Senior plc
Interim Report 2007

Senior plc Corporate profile

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

Aerospace 52% of Group revenue

Engine structures and mountings, fluid control systems, metallic high-pressure ducting, composite low-pressure ducting.

Flexonics 48% of Group revenue

Flexible exhaust connectors, engine emission pipework, diesel fuel systems, metallic and fabric expansion joints, flexible metallic hoses, ventilation ducting.

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Financial Highlights

	Half-year to 30 June 2007	Half-year to 30 June 2006	
Revenue	**£237.8m**	£195.6m	+21.6%
Operating profit	**£20.0m**	£11.6m	+72.4%
Profit before taxation	**£16.3m**	£8.7m	+87.4%
Basic earnings per share	**3.29p**	2.13p(2)	+54.5%
Adjusted profit before taxation(1)	**£17.7m**	£9.1m	+94.5%
Adjusted earnings per share(1)	**3.50p**	2.22p(2)	+57.7%
Proposed interim dividend per share	**0.700p**	0.619p(2)	+13.1%
Free cash flow(3)	**£6.8m**	(£2.4m)	
Net borrowings	**£92.8m**	£75.6m	

Note (1) Adjusted profit before taxation and adjusted earnings per share arise before a £0.2m loss on disposal of fixed assets (2006 – £nil), a £1.7m charge for amortisation of intangible assets acquired on acquisitions (2006 – £0.4m) and the release of a provision set up on a previous acquisition of £0.5m (2006 – £nil).

(2) 2006 earnings and dividends per share have been adjusted for the bonus element of the 2006 rights issue. Previously reported basic earnings per share was 2.24p, adjusted earnings per share was 2.33p and dividends per share was 0.650p.

(3) See Note 10(b) for derivation of free cash flow.

Chairman's Statement

Aerospace and industrial markets underpin 95% increase in adjusted profit before tax.

The Group has delivered an outstanding set of interim results with adjusted profit before tax 95% ahead of the first half of 2006. In aerospace, which now contributes two thirds of the Group's profits, build rates of current aircraft continue to increase and new aircraft, such as the Boeing 787 and Airbus 380, are due to be delivered to their first customers during the coming twelve months. This, together with an increasing contribution from the Group's new heavy duty diesel engine products and generally strong industrial markets, means that future prospects for the Group remain very encouraging. Consequently, the Board is pleased to announce a 13.1% increase in the interim dividend.

Financial results

Total Group revenue increased by 22% to £237.8m (H1 2006 – £195.6m) and operating profit by 72% to £20.0m (H1 2006 – £11.6m) largely due to strong aerospace and industrial markets, much improved margins and excellent performances from businesses acquired during 2006.

Adjusted profit before tax, the measure which the Board believes most accurately reflects the true underlying performance of the business, increased by 95% to £17.7m (H1 2006 – £9.1m). Adjusted profit before tax measures profit before the loss on sale of fixed assets, the charge for amortisation of intangible assets arising on acquisitions, and the benefit of the release of a provision originally set up on a previous acquisition.

Approximately 61% of Group revenue originates from operations located in North America, with the Group's results being achieved despite the much weaker average £ : US$ exchange rate of 1.97 for the period (H1 2006 – 1.78). Collectively, exchange rate movements had the effect of reducing the improvements over the prior year by £13.3m for revenue, £1.2m for adjusted operating profit and £1.0m for adjusted profit before tax.

Adjusted earnings per share increased by 57.7% to 3.50p (H1 2006 – 2.22p restated for the bonus element of the rights issue undertaken in late 2006 to partially fund the acquisition of AMT) despite an increased tax charge of 23.2% (H1 2006 – 17.6%) on adjusted profit before tax.

Net debt for the Group decreased by £3.9m to £92.8m at the end of the first half (31 December 2006 – £96.7m) as investments in working capital and fixed assets were more than offset by improved profit levels and the benefit the weakening US$ had on net debt when reported in Pounds Sterling.

The Group's results were particularly pleasing as they illustrate the growing benefit of the Group's strategy to increase its exposure to the aerospace and heavy duty diesel markets, whilst reducing its exposure to the more challenging passenger vehicle market. The financial results are discussed in greater depth in the Interim Management Report which follows this Statement.

