. Other than as noted for GAMFG, no significant goodwill is associated with CGUs operating in land vehicle markets.

No impairment charges were recognised in 2012 and in 2011.

14. Other intangible assets

	Group Year ended 2012 Customer relationships £m	**Group Year ended 2012 Computer software £m**	**Group Year ended 2012 Total £m**	Group Year ended 2011 Customer relationships £m	Group Year ended 2011 Computer software £m	Group Year ended 2011 Total £m	**Company Year ended 2012 Computer software £m**	Company Year ended 2011 Computer software £m
Cost								
At 1 January	**40.1**	**9.5**	**49.6**	25.7	8.6	34.3	**0.3**	0.1
Additions	**–**	**0.8**	**0.8**	–	1.0	1.0	**0.1**	0.2
Disposals	**–**	**(0.5)**	**(0.5)**	–	(0.1)	(0.1)	**–**	–
Acquired on acquisition of subsidiaries	**6.3**	**–**	**6.3**	14.0	0.1	14.1	**–**	–
Exchange differences	**(1.5)**	**(0.3)**	**(1.8)**	0.4	(0.1)	0.3	**–**	–
At 31 December	**44.9**	**9.5**	**54.4**	40.1	9.5	49.6	**0.4**	0.3
Amortisation								
At 1 January	**25.2**	**7.5**	**32.7**	20.4	7.0	27.4	**0.1**	0.1
Charge for the year	**4.3**	**0.7**	**5.0**	4.4	0.6	5.0	**0.1**	–
Disposals	**–**	**(0.5)**	**(0.5)**	–	(0.1)	(0.1)	**–**	–
Exchange differences	**(1.3)**	**(0.2)**	**(1.5)**	0.4	–	0.4	**–**	–
At 31 December	**28.2**	**7.5**	**35.7**	25.2	7.5	32.7	**0.2**	0.1
Carrying amount at 31 December	**16.7**	**2.0**	**18.7**	14.9	2.0	16.9	**0.2**	0.2

The carrying amount of the Group's customer relationships includes amounts of £10.6m (2011 – £13.2m) and £0.2m (2011 – £0.4m) in respect of customer contracts acquired as part of the acquisitions of Weston and Damar in 2011. These are being amortised over 5 years and 2.8 years from the date of acquisition, respectively.

In addition, the carrying amount of the Group's customer relationships includes an amount of £5.9m in respect of customer contracts acquired as part of the acquisition of GAMFG in 2012. This is being amortised over 5 years and 2 months from the date of acquisition.

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 107.

	Company Year ended 2012 £m	Company Year ended 2011 £m
At 1 January	**251.8**	179.0
Additional investment in subsidiaries	**–**	72.8
At 31 December	**251.8**	251.8

The additional investment in subsidiaries in 2011 of £72.8m relates to a reorganisation of the Group's legal structure.

16. Investment in joint venture
During the year, the Group set up and has a 49% interest in Senior Flexonics Technologies (Wuhan) Limited, a jointly controlled entity incorporated in China.

The Group had no investment in joint ventures in 2011. The results of the joint venture are accounted for using equity accounting.

The Group's investment of £0.8m represents the Group's share of the joint venture's net assets as at 31 December 2012.

The following amounts represent the aggregate amounts relating to the revenue and expenses and assets and liabilities of Senior Flexonics Technologies (Wuhan) Limited for the year ended 31 December 2012.

	£m
Revenue	–
Expenses	(0.1)
Loss	(0.1)
Total assets	1.8
Total liabilities	(0.1)
Net assets	1.7
Group's share of loss	(0.1)
Group's share of net assets	0.8

17. Property, plant and equipment

a) Group

	Year ended 2012 Freehold land and buildings £m	Year ended 2012 Leasehold land and buildings £m	Year ended 2012 Plant and equipment £m	Year ended 2012 Total £m	Year ended 2011 Freehold land and buildings £m	Year ended 2011 Leasehold land and buildings £m	Year ended 2011 Plant and equipment £m	Year ended 2011 Total £m
Cost or valuation								
At 1 January	**61.2**	**2.0**	**260.2**	**323.4**	60.5	1.8	256.8	319.1
Additions	**1.6**	**–**	**23.7**	**25.3**	1.0	–	20.3	21.3
Acquired on acquisition of subsidiaries	**0.7**	**–**	**9.5**	**10.2**	–	0.1	9.8	9.9
Exchange differences	**(2.2)**	**(0.1)**	**(11.4)**	**(13.7)**	(0.2)	0.1	(3.5)	(3.6)
Disposals	**(0.1)**	**(0.1)**	**(9.9)**	**(10.1)**	(0.1)	–	(23.2)	(23.3)
Disposed of on disposal of subsidiary	**(1.2)**	**(0.1)**	**(4.5)**	**(5.8)**	–	–	–	–
At 31 December	**60.0**	**1.7**	**267.6**	**329.3**	61.2	2.0	260.2	323.4
Accumulated depreciation and impairment								
At 1 January	**18.2**	**1.4**	**177.4**	**197.0**	16.5	1.3	187.3	205.1
Charge for the year	**1.7**	**0.1**	**18.3**	**20.1**	1.8	0.1	16.1	18.0
Exchange differences	**(0.4)**	**(0.1)**	**(7.9)**	**(8.4)**	–	–	(3.4)	(3.4)
Eliminated on disposals	**(0.1)**	**(0.1)**	**(9.7)**	**(9.9)**	(0.1)	–	(22.6)	(22.7)
Eliminated on disposal of subsidiary	**(0.3)**	**–**	**(4.0)**	**(4.3)**	–	–	–	–
At 31 December	**19.1**	**1.3**	**174.1**	**194.5**	18.2	1.4	177.4	197.0
Carrying amount at 31 December	**40.9**	**0.4**	**93.5**	**134.8**	43.0	0.6	82.8	126.4

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £2.7m (2011 – £3.1m) in respect of assets held under finance leases. Fixed assets of £0.2m were acquired under finance leases in 2011. Fixed assets with a net book value of £0.9m were acquired under finance leases with the acquisition of Weston EU Limited in 2011.

Some land and buildings were revalued in 1988 and this valuation has been treated as the deemed cost under IFRS 1. These assets were disposed of with the disposal of Senior Hargreaves Limited in 2012.

At 31 December 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.8m (2011 – £5.1m).

17. Property, plant and equipment continued

b) Company

	Year ended 2012 Plant and equipment £m	Year ended 2011 Plant and equipment £m
Cost		
At 1 January	**0.5**	0.5
Additions	**0.1**	0.1
Disposals	**(0.1)**	(0.1)
At 31 December	**0.5**	0.5
Accumulated depreciation		
At 1 January	**0.3**	0.4
Charge for the year	**0.1**	–
Eliminated on disposals	**(0.1)**	(0.1)
At 31 December	**0.3**	0.3
Carrying amount at 31 December	**0.2**	0.2

18. Inventories

	Group Year ended 2012 £m	Group Year ended 2011 £m
Raw materials	**25.3**	25.8
Work-in-progress	**45.7**	44.6
Finished goods	**20.2**	19.9
	91.2	90.3

Inventory write-downs and provisions, excluding acquisitions, decreased by £0.7m in the year (2011 – decreased by £0.7m).