Operations

In the Aerospace Division, revenue increased by 30% to £123.6m (H1 2006 – £95.3m) and adjusted operating profit by 99% to £16.1m (H1 2006 – £8.1m) such that operating margins improved significantly to 13.0% (H1 2006 – 8.5%). These results mainly reflect the general strength of the commercial aerospace market, where Boeing and Airbus together delivered 451 aircraft (H1 2006 – 414), as well as excellent performances from the two businesses, AMT and Sterling Machine, acquired during 2006. With Boeing and Airbus collectively receiving 1,162 net orders for new aircraft in the first half of 2007 (2.6 x the delivery rate), the future of the commercial aerospace market remains very strong.

The Flexonics Division also had strong results with revenue increasing by 14% to £114.4m (H1 2006 – £100.6m), adjusted operating profits increasing by 33% to £8.1m (H1 2006 – £6.1m) and the operating margin improving to 7.1% (H1 2006 – 6.1%). The main reason for the much improved results was the strength of a number of industrial markets such as power generation, chemical processing and oil and gas. The first half of 2007 also saw the successful ramp up in production of the new North American heavy duty diesel engine products with an increasing contribution across the period.

Dividend

The interim dividend is being increased by 13.1% to 0.700 pence per share (H1 2006 – 0.619p as restated for the bonus element of the rights issue undertaken in late 2006 to partially fund the acquisition of AMT). The interim dividend will be paid on 30 November 2007 to shareholders on the register at the close of business on 2 November 2007. With encouraging prospects for the Group, the Board anticipates continuing to follow a progressive dividend policy in the future.

Employees and the Board

These results would not have been achieved without the dedication and hard work of Senior's employees and I would like to thank them for their endeavours on behalf of the Group.

In addition, on behalf of the Board and all of his colleagues, I would like to express thanks to James Kerr-Muir for his service to the Group over the past ten years and, in particular, for the successful way he guided the Group during his six years as Chairman. I am delighted to have been appointed as Chairman, following the retirement of James, and I look forward to continuing the strategy the Group has successfully developed and implemented in recent years.

Finally, I am pleased to welcome David Best as a Non-Executive Director of the Board. David, who joined the Board in May, brings with him a wealth of financial and international experience with other public companies which will be most valuable to Senior.

Outlook

The commercial aerospace industry continues to go from strength to strength with the wide-bodied sector, including Boeing, Airbus and the engine manufacturers, being the key driver. In the first half of 2007, Boeing and Airbus both saw orders running at around 2.6 x the level of deliveries such that their collective order book increased by 14% to 5,699 aircraft with the new Boeing 787, on which Senior has more sales content than on any previous aircraft, accounting for nearly 700 of the backlog. In the Flexonics Division, the new North American heavy duty diesel products are being produced in healthy volumes, many of the industrial markets in which the Group operates, such as power and oil and gas, are strong while automotive markets remain subdued.

The buoyant state of the aerospace industry, which now accounts for two thirds of the Group's profits, together with healthy industrial markets and continued growth in the heavy duty diesel products, means that future prospects for the Group remain very encouraging.

Martin Clark Chairman 1 August 2007

Interim Management Report

To the members of Senior plc

This Interim Management Report ("IMR") has been prepared solely to provide additional information to enable shareholders to assess the Company's strategies and the potential for those strategies to be fulfilled. It should not be relied upon by any other party or for any other purpose.

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

This IMR has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters which are significant to Senior plc and its subsidiary undertakings when viewed as a whole. The IMR discusses the following aspects of the business: operations; long-term strategy and business objectives; the results for the six months ended 30 June 2007; risks and uncertainties facing the Group during the second half of the 2007 financial year; and the future outlook for the Group.

Operations

Senior is an international manufacturing group with operations in eleven countries. Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide civil aerospace, defence, diesel engine, exhaust system and energy markets. Major customers include Boeing, Airbus, UTC, GE, Rolls-Royce, General Motors, Ford, PSA and Cummins. The Group is split into two Divisions, Aerospace and Flexonics. The Aerospace Division consists of twelve operating companies (seven in North America and five in Europe) and the Flexonics Division has eleven operating companies (three in North America, five in Europe and three in the Rest of the World).

The commercial aerospace market, representing 64% of the Aerospace Division's sales, continued to grow during the period with Airbus and Boeing collectively delivering 451 aircraft, 9% up on the first half of 2006. In the Flexonics Division, the power and petro-chemical markets were particularly strong whilst the market for passenger vehicles was subdued. Also helping revenue growth in the Flexonics Division was the ramp up in production of the Group's new North American heavy duty diesel products.

Long-term strategy and business objectives

In the Group's most recent Annual Report, there was a report on Senior's strategy for accelerating growth and creating real shareholder value as well as the five financial, and two non-financial, measures by which the Group implements and monitors its performance against its strategy.

In the first six months of the current financial year, the Group made significant progress in achieving its stated strategy. This may be demonstrated by considering the outcome of its key performance measures, namely: (i) revenue, on a constant currency basis and excluding the effect of AMT which was acquired during the second half of 2006, was up 17.2% (well ahead of the "better than inflation" target); (ii) adjusted earnings per share grew 57.7% (well ahead of inflation); (iii) the return on revenue margin increased to 9.0% (well ahead of the 6.1% achieved in the first half of 2006 and the 6.8% reported for all of 2006); (iv) free cash flow improved to a £6.8m inflow (well ahead of the £2.4m outflow in the first half of 2006); and (v) the annualised return on average capital employed was 18.5% (well ahead of the Group's cost of capital and the stated 15.0% target). Progress was also made in both of the Group's non-financial measures with CO_2 emissions/£m revenue and lost time injury frequency rate both showing declines over the ratios reported for 2006.

Results for the six months ended 30 June 2007

A summary of the Group's operating results, on a constant currency basis (i.e. H1 2007 and 2006 results both translated at 2007 first half average exchange rates), are set out below.

	Revenue		Adjusted OP Profit[1]		Margin	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 %**	2006 %
Aerospace	**123.6**	88.6	**16.1**	7.6	**13.0**	8.6
Flexonics	**114.4**	94.0	**8.1**	5.4	**7.1**	5.7
Inter-segment sales	**(0.2)**	(0.3)	**–**	–	**–**	–
Central costs	**–**	–	**(2.8)**	(2.2)	**–**	–
Total – constant currency	**237.8**	182.3	**21.4**	10.8	**9.0**	5.9
Exchange	**–**	13.3	**–**	1.2	**–**	–
Total – as reported	**237.8**	195.6	**21.4**	12.0	**9.0**	6.1

Adjusted operating profit[1] is the profit before the loss on sale of fixed assets, amortisation of intangible assets arising on acquisitions, release of a provision set up on an acquisition undertaken in 1998, and before interest and tax charges. It may be reconciled to the operating profit shown in the Condensed Consolidated Income Statement as follows:

	2007 £m	2006 £m
Operating profit per financial statements	**20.0**	11.6
Loss on sale of fixed assets	**0.2**	–
Amortisation of intangible assets from acquisitions	**1.7**	0.4
Release of provision set up on acquisition	**(0.5)**	–
Adjusted operating profit	**21.4**	12.0

Revenue

Total Group revenue increased by 21.6% over the first half of 2006 to £237.8m (H1 2006 – £195.6m). On a constant currency basis the Aerospace Division's revenue grew by 39.5% to £123.6m, largely due to the underlying strength of the commercial aerospace market, new programme wins and the acquisition of AMT which took place at the end of October 2006. Excluding AMT, the Division's revenue grew by 17.2%. Buoyed by the start of production of the new heavy duty diesel products and the strength of a number of industrial markets, revenue in the Flexonics Division increased by 21.7%, on a constant currency basis.

Operating profit

Group operating profit increased by 72.4%, to £20.0m (H1 2006 – £11.6m). Adjusted operating profit increased by £9.4m (78.3%) despite a £1.2m adverse currency effect. On a constant currency basis, the adjusted operating profit of the Aerospace Division increased by 111.8% (50.0% excluding AMT), to £16.1m, and that of the Flexonics Division by 50.0%, to £8.1m, when compared to the first half of 2006.

The significant improvement in profitability was due to both revenue growth and the much improved operating margins, from 8.6% to 13.0% for the Aerospace Division and from 5.7% to 7.1% for the Flexonics Division.

Finance costs

Finance costs, net of investment income, increased to £3.7m (H1 2006 – £2.9m), largely as a result of the increased level of Group net debt following the acquisition of AMT towards the end of 2006.

Profit before tax

Adjusted profit before tax increased by 94.5% to £17.7m (H1 2006 – £9.1m). Reported profit before tax improved by 87.4% to £16.3m (H1 2006 – £8.7m).

Tax charge

The total tax charge increased to £3.5m (H1 2006 – £1.5m). If the net tax benefits, arising from the loss on sale of fixed assets, amortisation of intangible assets arising on acquisitions and release of the provision set-up on acquisition, totalling £0.6m (H1 2006 – £0.1m) are added back, then the underlying tax charge of £4.1m (H1 2006 – £1.6m) represents an underlying rate of 23.2% (H1 2006 – 17.6%) on the adjusted profit before tax. The increase in the underlying rate is principally due to the higher level of Group taxable profits arising from the USA, where the tax rate is approximately 40%.