19. Construction contracts

	Group Year ended 2012 £m	Group Year ended 2011 £m
Contracts in progress at 31 December:		
Amounts due from contract customers included in current assets	**–**	1.0
Amounts due to contract customers included in trade and other payables	**–**	–
	–	1.0
Current costs incurred plus recognised profits less recognised losses to date	**–**	12.5
Less: progress billings	**–**	(11.5)
	–	1.0

Senior Hargreaves Limited, which was disposed of on 16 October 2012, was the only operating company in the Group to be involved in construction contracts.

At 31 December 2012, retentions held by customers for contract work amounted to £nil (2011 – £0.4m). Advances received from customers for contract work amounted to £nil (2011 – £0.3m).

At 31 December 2012, amounts of £nil (2011 – £0.2m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

20. Trade and other receivables

Trade and other receivables at 31 December comprise the following:

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Non-current assets				
Trade receivables	**–**	0.2	**–**	–
Other receivables	**0.5**	0.5	**–**	–
Due from subsidiaries	**–**	–	**4.7**	4.7
	0.5	0.7	**4.7**	4.7
Current assets				
Trade receivables	**93.0**	98.4	**–**	–
Current tax recoverable	**0.3**	0.2	**–**	–
Value added tax	**0.9**	1.0	**0.1**	0.2
Currency derivatives	**1.0**	–	**–**	0.7
Prepayments and accrued income	**4.9**	5.4	**0.9**	1.0
Other receivables	**1.1**	0.8	**0.1**	0.3
Due from subsidiaries	**–**	–	**137.9**	124.4
	101.2	105.8	**139.0**	126.6
Total trade and other receivables	**101.7**	106.5	**143.7**	131.3

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables. 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 22.

20. Trade and other receivables continued

The average credit period taken on sales of goods is 53 days (2011 – 56 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.1m (2011 – £1.3m). 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. Of the trade receivables balance at the end of the year, £4.8m (2011 – £4.4m) is due from the Group's largest customer and £11.1m (2011 – £10.1m) is due from the Group's second largest customer. The Group has no other 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 2012 £m	Group Year ended 2011 £m
Movements in allowance for doubtful receivables:		
At 1 January	**1.3**	1.3
Provision for impairment	**0.1**	0.7
Amounts written off as uncollectible	**–**	(0.2)
Amounts recovered	**(0.2)**	(0.4)
Exchange differences	**(0.1)**	(0.1)
At 31 December	**1.1**	1.3
Ageing analysis of past due but not impaired trade receivables:		
Up to 30 days past due	**11.5**	12.3
31 to 60 days past due	**1.6**	1.6
61 to 90 days past due	**0.8**	1.5
91 to 180 days past due	**0.8**	0.3
Total past due but not impaired	**14.7**	15.7
Not past due	**78.3**	82.9
Total trade receivables	**93.0**	98.6
Less: non-current trade receivables	**–**	(0.2)
Current trade receivables	**93.0**	98.4

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

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

For the Company, the carrying amount of amounts due from subsidiaries approximates their fair value. There are no past due or impaired receivable balances (2011 – £nil).

21. Bank overdrafts and loans

	Group Year ended 2012 £m	Group Year ended 2011 £m	Company Year ended 2012 £m	Company Year ended 2011 £m
Bank overdrafts	**0.6**	0.8	**2.5**	0.4
Other loans	**113.8**	119.9	**113.5**	119.4
	114.4	120.7	**116.0**	119.8
The borrowings are repayable as follows:				
On demand or within one year	**0.8**	1.0	**2.5**	0.4
In the second year	**21.6**	0.2	**21.5**	–
In the third to fifth years inclusive	**33.7**	38.8	**33.7**	38.7
After five years	**58.3**	80.7	**58.3**	80.7
	114.4	120.7	**116.0**	119.8
Less: amount due for settlement within 12 months (shown under current liabilities)	**(0.8)**	(1.0)	**(2.5)**	(0.4)
Amount due for settlement after 12 months	**113.6**	119.7	**113.5**	119.4

Analysis of borrowings by currency:

31 December 2012

	Total £m	Pound Sterling £m	Euros £m	US dollars £m	Others £m
Bank overdrafts	**0.6**	**–**	**0.6**	**–**	**–**
Other loans	**113.8**	**–**	**0.3**	**113.5**	**–**
	114.4	**–**	**0.9**	**113.5**	**–**

An analysis of the Company's borrowings is as follows: Bank overdrafts – Sterling £2.5m, Other loans – US dollars £113.5m.

31 December 2011

	Total £m	Pound Sterling £m	Euros £m	US dollars £m	Others £m
Bank overdrafts	0.8	–	0.2	–	0.6
Other loans	119.9	–	0.5	119.4	–
	120.7	–	0.7	119.4	0.6

An analysis of the Company's borrowings is as follows: Bank overdrafts – Sterling £0.4m, Other loans – US dollars £119.4m.

The weighted average interest rates paid were as follows:

	Year ended 2012 %	Year ended 2011 %
Bank overdrafts	**2.30**	4.00
Other loans	**6.46**	6.46

21. Bank overdrafts and loans continued

Bank overdrafts of £0.6m (2011 – £0.8m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk. No interest rate swaps were taken out in 2011 or 2012.

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

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Bank overdrafts	**0.6**	0.8	**2.5**	0.4
Other loans	**132.8**	140.7	**132.5**	140.2
	133.4	141.5	**135.0**	140.6

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, 2012 £73.6m (2011 – £77.4m) 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, 2012 £18.4m (2011 – £19.4m) 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, 2012 £21.5m (2011 – £22.6m) were taken out in October 2007 and are due for repayment in October 2014. The loan notes carry interest at the rate of 5.93% per annum.

The Group also has two revolving credit facilities.

A committed £60m five-year syndicated multi-currency facility was entered into in October 2011, replacing a £80m facility, which was due to mature in July 2012. There were no amounts drawn by either the Group or the Company at 31 December 2012 or at 31 December 2011.

A committed $50m single bank (£30.7m) overdraft and letter of credit facility was entered into in December 2012 and matures in May 2015. This facility replaced the $25m facility that was entered into in May 2011. There were no loans drawn under either of those facilities on 31 December 2012 and 31 December 2011.

As at 31 December 2012, the Group had available £81.8m (2011 – £67.6m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

22. 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 2012 net debt was 0.6x the Group's level of EBITDA (31 December 2011 – 0.8x). 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 2012 EBITDA was 15.7x the level of net interest (31 December 2011 – 13.7x). 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 2012 was 23% (2011 – 34%). The decrease in 2012 is attributable mainly to the strong profit and free cash flow generation during the year. The cash generated by the Group in recent years has led to the gearing ratio being lower than the targeted range.

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). The sensitivity assumptions are based on analysis reviewed by the Group's Treasury Committee.

Translation risk

The Group derived 86% of its revenue from businesses outside the United Kingdom, with 66% relating to operations in North America. Fluctuations in the value of the US dollar and other currencies in relation to 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) 2012 Group operating profit by £8.9m (£6.9m of which would have been due to the US dollar movement) and would have increased (or decreased) net equity by £19.8m (£15.1m 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 2012 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 £2.0m, respectively.