Earnings per share

Largely due to the rights issue undertaken to partially fund the acquisition of AMT in October 2006, the weighted average number of shares, for the purposes of calculating undiluted earnings per share for the first half of 2007, increased to 388.9 million (H1 2006 – 337.5 million as restated to reflect the bonus element of the rights issue). Adjusted earnings per share increased by 57.7% to 3.50p (H1 2006 – 2.22p restated for the bonus element of the rights issue). Undiluted basic earnings per share increased to 3.29p (H1 2006 – 2.13p restated) and diluted basic earnings per share increased to 3.22p (H1 2006 – 2.09p restated).

Dividends

An interim dividend of 0.700 pence per share, up 13.1% on the prior year's interim dividend (0.619p restated for the bonus element of the rights issue) is proposed. Given the increase in the number of shares in issue, the total cost of £2.7m (2006 interim – £2.1m) represented an increase of 28.6%.

Cash flow

The Group's free cash flow, the derivation of which is set out in Note 10(b) of the Condensed Consolidated Interim Financial Statements, improved by £9.2m, to a £6.8m inflow (H1 2006 – £2.4m outflow). The improvement was mainly due to the increased level of profitability. Net capital expenditure was £7.8m (H1 2006 – £11.4m) after £1.8m (H1 2006 – £nil) of proceeds from the sale of fixed assets. As anticipated, the emphasis switched to the Aerospace Division, with capacity being expanded to meet the growing demands of the industry. As a consequence, 55% of the £9.6m gross capital expenditure related to the Aerospace Division, compared to only 28% for the first half of 2006 when capital was principally spent to put the heavy duty diesel engine products into production. Net cash flow was an inflow of £0.2m (H1 2006 – £19.3m outflow).

Net debt

Net debt reduced by £3.9m over the six month period to £92.8m at 30 June 2007 (31 December 2006 – £96.7m), principally because of a £3.7m foreign exchange benefit. Almost 90% of the Group's gross borrowings are denominated in US$, which weakened from $1.96 : £1 at the beginning of the year to $2.01: £1 at 30 June 2007, causing a reduction in reported net debt.

Change in accounting policies

In the current financial year, the Group will adopt International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (IFRS7) for the first time. As IFRS7 is a disclosure standard, there is no impact of a change in accounting policy on these interim financial statements for the first half of 2007. Full details of the change will be disclosed in the Group's Annual Report for the year ended 31 December 2007.

Risks and uncertainties

There are a number of potential risks and uncertainties which may have a material impact on the Group's performance over the remaining six months of this financial year and which could cause the actual results to differ materially from the expected and historical results.

These were discussed in some depth in the Group's Annual Report for the 2006 financial year, where the subject areas of competitors, markets and customers, manufacturing, environmental, foreign exchange, interest rates and defined benefit pension plans were covered. It is considered that these still remain the most likely areas of potential risk and uncertainty with the position largely unchanged from that set out in the 2006 Annual Report.

The most meaningful changes during the first half of 2007 relate to the Group's increased exposure to the commercial aerospace market, the North American market and also to a single customer. Following the acquisition of AMT, and because of the continuing strength of the aerospace industry, sales to the commercial aerospace market (wide-bodied, regional and business jets) represented 33% of the Group's first half sales. These markets are expected to remain buoyant for a number of years, on the back of record order books for Boeing and Airbus, but should this not be the case then the Group's financial performance may be adversely affected.

88% of the Group's first half revenue was derived from businesses located outside the United Kingdom, with 61% related to operations in North America. Fluctuations in the value of foreign currencies, particularly the US Dollar, in relation to the UK Pound have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pounds Sterling. However, with the Group's external debt being mainly US$ denominated and its cost base being generally denominated in the same currency as its sales, the effect of currency fluctuations on operating profit is mitigated to a reasonable extent. Hence, despite the £ : US$ exchange rate moving from an average of 1.78 for the first half of 2006 to 1.97 for the first half of 2007, a 9.6% decline, the Group still produced a very healthy set of interim results.

The Group's largest customer, now an aerospace customer, accounted for 7% of first half sales. This customer is financially strong and has a very healthy order book. The immediate and total loss of such a customer is considered to be highly improbable given that many parts are supplied from a number of Senior's operations to a range of customer locations and many products are sold under long-term agreements.

Future outlook

The commercial aerospace industry for wide-bodied, regional and business jets continues to go from strength to strength. It currently accounts for nearly two-thirds of the Group's Aerospace Divisional sales with the wide-bodied market, including Boeing, Airbus and the engine manufacturers, being the key driver. In the first half of 2007, Boeing and Airbus both saw orders running at around 2.6 x the level of deliveries such that their collective order book increased from 4,988 to 5,699 aircraft (up 14%) over the six month period.

Consequently, both manufacturers continue to increase their build rates. The new Boeing 787 is due to fly for the first time in the autumn of this year and to be delivered to its first customer in the middle of 2008. Boeing already has almost 700 orders for the aircraft and Senior has more sales content on the 787 than on any previous aircraft. Launches of other new aircraft, such as the Airbus A380, and the military A400M and JSF platforms, will also help drive future growth of the Group's Aerospace Division. The business jet sector is also seeing similar buoyant market conditions whilst the regional jet market (typically 30 to 90 seat aircraft) is showing signs of modest growth after a period of challenging conditions. The military/defence sector, which accounts for 21% of first half Aerospace Divisional sales, remains healthy but stable.

In the Flexonics Division, the Group is producing its new North American heavy duty diesel products in healthy volumes with operational efficiencies improving as the ramp up period comes to an end. Heavy duty diesel products represent nearly 10% of the Flexonics Division's sales and are expected to grow further over the coming year. The industrial markets in which the Group operates – power generation, oil and gas, chemical processing and HVAC – are strong, particularly in Asia where the weaker US$ has made the Division's Pathway operation increasingly competitive. The one area of market weakness has been in automotive, where sales of passenger vehicles for the first half of 2007 declined by between one and two percent in both North America and Europe compared to the first half of 2006. However, the decline was largest in the SUV and light truck market, where the Group has less exposure, and the Division's sales remained at satisfactory levels.

In summary, the aerospace industry is in a healthy state, with build rates of aircraft continuing to increase, new aircraft such as the B787 and A380 soon to be launched, order books of the aircraft manufacturers generally at record levels and passenger growth in Asia and the Middle East accelerating. The strong aerospace market, together with healthy industrial markets and an increasing contribution from heavy duty diesel products, indicate that future prospects for the Group are very encouraging.

Graham Menzies Group Chief Executive

Mark Rollins Group Finance Director

Condensed Consolidated Income Statement

for the half-year ended 30 June 2007 (unaudited)

	Notes	**Half-year ended 30 June 2007 £m**	Half-year ended 30 June 2006 £m	Year ended 31 Dec 2006 £m
Continuing operations				
Revenue	3	**237.8**	195.6	387.9
Trading profit		**20.2**	11.6	24.9
Loss on sale of fixed assets		**(0.2)**	–	(0.4)
Operating profit(1)	3	**20.0**	11.6	24.5
Investment income		**0.4**	0.5	0.9
Finance costs		**(4.1)**	(3.4)	(7.3)
Profit before tax(2)		**16.3**	8.7	18.1
Tax	5	**(3.5)**	(1.5)	(2.9)
Profit for the period		**12.8**	7.2	15.2
Attributable to:				
Equity holders of the parent		**12.8**	7.2	15.2
Earnings per share				
Basic	7	**3.29p**	2.13p	4.35p
Diluted	7	**3.22p**	2.09p	4.25p
(1) Adjusted operating profit	4	**21.4**	12.0	26.2
(2) Adjusted profit before tax	4	**17.7**	9.1	19.8

Condensed Consolidated Statement of Recognised Income and Expense

for the half-year ended 30 June 2007 (unaudited)

	Half-year ended 30 June 2007 £m	Half-year ended 30 June 2006 £m	Year ended 31 Dec 2006 £m
Gains/(losses) on cash flow hedges	**0.2**	(1.4)	(0.4)
Gains on revaluation of financial instruments	**1.2**	1.9	3.5
Exchange differences on translation of foreign operations	**(1.7)**	(5.3)	(10.5)
Actuarial gains/(losses) on defined benefit pension schemes	**10.7**	1.6	(1.0)
Tax on items taken directly to equity	**–**	0.5	(0.7)
Net income/(loss) recognised directly in equity	**10.4**	(2.7)	(9.1)
Amounts transferred to profit or loss on cash flow hedges	**0.2**	(0.1)	–
Profit for the period	**12.8**	7.2	15.2
Total recognised income and expense for the period	**23.4**	4.4	6.1
Attributable to:			
Equity holders of the parent	**23.4**	4.4	6.1

Condensed Consolidated Balance Sheet

as at 30 June 2007 (unaudited)