22. 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). The sensitivity assumptions are based on analysis reviewed by the Group's Treasury Committee. 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 £2.6m. 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. Further details on determining the recoverability of trade receivables is provided in Note 20. The Group is guarantor under the lease of one building in the UK, which arose on the disposal of a former Group-owned subsidiary in 2001.

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 Financial review on pages 24 to 28, 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 2014. It is considered unlikely that the Group will face any significant funding issues in the foreseeable future.

22. Financial instruments continued

Categories of financial instruments

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Carrying value of financial assets:				
Cash and cash equivalents	**44.5**	29.3	**2.3**	1.3
Trade receivables	**93.0**	98.6	**–**	–
Other receivables	**1.6**	1.3	**0.1**	0.3
Due from subsidiaries	**–**	–	**142.6**	129.1
Loans and receivables at amortised cost	**139.1**	129.2	**145.0**	130.7
Currency derivatives used for hedging	**1.0**	–	**–**	–
Currency derivatives at fair value through profit and loss	**–**	–	**–**	0.7
Total financial assets	**140.1**	129.2	**145.0**	131.4
Carrying value of financial liabilities:				
Bank overdrafts and loans	**114.4**	120.7	**116.0**	119.8
Obligations under finance leases	**1.0**	1.6	**–**	–
Trade payables	**58.3**	64.8	**0.2**	0.6
Other payables	**55.9**	59.9	**4.4**	4.0
Due to subsidiaries	**–**	–	**115.3**	108.9
Other financial liabilities at amortised cost	**229.6**	247.0	**235.9**	233.3
Currency derivatives used for hedging	**0.5**	2.0	**–**	–
Currency derivatives at fair value through profit and loss	**–**	–	**–**	–
Total financial liabilities	**230.1**	249.0	**235.9**	233.3
Undiscounted contractual maturity of other financial liabilities:				
Amounts payable:				
On demand or within one year	**122.8**	134.1	**129.7**	121.6
In the second to fifth years inclusive	**78.9**	66.6	**78.2**	65.2
After five years	**64.0**	92.1	**64.0**	92.0
	265.7	292.8	**271.9**	278.8
Less: future finance charges	**(36.1)**	(45.8)	**(36.0)**	(45.5)
Other financial liabilities at amortised cost	**229.6**	247.0	**235.9**	233.3

Any amounts drawn under the committed syndicated multi-currency facility, which matures in 2016, 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 21.

An ageing analysis of trade, deferred consideration and other receivables is as disclosed within Note 20.

22. 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 2012 £m	Group Year ended 2011 £m	Company Year ended 2012 £m	Company Year ended 2011 £m
Notional amounts:				
Foreign exchange contracts – cash flow hedges	**43.3**	46.6	**–**	–
Foreign exchange contracts – held for trading	**–**	–	**–**	–
Total	**43.3**	46.6	**–**	–
Less: amounts maturing within 12 months	**(33.7)**	(38.4)	**–**	–
Amounts maturing after 12 months	**9.6**	8.2	**–**	–
Contractual maturity:				
Cash flow hedges balances due within one year:				
Outflow	**40.3**	38.6	**–**	–
Inflow	**40.9**	36.9	**–**	–
Cash flow hedges balances due between one and two years:				
Outflow	**10.8**	8.0	**–**	–
Inflow	**11.0**	8.1	**–**	–
Cash flow hedges balances due between two and three years:				
Outflow	**–**	–	**–**	–
Inflow	**–**	–	**–**	–
Held for trading balances due within one year:				
Outflow	**–**	–	**–**	–
Inflow	**–**	–	**–**	0.7
Fair values:				
Foreign exchange contracts – cash flow hedges	**0.5**	(2.0)	**–**	–
Foreign exchange contracts – held for trading	**–**	–	**–**	0.7
Total asset/(liability)	**0.5**	(2.0)	**–**	0.7

These fair values are based on market values of equivalent instruments at the balance sheet date, comprising £1.0m (2011 – £nil) assets included in trade and other receivables and £0.5m (2011 – £2.0m) included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £0.6m gain (2011 – £1.7m loss) has been deferred in equity. The fair values for the Company comprise £nil (2011 – £0.7m) assets included in trade and other receivables and £nil (2011 – £nil) included in trade and other payables.

22. 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 2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Foreign exchange contracts – cash flow hedges	–	1.0	–	1.0
Total assets	–	1.0	–	1.0
Liabilities				
Foreign exchange contracts – cash flow hedges	–	0.5	–	0.5
Total liabilities	–	0.5	–	0.5

31 December 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Foreign exchange contracts – cash flow hedges	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Foreign exchange contracts – cash flow hedges	–	2.0	–	2.0
Total liabilities	–	2.0	–	2.0

b) Company

31 December 2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through profit or loss:				
Foreign exchange contracts – held for trading	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Financial liabilities at fair value through profit or loss:				
Foreign exchange contracts – held for trading	–	–	–	–
Total liabilities	–	–	–	–

31 December 2011	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	–	0.7	–	0.7
Total assets	–	0.7	–	0.7
Liabilities				
Financial liabilities at fair value through profit or loss:				
Foreign exchange contracts – held for trading	–	–	–	–
Total liabilities	–	–	–	–

22. Financial instruments continued
An amount of £0.8m loss (2011 – £0.2m 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 (2011 – £0.1m) has been recognised in the Consolidated Income Statement in respect of foreign exchange contracts held for trading. For the Company, a net gain of £nil (2011 – £0.2m) 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.

23. 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 and intangible amortisation £m	Retirement benefit obligations £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 January 2011	12.6	1.9	6.6	(2.2)	(15.8)	(2.2)	0.9
Charge/(credit) to income	4.7	–	2.6	(0.5)	(1.0)	(1.6)	4.2
Credit to other comprehensive income	–	(1.0)	–	(6.6)	–	(0.5)	(8.1)
Credit directly to equity	–	–	–	–	(3.3)	–	(3.3)
Acquisition of subsidiary	–	–	3.3	–	–	–	3.3
Exchange differences	0.2	(0.1)	0.1	–	(0.2)	–	–
At 1 January 2012	17.5	0.8	12.6	(9.3)	(20.3)	(4.3)	(3.0)
Charge/(credit) to income	(0.5)	–	2.6	2.8	1.0	(4.2)	1.7
(Credit)/charge to other comprehensive income	–	–	–	(3.1)	–	0.5	(2.6)
Charge directly to equity	–	–	–	–	4.8	–	4.8
Acquisition of subsidiary	2.4	–	2.3	–	–	–	4.7
Exchange differences	(0.8)	(0.1)	(0.6)	0.1	0.7	0.2	(0.5)
As 31 December 2012	**18.6**	**0.7**	**16.9**	**(9.5)**	**(13.8)**	**(7.8)**	**5.1**

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 2012 £m	Group Year ended 2011 £m
Deferred tax liabilities	**17.6**	6.0
Deferred tax assets	**(12.5)**	(9.0)
	5.1	(3.0)

At the balance sheet date, the Group has unused tax losses of £53.9m (2011 – £57.1m) available for offset against future profits. A deferred tax asset has been recognised in respect of £47.6m (2011 – £18.9m) of such losses. No deferred tax asset has been recognised in respect of the remaining £6.3m (2011 – £38.2m) due to the unpredictability of future taxable profit streams. Included in unrecognised tax losses are losses of £3.4m (2011 – £26.1m and £3.5m) that will expire within eight years (2011 – seven and eight years respectively). 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 £5.8m (2011 – £131.1m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

23. 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 share-based payments of £0.9m (2011 – £0.9m), accelerated book depreciation of £13.3m (2011 – £11.2m) and other temporary differences of £0.4m (2011 – £2.0m). The Company has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £23.3m (2011 – £27.6m), share-based payments of £2.1m (2011 – £3.1m), accelerated book depreciation of £0.5m (2011 – £0.4m) and other temporary differences of £0.1m (2011 – £0.1m). 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 (2011 – £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 UK earnings profile. The Group also has £15.7m (2011 – £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 (2011 – £15.6m) of such unused capital losses.

24. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2012 £m	Group Year ended 2011 £m	**Group Year ended 2012 £m**	Group Year ended 2011 £m
Amounts payable under finance leases:				
Within one year	**0.6**	0.7	**0.5**	0.6
In the second to fifth years inclusive	**0.5**	1.0	**0.5**	0.9
After five years	**–**	0.1	**–**	0.1
	1.1	1.8	**1.0**	1.6
Less: future finance charges	**(0.1)**	(0.2)	**–**	–
Present value of lease obligations	**1.0**	1.6	**1.0**	1.6
Less: amount due for settlement within 12 months (shown under current liabilities)			**(0.5)**	(0.6)
Amount due for settlement after 12 months			**0.5**	1.0

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 24% (2011 – 30%) of the Group's obligations, expires in 2014. For the year ended 31 December 2012, the average effective borrowing rate was 5.4% (2011 – 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: Sterling £0.4m (2011 – £0.6m), Euros £0.2m (2011 – £0.5m) and US dollars £0.4m (2011 – £0.5m).

25. Trade and other payables

Trade and other payables at 31 December comprise the following:

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Non-current liabilities	**–**	–	**–**	–
Current liabilities				
Trade payables	**58.3**	64.8	**0.2**	0.6
Social security and PAYE	**6.2**	6.2	**0.1**	0.1
Value Added Tax	**1.5**	2.2	**–**	–
Currency derivatives	**0.5**	2.0	**–**	–
Other payables and accruals	**55.9**	59.9	**4.4**	4.0
Due to subsidiaries	**–**	–	**115.3**	108.9
	122.4	135.1	**120.0**	113.6
Total trade and other payables	**122.4**	135.1	**120.0**	113.6

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 (2011 – 57 days).

26. Provisions

Group	Warranties £m	Other £m	Total £m
At 1 January 2011	–	–	–
Reclassification from accruals	1.8	1.0	2.8
Additional provision in the year	3.3	0.3	3.6
Utilisation of provision	(0.1)	(0.4)	(0.5)
Release of unused amounts	–	(0.4)	(0.4)
Unwinding of discount	–	–	–
Exchange difference	0.1	(0.1)	–
At 31 December 2011	5.1	0.4	5.5
Additional provision in the year	2.5	–	2.5
Utilisation of provision	(0.8)	(0.1)	(0.9)
Release of unused amounts	(0.6)	–	(0.6)
Unwinding of discount	–	–	–
Exchange difference	(0.4)	–	(0.4)
At 31 December 2012	5.8	0.3	6.1
Included in current liabilities	5.8	0.3	6.1

Provisions for warranty costs are based on an assessment of future claims with reference to past experience.

27. Share capital

	Group and Company	
	Year ended 2012 £m	Year ended 2011 £m
Authorised:		
750 million ordinary shares of 10p each	**75.0**	75.0
Issued and fully paid:		
413.9 million ordinary shares of 10p each	**41.4**	40.2

At 31 December 2011, the issued and fully paid up share capital was 402.2 million ordinary shares of 10p each.

8,923,725 shares were issued during 2012 at an average price of 25.28p per share under share option plans raising £2.3m. 2,679,044 shares were issued during 2012 under the 2005 Long Term Incentive Plan.

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

28. Share premium account

	Group and Company	
	Year ended 2012 £m	Year ended 2011 £m
Balance at 1 January	**12.3**	12.3
Movement in year	**1.4**	–
Balance at 31 December	**13.7**	12.3

29. Equity reserve

	Group and Company	
	Year ended 2012 £m	Year ended 2011 £m
Balance at 1 January	**2.7**	2.2
Transfer to retained earnings reserve	**(0.6)**	(0.9)
Movement in year	**1.7**	1.4
Balance at 31 December	**3.8**	2.7

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

The movement in the year includes £2.0m (2011 – £1.5m) in respect of the share-based payment charge for the year, and £0.3m (2011 – £0.1m) release in respect of the shares issued in the year under the 2005 Long Term Incentive Plan.

30. Hedging and translation reserves

a) Group

	Hedging reserve Year ended 2012 £m	**Translation reserve Year ended 2012 £m**	**Total Year ended 2012 £m**	Hedging reserve Year ended 2011 £m	Translation reserve Year ended 2011 £m	Total Year ended 2011 £m
Balance at 1 January	**(39.0)**	**43.5**	**4.5**	(37.0)	43.2	6.2
Exchange differences on translation of overseas operations	**–**	**(11.1)**	**(11.1)**	–	(1.4)	(1.4)
Change in fair value of hedging derivatives	**2.0**	**–**	**2.0**	(2.0)	–	(2.0)
Tax on items taken directly to equity	**–**	**–**	**–**	–	1.7	1.7
Balance at 31 December	**(37.0)**	**32.4**	**(4.6)**	(39.0)	43.5	4.5

b) Company

	Hedging reserve Year ended 2012 £m	**Translation reserve Year ended 2012 £m**	**Total Year ended 2012 £m**	Hedging reserve Year ended 2011 £m	Translation reserve Year ended 2011 £m	Total Year ended 2011 £m
Balance at 1 January and 31 December	**–**	**(0.3)**	**(0.3)**	–	(0.3)	(0.3)

31. Retained earnings

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Balance at 1 January	**216.6**	165.1	**71.0**	41.6
Dividends paid	**(16.4)**	(13.1)	**(16.4)**	(13.1)
Net profit for the year	**69.9**	55.0	**32.5**	42.1
Pension actuarial loss	**(12.3)**	(1.8)	**(6.6)**	(0.5)
Transfer from equity reserve	**0.6**	0.9	**0.6**	0.9
Tax on deductible temporary differences	**1.2**	10.5	**–**	–
Balance at 31 December	**259.6**	216.6	**81.1**	71.0

£7.5m (2011 – £7.5m) 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.

32. Own shares

	Group and Company	
	Year ended 2012 £m	Year ended 2011 £m
Balance at 1 January	**–**	–
Movement in the year	**(1.0)**	–
Balance at 31 December	**(1.0)**	–

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 37).

33. Acquisitions

On 2 November 2012, the Group acquired 100% of the issued share capital of GAMFG Precision LLC and its parent company GAMCO Acquisition Company (collectively "GA"). GA is located in Franklin, Wisconsin, USA and specialises in the machining of precision components for fuel systems, pumps and hydraulic systems primarily for off-road heavy-duty diesel engine applications, but with a growing presence in the aerospace industry. Its largest customer is Caterpillar Inc., with Sauer Danfoss Inc., Parker Hannifin Corporation and Woodward Inc. also important purchasers of GA product. GA's components and capabilities are highly complementary to Senior's existing portfolio: largely in the land vehicle emission control segment today but increasingly with its aerospace operations in the future. The cash consideration was £28.1m and the acquisition was funded by the Group's existing debt facilities.

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

Recognised amounts of identifiable assets acquired and liabilities assumed:	£m
Identifiable intangible assets	6.3
Property, plant and equipment	10.2
Inventories	1.7
Financial assets, excluding cash and cash equivalents	3.2
Financial liabilities	(2.7)
Deferred tax liability	(4.7)
Net assets acquired	14.0
Goodwill	17.7
Total consideration	31.7
Consideration satisfied by:	
Cash paid	28.1
Deferred consideration payable	3.6
Total consideration	31.7
Net cash outflow arising on acquisition:	
Cash consideration paid to date	28.1
Net cash outflow arising on acquisition	28.1

The goodwill of £17.7m represents the premium paid in anticipation of future profitability from assets that are not capable of being separately identified and separately recognised such as the assembled workforce as well as the Group's ability to generate significant future value from expanding GA's currently limited aerospace activities through utilisation of the Group's existing relationships and experience in the aerospace industry. £1.8m of the goodwill is expected to be deductible for tax purposes.

The intangible assets acquired as part of the acquisition relate mainly to customer contracts and relationships, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows, and are being amortised over 5.2 years.

The financial assets acquired include trade receivables with a fair value of £3.1m and a gross contractual value of £3.1m, all of which is expected to be collectible.

The deferred consideration payable of £3.6m is made up of £3.7m contingent consideration offset by £0.1m reduction for closing working capital. The contingent consideration arrangement requires further payment by the Group to GA's former owners of six times any EBITDA achieved by GA in excess of £4.7m in 2013, up to a maximum undiscounted payment of £63.0m. The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between £nil and £63.0m. The fair value of the contingent consideration arrangement of £3.7m was estimated based on management's best estimate of GA's 2013 performance at the acquisition date.

Acquisition related costs of £0.3m are included in administrative expenses within trading profit in the Group's Consolidated Income Statement for the year ended 31 December 2012.

The fair value of the acquired identifiable assets and liabilities is provisional pending finalisation of the fair value exercise.

GA contributed £3.6m of external revenue and £0.1m to the Group's operating profit from the date of acquisition to 31 December 2012. If the acquisition had been completed on 1 January 2012, continuing Group revenue for the 12 months ended 31 December 2012 would have been £743.6m and continuing Group operating profit would have been £96.7m.

34. Discontinued operations

On 16 October 2012, the Group disposed of the entire share capital of Senior Hargreaves Limited to the M&W Group.

The results of the discontinued operation, which have been included in the Consolidated Income Statement, were as follows:

	Year ended 2012 £m	Year ended 2011 £m
Revenue	**17.8**	18.4
Expenses	**(17.0)**	(17.4)
Operating profit	**0.8**	1.0
Profit on disposal	**2.5**	–
Tax	**–**	–
Profit for the period from discontinued operations	**3.3**	1.0

During the year, Senior Hargreaves Limited contributed £nil (2011 – £1.7m) to the Group's net operating cash flows, paid £0.1m (2011 – £0.1m) in respect of investing activities and paid £2.0m (2011 – £1.0m) in respect of financing activities.

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

	£m
Property, plant and equipment	1.5
Inventories	0.8
Debtors	3.5
Creditors	(3.1)
Bank overdraft	(0.7)
Profit on disposal	2.5
Total consideration	4.5
Satisfied by:	
Cash and cash equivalents	4.5

35. Notes to the cash flow statement

a) Reconciliation of operating profit/(loss) to net cash from operating activities

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Operating profit/(loss) from continuing operations	**93.7**	82.0	**(6.4)**	(2.7)
Operating profit from discontinued operations	**0.8**	1.0	**–**	–
Operating profit/(loss)	**94.5**	83.0	**(6.4)**	(2.7)
Adjustments for:				
Depreciation of property, plant and equipment	**20.1**	18.0	**0.1**	–
Amortisation of intangible assets	**5.0**	5.0	**–**	–
Share options	**2.3**	2.5	**0.7**	0.6
Loss on disposal of property, plant and equipment	**0.1**	0.3	**–**	–
Pension payments in excess of service cost	**(13.7)**	(7.8)	**(12.9)**	(7.1)
Share of joint venture	**0.1**	–	**–**	–
Exceptional pension charge	**1.9**	–	**1.9**	–
Operating cash flows before movements in working capital	**110.3**	101.0	**(16.6)**	(9.2)
Increase in inventories	**(3.9)**	(7.3)	**–**	–
Decrease/(increase) in receivables	**2.6**	(13.8)	**0.2**	(0.1)
(Decrease)/increase in payables	**(8.9)**	16.5	**(0.2)**	0.2
Decrease in receivables from subsidiaries	**–**	–	**1.1**	0.4
Working capital currency movements	**(0.3)**	(0.1)	**–**	–
Cash generated by/(used in) operations	**99.8**	96.3	**(15.5)**	(8.7)
Income taxes paid	**(8.6)**	(10.7)	**–**	–
Interest paid	**(7.9)**	(8.5)	**(10.3)**	(8.6)
Net cash from/(used in) operating activities	**83.3**	77.1	**(25.8)**	(17.3)

35. Notes to the cash flow statement continued

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 2012 £m	Group Year ended 2011 £m
Net cash from operating activities	**83.3**	77.1
Interest received	**0.3**	0.3
Proceeds on disposal of property, plant and equipment	**0.1**	0.3
Purchases of property, plant and equipment – cash	**(25.3)**	(21.1)
Purchase of intangible assets	**(0.8)**	(1.0)
Free cash flow	**57.6**	55.6

c) Analysis of group net debt

	At 1 January 2012 £m	Cash flow £m	Non-cash items £m	Exchange movement £m	**At 31 December 2012 £m**
Cash	29.3	17.0	–	(1.8)	**44.5**
Overdrafts	(0.8)	0.2	–	–	**(0.6)**
Cash and cash equivalents	28.5	17.2	–	(1.8)	**43.9**
Debt due within one year	(0.2)	0.2	(0.2)	–	**(0.2)**
Debt due after one year	(119.7)	–	0.2	5.9	**(113.6)**
Finance leases	(1.6)	0.6	–	–	**(1.0)**
Forward contracts	–	–	–	–	**–**
Total	(93.0)	18.0	–	4.1	**(70.9)**

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Cash and cash equivalents comprise:				
Cash	**44.5**	29.3	**2.3**	1.3
Bank overdrafts	**(0.6)**	(0.8)	**(2.5)**	(0.4)
Total	**43.9**	28.5	**(0.2)**	0.9

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.

36. Operating lease arrangements

The Group and the Company as lessee

	Group Year ended 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	7.3	6.5	**0.2**	0.2

The Group also received £0.5m under a sub-lease recognised in the Consolidated Income Statement for the year (2011 – £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 2012 £m	Group Year ended 2011 £m	**Company Year ended 2012 £m**	Company Year ended 2011 £m
Within one year	**7.0**	6.9	**–**	0.2
In the second to fifth years inclusive	**19.2**	19.0	**0.3**	–
After five years	**11.2**	12.6	**1.3**	–
	37.4	38.5	**1.6**	0.2

The total of future minimum sub-lease payments expected to be received by the Group under non-cancellable sub-leases at the end of 2012 was £2.7m (2011 – £3.2m).