	Notes	**30 June 2007 £m**	30 June 2006 £m	31 Dec 2006 £m
Non-current assets				
Goodwill		**109.4**	85.6	111.0
Other intangible assets		**13.1**	3.1	15.1
Property, plant and equipment	8	**86.3**	80.1	87.6
Deferred tax assets		**0.2**	0.1	0.1
Trade and other receivables		**3.3**	3.4	3.7
Total non-current assets		**212.3**	172.3	217.5
Current assets				
Inventories		**73.2**	53.9	69.8
Construction contracts		**3.0**	4.3	3.5
Trade and other receivables		**83.6**	65.7	67.5
Cash and cash equivalents		**12.1**	6.5	7.2
Total current assets		**171.9**	130.4	148.0
Total assets		**384.2**	302.7	365.5
Current liabilities				
Trade and other payables		**90.3**	70.1	82.1
Tax liabilities		**10.7**	10.3	10.2
Obligations under finance leases		**0.2**	0.2	0.2
Bank overdrafts and loans		**0.1**	13.7	13.1
Total current liabilities		**101.3**	94.3	105.6
Non-current liabilities				
Bank and other loans		**104.9**	66.7	90.2
Retirement benefit obligations	9	**26.0**	37.0	37.5
Deferred tax liabilities		**4.7**	1.4	3.3
Obligations under finance leases		**1.3**	1.5	1.4
Others		**0.6**	0.3	0.4
Total non-current liabilities		**137.5**	106.9	132.8
Total liabilities		**238.8**	201.2	238.4
Net assets		**145.4**	101.5	127.1
Equity				
Issued share capital		**39.0**	32.5	39.0
Share premium account		**11.2**	11.1	11.2
Equity reserve		**1.1**	0.6	0.8
Distributable reserve		**19.4**	–	19.4
Hedging and translation reserve		**(6.2)**	(1.9)	(5.9)
Retained earnings		**82.3**	60.5	64.0
Own shares		**(1.4)**	(1.3)	(1.4)
Equity attributable to equity holders of the parent		**145.4**	101.5	127.1
Total equity		**145.4**	101.5	127.1

Condensed Consolidated Cash Flow Statement

for the half-year ended 30 June 2007 (unaudited)

	Notes	**Half-year ended 30 June 2007 £m**	Half-year ended 30 June 2006 £m	Year ended 31 Dec 2006 £m
Net cash from operating activities	10a)	**14.4**	8.4	22.3
Investing activities				
Interest received		**0.2**	0.6	1.3
Disposal of subsidiary		**–**	–	0.1
Proceeds on disposal of property, plant and equipment		**1.8**	–	2.2
Purchases of property, plant and equipment		**(9.3)**	(11.3)	(20.1)
Purchases of intangible assets		**(0.3)**	(0.1)	(0.6)
Acquisition of Sterling Machine		**–**	(21.4)	(21.5)
Acquisition of AMT		**(1.2)**	–	(58.3)
Net cash used in investing activities		**(8.8)**	(32.2)	(96.9)
Financing activities				
Dividends paid		**(5.4)**	(4.4)	(6.5)
Repayment of borrowings		**(12.6)**	(1.7)	(7.1)
Repayments of obligations under finance leases		**(0.1)**	(0.1)	(0.2)
Share issues		**–**	8.9	34.8
New loans raised		**17.1**	20.5	53.1
Net cash inflow/(outflow) on forward contracts		**0.5**	(0.9)	(0.2)
Net cash (used in)/from financing activities		**(0.5)**	22.3	73.9
Net increase/(decrease) in cash and cash equivalents		**5.1**	(1.5)	(0.7)
Cash and cash equivalents at beginning of period		**7.0**	8.5	8.5
Effect of foreign exchange rate changes		**–**	(0.5)	(0.8)
Cash and cash equivalents at end of period	10c)	**12.1**	6.5	7.0

1. General information

The information for the year ended 31 December 2006 does not constitute the Group's statutory accounts for 2006 as defined in Section 240 of the Companies Act 1985. Statutory accounts for 2006 have been delivered to the Registrar of Companies. The Auditors' report on those accounts was unqualified and did not contain statements under Sections 237(2) or (3) of the Companies Act 1985.

These interim Financial Statements, which were approved by the Board of Directors on 31 July 2007, have not been audited or reviewed by the Auditors.

2. Accounting policies

These interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual Financial Statements for the year ended 31 December 2006.

In the current financial year, the Group will adopt International Financial Reporting Standard 7 "Financial Instruments: Disclosures" (IFRS7) for the first time. As IFRS7 is a disclosure standard, there is no impact of a change in accounting policy on these interim Financial Statements. Full details of the change will be disclosed in the Group's Annual Report for the year ended 31 December 2007.