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 46% (2011 – 51%) of the Group's commitment, (excluding sub-leases) respectively expire in 2026 (with rentals fixed for four years), in 2018 (with rentals fixed for 0.5 years), in 2022 and in 2017.

As at the date of approving the accounts, the Company has guaranteed £1.0m (2011 – £1.1m) of annual lease commitments of certain current and previous subsidiary entities.

37. Share-based payments

The Group recognised total expenses of £2.3m (2011 – £2.4m) related to share-based payments, of which £2.0m (2011 – £1.5m) related to equity-settled share-based payments, and £0.3m (2011 – £0.9m) related to social security costs on share-based payments. At 31 December 2012, the Group had a liability of £0.6m (2011 – £1.3m) arising from share-based payments of which £0.6m (2011 – £1.3m) related to social security costs. The Company recognised total expenses of £0.7m (2011 – £0.6m) related to equity-settled share-based payments. At 31 December 2012 the Company had a liability of £0.3m (2011 – £0.4m) related to social security costs.

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

a) 2005 Long Term Incentive Plan

Equity-Settled Long Term Incentive Plans

1,710,406 shares were awarded under the 2005 Long Term Incentive Plan on 26 March 2012. 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 3% 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 183.40p per share, which is essentially the share price at the date of grant of 195.70p 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 99.80p per share, reflecting an adjustment of 54% 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 195.70p, a risk-free interest rate of 0.6% per annum, expected volatility of 42.0% per annum, net dividend yield of 2.1% per annum, and the performance conditions as noted above. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years.

37. Share-based payments continued

The following share awards were outstanding as at 31 December 2012 and 2011:

	Year ended 2012 Number of shares	Year ended 2011 Number of shares
Outstanding at 1 January	**6,500,854**	6,368,994
Granted	**1,710,406**	1,782,070
Exercised	**(2,679,044)**	(1,256,703)
Forfeited	**(571,004)**	(393,507)
Outstanding at 31 December	**4,961,212**	6,500,854

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.

10,899 notional shares subject to the phantom award were awarded under the 2005 Long Term Incentive Plan on 26 March 2012. No phantom awards vested during the year. The number of notional shares outstanding at 31 December 2012 was 26,812 (2011 – 15,913).

b) Enhanced SMIS Deferred Share Award

520,106 shares were awarded under the Enhanced SMIS Deferred Share Award on 26 March 2012. Shares earned under this award have a three-year deferral period and would be subject to forfeiture by a "bad leaver" over that deferral period. There are no performance criteria for this award. The awards are settled by delivering shares to the participants.

The estimated fair value for the awards granted in the year is 183.40p per share, which is essentially the share price at the date of grant of 195.70p per share less an allowance for dividends foregone over the three-year deferral period.

The following share awards were outstanding as at 31 December 2012 and 2011:

	Year ended 2012 Number of shares	Year ended 2011 Number of shares
Outstanding at 1 January	**–**	–
Granted	**520,106**	–
Exercised	**–**	–
Forfeited	**(69,380)**	–
Outstanding at 31 December	**450,726**	–

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 29 March 2011.

The following options were outstanding as at 31 December 2012 and 2011:

	Year ended 2012		Year ended 2011	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**10,207,074**	**38.22p**	9,544,519	25.01p
Granted	**–**	**–**	1,227,596	144.40p
Exercised	**(8,923,725)**	**25.28p**	(86,311)	25.00p
Forfeited	**(305,267)**	**76.44p**	(477,780)	49.26p
Expired	**–**	**–**	(950)	79.50p
Outstanding at 31 December	**978,082**	**144.40p**	10,207,074	38.22p
Exercisable at 31 December	**71,000**	**144.40p**	–	–

The weighted average share price at the date of exercise for share options exercised during the period was 192.27p (2011 – 157.14p). The options outstanding at 31 December 2012 had an exercise price of 144.40p per share, and a weighted average remaining contractual life of 2.0 years. The options outstanding at 31 December 2011 had exercise prices of 144.40p and 25.00p per share, and a weighted average remaining contractual life of 1.2 years.

38. 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 2012.

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 £5.4m (2011 – £4.9m).

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 2012				31 December 2011			
	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	**(228.8)**	**(44.8)**	**(5.4)**	**(279.0)**	(211.6)	(38.5)	(5.0)	(255.1)
Fair value of plan assets	**205.5**	**36.4**	**–**	**241.9**	186.3	34.3	–	220.6
Plan deficit per balance sheet	**(23.3)**	**(8.4)**	**(5.4)**	**(37.1)**	(25.3)	(4.2)	(5.0)	(34.5)

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

	31 December 2012				31 December 2011			
	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	**211.6**	**38.5**	**5.0**	**255.1**	195.8	33.6	5.1	234.5
Current service costs	**1.2**	**0.6**	**0.1**	**1.9**	1.0	0.5	0.2	1.7
Interest cost	**10.1**	**1.7**	**0.2**	**12.0**	10.4	1.7	0.2	12.3
Contributions by plan participants	**0.7**	**–**	**–**	**0.7**	0.7	–	–	0.7
Actuarial losses/(gains)	**12.3**	**7.5**	**0.6**	**20.4**	11.9	3.5	(0.2)	15.2
Benefits paid	**(9.0)**	**(1.4)**	**(0.3)**	**(10.7)**	(8.2)	(1.3)	(0.2)	(9.7)
Curtailment charge	**1.9**	**–**	**–**	**1.9**	–	–	–	–
Exchange differences	**–**	**(2.1)**	**(0.2)**	**(2.3)**	–	0.5	(0.1)	0.4
At 31 December	**228.8**	**44.8**	**5.4**	**279.0**	211.6	38.5	5.0	255.1

38. Retirement benefit schemes continued

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

	31 December 2012				31 December 2011			
	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	**186.3**	**34.3**	**–**	**220.6**	166.0	30.3	–	196.3
Expected return on plan assets	**7.6**	**1.8**	**–**	**9.4**	8.3	1.6	–	9.9
Actuarial gains	**5.7**	**2.4**	**–**	**8.1**	11.4	2.0	–	13.4
Contributions from employer	**14.2**	**1.1**	**–**	**15.3**	8.1	1.2	–	9.3
Contributions by plan participants	**0.7**	**–**	**–**	**0.7**	0.7	–	–	0.7
Benefits paid	**(9.0)**	**(1.4)**	**–**	**(10.4)**	(8.2)	(1.3)	–	(9.5)
Exchange differences	**–**	**(1.8)**	**–**	**(1.8)**	–	0.5	–	0.5
At 31 December	**205.5**	**36.4**	**–**	**241.9**	186.3	34.3	–	220.6

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

	31 December 2012				31 December 2011			
	UK plans funded £m	**US plans funded £m**	**Unfunded plans £m**	**Total £m**	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost included within operating profit	**1.2**	**0.6**	**0.1**	**1.9**	1.0	0.5	0.2	1.7
Curtailment charge	**1.9**	**–**	**–**	**1.9**	–	–	–	–
Charge included within operating profit	**3.1**	**0.6**	**0.1**	**3.8**	1.0	0.5	0.2	1.7
Interest cost	**10.1**	**1.7**	**0.2**	**12.0**	10.4	1.7	0.2	12.3
Expected return on plan assets	**(7.6)**	**(1.8)**	**–**	**(9.4)**	(8.3)	(1.6)	–	(9.9)
Included within finance costs	**2.5**	**(0.1)**	**0.2**	**2.6**	2.1	0.1	0.2	2.4
Amount recognised in the Income Statement	**5.6**	**0.5**	**0.3**	**6.4**	3.1	0.6	0.4	4.1

Of the current service cost for the year, £1.0m (2011 – £0.9m) has been included in cost of sales, and £0.9m (2011 – £0.8m) has been included in administrative expenses.

Actuarial losses of £12.3m (2011 – £1.8m 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 2012 is £50.6m (2011 – £38.3m).

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Fair value of plan assets				
Equities	**58.7**	52.4	**–**	–
Bonds	**80.6**	67.1	**36.4**	33.9
Gilts	**67.6**	67.9	**–**	–
Cash and net current (liabilities)/assets	**(1.4)**	(1.1)	**–**	0.4
Total	**205.5**	186.3	**36.4**	34.3
Actual return on plan assets	**13.3**	19.7	**4.2**	3.6
Major assumptions (per annum %)				
Inflation	**2.9%**	3.0%	**n/a**	n/a
Increase in salaries	**2.0%**	2.0%	**4.0%**	4.0%
Increase in pensions	**2.9%**	2.9%	**0.0%**	0.0%
Increase in deferred pensions	**2.9%**	3.0%	**0.0%**	0.0%
Rate used to discount plan liabilities	**4.4%**	4.8%	**3.9%**	4.6%
Expected return on assets at 31 December	**4.0%**	4.0%	**5.5%**	5.5%
Life expectancy of a male aged 65 at the year-end	**20.8**	20.7	**19.1**	17.7
Life expectancy of a male aged 65, 20 years after the year-end	**22.7**	22.6	**19.1**	17.7

38. Retirement benefit schemes continued

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

The expected rate of return on assets is calculated as a weighted average rate of return on each asset class. Where such rates are not available in the market, the expected rate of return for each asset class is calculated by giving consideration to inflation, the risk-free rate of return (based on government gilts/securities), and the risk premium (expected return in excess of the risk-free rate). The market provides implied forecasts of both the inflation rate and the risk-free rate. The risk premium is based primarily on historical data adjusted to reflect any systemic changes that have occurred in the relevant markets.

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

	2012 %	2011 %
Equities	**6.2**	6.2
Bonds	**4.1**	4.1
Gilts	**2.2**	2.2
Cash	**2.5**	2.5
Total	**4.0**	4.0

For the UK plan, the estimated impact on the plan deficit at 31 December 2012 for changes in assumptions is as follows:

	Increase in plan deficit £m
0.5% decrease in the discount rate	19.0
One-year increase in life expectancy	6.0
0.5% increase in inflation	10.0

For the UK plan, the Group has agreed with the Trustees to fund the plan deficit over a nine-year period from January 2011 to December 2019. The estimated amounts of contributions expected to be paid during 2013 to the UK plan is £7.8m (£6.7m of which is to fund the past service deficit) and to the USA funded plans is £nil.

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £3.1m (2011 – £2.7m), unfunded closed pension and post-retirement healthcare plans in the USA £0.3m (2011 – £0.4m) and provision for post-retirement payments in France of £2.0m (2011 – £1.9m).

The closed pension and post-retirement healthcare plans in the US have been valued on a Projected Unit Method with the following assumptions: discount rate 3.9%, and annual healthcare cost trend rate of 10.0% until the payment for medical benefits cease in December 2014. The effect of a 1% increase or decrease in the healthcare cost trend rate is negligible to the Group's results. The German plan has been subject to formal actuarial valuation on a Projected Unit Method with the following assumptions: discount rate 3.3%, salary growth 2.0% and inflation 2.0%. 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.

38. Retirement benefit schemes continued

h) History of experience gains and losses

UK plan funded	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	**(228.8)**	(211.6)	(195.8)	(188.8)	(162.8)
Fair value of plan assets	**205.5**	186.3	166.0	149.2	125.5
Plan deficit	**(23.3)**	(25.3)	(29.8)	(39.6)	(37.3)
Experience (loss)/gain on plan liabilities	**(0.7)**	(1.5)	3.8	0.6	0.1
Experience gain/(loss) on plan assets	**5.7**	11.4	5.0	8.6	(24.9)

US plan funded	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	**(44.8)**	(38.5)	(33.6)	(30.0)	(31.1)
Fair value of plan assets	**36.4**	34.3	30.3	26.2	21.8
Plan deficit	**(8.4)**	(4.2)	(3.3)	(3.8)	(9.3)
Experience (loss)/gain on plan liabilities	**(1.1)**	(0.1)	0.6	(0.3)	0.1
Experience gain/(loss) on plan assets	**2.4**	2.0	0.8	1.7	(5.2)

Unfunded plans	**2012 £m**	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	**(5.4)**	(5.0)	(5.1)	(4.7)	(4.6)
Fair value of plan assets	**–**	–	–	–	–
Plan deficit	**(5.4)**	(5.0)	(5.1)	(4.7)	(4.6)
Experience gain/(loss) on plan liabilities	**–**	–	–	–	–

39. Related party transactions

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

	Year ended 2012 £m	Year ended 2011 £m
Transactions in year		
Management charges	**2.2**	2.4
Pension recharges	**0.6**	0.6
Gain on foreign exchange contracts held for trading	**–**	0.1
Interest receivable	**2.1**	5.6
Interest payable	**(2.3)**	(0.9)
Dividend received	**50.0**	50.4
Balances at year-end		
Investments in subsidiaries	**251.8**	251.8
Amounts due from subsidiaries	**142.6**	129.1
Fair value of currency derivative assets	**–**	0.7
Amounts due to subsidiaries	**(115.3)**	(108.9)

The management and interest charges are made on terms equivalent to those that prevail in arm's length transactions.

The remuneration of the Directors and senior managers, who are the key management personnel of the Group, is set out in the Remuneration Report on pages 44 to 57.

40. Post balance sheet event

On 8 February 2013, the Group acquired 100% of the issued share capital of Atlas Composites Limited and its parent company Castlegate 408 Limited (collectively "Atlas"). Atlas, based in Ilkeston, Derbyshire, UK, designs and manufactures composite structures, components and tooling for aerospace, motor sport, defence and communications markets. The cash consideration, net of cash acquired of £0.1m, was £2.4m and the acquisition was funded from the Group's existing debt facilities.