3. Business segments

For management purposes, the Group is organised into two operating divisions according to the market segments that they serve. These divisions are the basis on which the Group reports its primary segment information. The two divisions are Aerospace and Flexonics.

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

	Aerospace Half-year ended 30 June 2007 £m	**Flexonics Half-year ended 30 June 2007 £m**	**Eliminations/ Central costs Half-year ended 30 June 2007 £m**	**Total Half-year ended 30 June 2007 £m**	Aerospace Half-year ended 30 June 2006 £m	Flexonics Half-year ended 30 June 2006 £m	Eliminations/ Central costs Half-year ended 30 June 2006 £m	Total Half-year ended 30 June 2006 £m
External revenue	**123.5**	**114.3**	**–**	**237.8**	95.2	100.4	–	195.6
Inter segment revenue	**0.1**	**0.1**	**(0.2)**	**–**	0.1	0.2	(0.3)	–
Total revenue	**123.6**	**114.4**	**(0.2)**	**237.8**	95.3	100.6	(0.3)	195.6
Adjusted operating profit (see Note 4)	**16.1**	**8.1**	**(2.8)**	**21.4**	8.1	6.1	(2.2)	12.0
Loss on sale of fixed assets	**–**	**(0.2)**	**–**	**(0.2)**	–	–	–	–
Release of provision from previous acquisition	**–**	**0.5**	**–**	**0.5**	–	–	–	–
Amortisation of intangible assets from acquisitions	**(1.7)**	**–**	**–**	**(1.7)**	(0.4)	–	–	(0.4)
Operating profit	**14.4**	**8.4**	**(2.8)**	**20.0**	7.7	6.1	(2.2)	11.6
Investment income				**0.4**				0.5
Finance costs				**(4.1)**				(3.4)
Profit before tax				**16.3**				8.7
Tax				**(3.5)**				(1.5)
Profit after tax				**12.8**				7.2

4. Adjusted operating profit and profit before tax

The provision of adjusted operating profit and 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 disposal of fixed assets, release of a provision from a previous acquisition and amortisation of intangible assets acquired on acquisitions.

	Half-year ended 30 June 2007 £m	Half-year ended 30 June 2006 £m	Year ended 31 Dec 2006 £m
Operating profit	**20.0**	11.6	24.5
Loss on sale of fixed assets	**0.2**	–	0.4
Release of provision from previous acquisition	**(0.5)**	–	–
Amortisation of intangible assets from acquisitions	**1.7**	0.4	1.3
Adjustments to operating profit	**1.4**	0.4	1.7
Adjusted operating profit	**21.4**	12.0	26.2
Profit before tax	**16.3**	8.7	18.1
Adjustments to profit as above before tax	**1.4**	0.4	1.7
Adjusted profit before tax	**17.7**	9.1	19.8

5. Tax charge

	Half-year ended 30 June 2007 £m	Half-year ended 30 June 2006 £m
Current tax:		
UK corporation tax	**–**	–
Foreign tax	**2.2**	1.5
	2.2	1.5
Deferred tax:		
Current year	**1.3**	–
	3.5	1.5

Corporation tax for the interim period is charged at 21.5% (2006 – 17.2%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year.

In March 2007, the UK Government announced that they would introduce legislation to reduce the UK corporation tax rate to 28% with effect from 1 April 2008. This legislation, which has been substantively enacted by 30 June 2007, has had no significant impact upon these interim financial statements nor is it expected to affect the Group's effective tax rate in the foreseeable future.

6. Dividends

	Half-year ended 30 June 2007 £m	Half-year ended 30 June 2006 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2006 of 1.381p (2005 – 1.286p) per share	**5.4**	4.4
Proposed interim dividend for the year ended 31 December 2007 of 0.700p (2006 – 0.619p) per share	**2.7**	2.1

The proposed interim dividend was approved by the Board of Directors on 1 August 2007. This proposed dividend has not been included as a liability in these interim financial statements.

The dividend per share figures for the interim 2006 dividends and the final 2005 dividends paid have been adjusted to take account of the bonus element of the 2006 rights issue.

7. Earnings per share

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

Number of shares	**Half-year ended 30 June 2007 m**	Half-year ended 30 June 2006 m
Weighted average number of ordinary shares for the purposes of basic earnings per share	**388.9**	337.5
Effect of dilutive potential ordinary shares:		
Share options	**8.6**	7.1
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**397.5**	344.6

The weighted average number of shares for 2006 has been adjusted to take account of the bonus element of the 2006 rights issue.