Five-year summary

Group income statement	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Revenue					
Continuing operations	**712.0**	622.3	552.2	525.2	543.2
Discontinued operations	**17.8**	18.4	14.7	14.9	19.2
	729.8	640.7	566.9	540.1	562.4
Adjusted operating profit					
Continuing operations	**100.6**	87.3	74.4	58.6	63.5
Discontinued operations	**0.8**	1.0	1.0	0.8	1.0
	101.4	88.3	75.4	59.4	64.5
(Loss)/profit on sale of fixed assets	**(0.1)**	(0.3)	0.2	(0.1)	–
Exceptional pension (charge)/gain	**(1.9)**	–	–	6.3	–
Amortisation of intangible assets from acquisitions	**(4.3)**	(4.4)	(4.6)	(4.6)	(4.7)
Impairment of goodwill	**–**	–	(8.7)	–	–
Acquisition costs	**(0.6)**	(0.6)	(0.1)	–	–
Operating profit	**94.5**	83.0	62.2	61.0	59.8
Investment income/finance costs, net	**(7.7)**	(7.9)	(7.9)	(7.2)	(6.8)
Net finance cost of retirement benefit obligations	**(2.6)**	(2.4)	(2.2)	(4.2)	(1.7)
Profit on disposal of discontinued operations	**2.5**	–	–	–	–
Profit before tax	**86.7**	72.7	52.1	49.6	51.3
Tax	**(16.8)**	(17.7)	(11.7)	(10.6)	(12.1)
Profit for the year	**69.9**	55.0	40.4	39.0	39.2
Depreciation and amortisation of intangibles	**25.1**	23.0	24.6	25.4	23.4
Gross capital expenditure (including finance lease assets)	**26.1**	22.3	14.2	12.6	24.5
Basic earnings per share	**17.11p**	13.68p	10.11p	9.79p	9.92p
Diluted earnings per share	**16.69p**	13.21p	9.77p	9.58p	9.78p
Adjusted earnings per share	**17.75p**	14.55p	12.01p	8.91p	10.63p
Dividends in respect of year – per share	**4.65p**	3.80p	3.12p	2.600p	2.600p
– value	**19.2**	15.3	12.5	10.4	10.4
Group balance sheets					
Non-current assets	**387.4**	362.9	292.2	299.1	343.7
Net current assets	**94.8**	75.0	93.3	63.5	44.5
Non-current liabilities	**(169.3)**	(161.6)	(159.6)	(177.8)	(212.0)
Net assets	**312.9**	276.3	225.9	184.8	176.2
Net borrowings	**(70.9)**	(93.0)	(63.7)	(102.3)	(174.5)
Group cash flow					
Net cash from operating activities	**83.3**	77.1	70.2	69.8	74.6
Interest received	**0.3**	0.3	0.7	2.6	1.7
Proceeds from disposal of property, plant and equipment	**0.1**	0.3	2.1	0.3	0.6
Purchase of property, plant and equipment – cash	**(25.3)**	(21.1)	(13.5)	(12.3)	(23.8)
Purchase of intangible assets	**(0.8)**	(1.0)	(0.7)	(0.3)	(0.7)
Free cash flow	**57.6**	55.6	58.8	60.1	52.4
Dividends paid	**(16.4)**	(13.1)	(10.8)	(10.4)	(10.3)
Acquisitions less disposals	**(23.6)**	(68.6)	(8.3)	0.5	(43.6)
Investment in joint venture	**(0.9)**	–	–	–	–
Share issues	**2.3**	–	0.3	0.1	1.3
(Purchase)/Sale of shares held by employee benefit trust	**(1.0)**	–	1.4	–	–
(Decrease)/increase in loans	**(0.2)**	(0.2)	(4.6)	(15.5)	17.5
Decrease in finance leases	**(0.6)**	(0.4)	(0.2)	(0.2)	(0.2)
Cash inflow/(outflow) on forward contracts	**–**	0.2	–	(25.2)	(13.0)
Increase/(decrease) in cash and cash equivalents	**17.2**	(26.5)	36.6	9.4	4.1

Principal Group undertakings

Operating companies	Business units	Locations
Senior UK Limited (incorporated in England and Wales)	Senior Aerospace Bird Bellows	Congleton
	Senior Aerospace BWT	Macclesfield
	Senior Flexonics Crumlin	Crumlin
Weston EU Limited (incorporated in England and Wales)	Senior Aerospace Weston EU	Colne
Weston SEA Limited (incorporated in Thailand)	Senior Aerospace Weston SEA	Chonburi, Thailand
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 Damar	Monroe, Washington
	Senior Aerospace SSP	Burbank, California
	Senior Aerospace Connecticut*	Enfield, Connecticut
	Senior Flexonics Bartlett	Bartlett, Illinois
	Senior Flexonics GAMFG Precision***	Franklin, Wisconsin
	Senior Flexonics Pathway	New Braunfels, Texas
Senior Aerospace GmbH (incorporated in Switzerland)	Senior Aerospace Mexico	Saltillo, Mexico
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 Flexonics 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 Flexonics GmbH (incorporated in Germany)	Senior Flexonics Germany	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

* Senior Aerospace Sterling Machine changed its name to Senior Aerospace Connecticut on 2 April 2012.
** Senior Automotive Blois SAS changed its name to Senior Flexonics Blois SAS on 1 January 2013.
*** Senior Flexonics GAMFG Precision was acquired on 2 November 2012 and merged into Senior Operations LLC on 30 November 2012.

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.

The Group undertakings listed above include only those that, in the opinion of the Directors, principally affect the profits or assets of the Group. A full list of all Group undertakings will be appended to the Annual Return 2012.

Senior Hargreaves Limited was disposed of on 16 October 2012.

Additional shareholder information

Analysis of shareholders at 31 December 2012

	Shareholders		Issued shares	
	Number	%	Millions	%
By category				
Corporate bodies	939	27.68	399.64	96.57
Other shareholders	2,454	72.32	14.21	3.43
	3,393	**100.00**	**413.85**	**100.00**
By range of holdings				
1 – 24,999	2,951	86.97	11.99	2.90
25,000 – 49,999	125	3.68	4.27	1.03
50,000 – 249,999	143	4.21	16.09	3.89
250,000 – 499,999	47	1.39	17.00	4.11
500,000 – 999,999	44	1.30	32.02	7.74
1,000,000 – and over	83	2.45	332.48	80.33
	3,393	**100.00**	**413.85**	**100.00**

The number of shares in issue at 31 December 2012 was 413,851,869.

Share Registrars

All shareholder records are maintained by Equiniti and all correspondence should be addressed to the Registrar, Senior plc at the Equiniti address shown on the inside back cover, 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 26 April 2013 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 2013 AGM Notice of Meeting and Form of Proxy.

2013 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.

Monday 25 February
Preliminary announcement of the 2012 Annual Results.

Friday 8 March
Publication of the Annual Report & Accounts 2012.

Thursday 25 April
Interim Management Statement.

Friday 26 April
Annual General Meeting.

Wednesday 1 May
Shares ex-dividend for the 2012 final dividend.

Friday 3 May
Record date for shareholders on register to receive 2012 final dividend.

Friday 31 May
Payment of the 2012 final dividend.

Monday 29 July
Preliminary announcement of the 2013 Interim Results.

Friday 2 August
Publication of the Interim Report 2013.

Monday 21 October
Interim Management Statement.

Wednesday 23 October
Shares ex-dividend for the 2013 interim dividend.

Friday 25 October
Record date for shareholders on register to receive 2013 interim dividend.

Friday 29 November
Payment of the 2013 interim dividend.

Officers and advisers

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Abbots House, Abbey Street, Reading RG1 3BD

ShareGift
If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The ShareGift Transfer Form may be obtained from Equiniti, the Company's Registrars, at www.shareview.co.uk. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org.

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