	Half-year ended 30 June 2007		Half-year ended 30 June 2006	
Earnings and earnings per share	**Earnings £m**	**EPS pence**	Earnings £m	EPS pence
Profit for the period	**12.8**	**3.29**	7.2	2.13
Adjust:				
Loss on sale of fixed assets net of tax of £0.1m (2006 – £nil)	**0.1**	**0.02**	–	–
Release of provision from previous acquisition net of tax of £0.2m (2006 – £nil)	**(0.3)**	**(0.07)**	–	–
Amortisation of intangible assets from acquisitions net of tax of £0.7m (2006 – £0.1m)	**1.0**	**0.26**	0.3	0.09
Adjusted earnings after tax	**13.6**	**3.50**	7.5	2.22
Earnings per share				
– basic		**3.29p**		2.13p
– diluted		**3.22p**		2.09p
– adjusted		**3.50p**		2.22p
– adjusted and diluted		**3.42p**		2.18p

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 disposal of fixed assets
– release of provision from previous acquisition
– amortisation of intangible assets acquired on acquisitions

8. Property, plant and equipment

During the period, the Group spent £9.3m on the acquisition of property, plant and equipment.

The Group also disposed of machinery with a carrying value of £2.0m for proceeds of £1.8m.

9. Retirement benefit schemes

Defined benefit schemes

Aggregate post-retirement benefit liabilities are £26.0m (30 June 2006 – £37.0m; 31 December 2006 – £37.5m). The primary components of this liability are the Group's UK pension plan and US pension plans, with deficits of £20.5m (30 June 2006 – £28.8m; 31 December 2006 – £30.8m) and £1.8m (30 June 2006 – £4.5m; 31 December 2006 – £3.2m) respectively. These values have been assessed by independent actuaries using current market values and discount rates. The reduction in the liability from £37.5m at 31 December 2006 to £26.0m at 30 June 2007 is primarily due to increasing the UK plan discount rate assumption to 5.9% (31 December 2006 – 5.3%), in line with market conditions.

10. Notes to the cash flow statement

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

	Half-year ended 30 June 2007 £m	Half-year ended 30 June 2006 £m
Operating profit	**20.0**	11.6
Adjustments for:		
Depreciation of property, plant and equipment	**7.2**	6.0
Amortisation of intangible assets from acquisitions	**1.7**	0.4
Amortisation of other intangible assets	**0.2**	0.3
Share options	**0.3**	0.2
Loss on disposal of property, plant and equipment	**0.2**	–
Release of provision from previous acquisition	**(0.5)**	–
Pension payments in excess of service cost	**(1.1)**	(1.4)
Operating cash flows before movements in working capital	**28.0**	17.1
Increase in inventories	**(3.4)**	(2.7)
Increase in receivables	**(14.3)**	(1.1)
Increase in payables	**10.2**	2.3
Working capital currency movements	**(1.2)**	(3.0)
Cash generated by operations	**19.3**	12.6
Income taxes paid	**(1.7)**	(1.1)
Interest paid	**(3.2)**	(3.1)
Net cash from operating activities	**14.4**	8.4

10. 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 and disposals and transactions with shareholders. It is derived as follows:

	Half-year ended 30 June 2007 £m	Half-year ended 30 June 2006 £m
Net cash from operating activities	**14.4**	8.4
Interest received	**0.2**	0.6
Proceeds on disposal of property, plant and equipment	**1.8**	–
Purchases of property, plant and equipment	**(9.3)**	(11.3)
Purchases of intangible assets	**(0.3)**	(0.1)
Free cash flow	**6.8**	(2.4)

c) Analysis of net debt

	At 1 January 2007 £m	**Cash flow £m**	**Non-cash items £m**	**Exchange movement £m**	**At 30 June 2007 £m**
Cash and cash equivalents	**7.0**	**5.1**	**–**	**–**	**12.1**
Debt due within one year	**(12.9)**	**12.6**	**–**	**0.2**	**(0.1)**
Debt due after one year	**(90.2)**	**(17.1)**	**–**	**2.4**	**(104.9)**
Finance leases	**(1.6)**	**0.1**	**–**	**–**	**(1.5)**
Forward exchange contract gains	**1.0**	**(0.5)**	**–**	**1.1**	**1.6**
Total	**(96.7)**	**0.2**	**–**	**3.7**	**(92.8)**

The forward exchange contract gains shown above are reported as £1.6m (1 January 2007 – £1.0m) in current assets within trade and other receivables.

On 31 January 2007 new loan notes of $30m (£14.9m) were issued with a maturity of 10 years, carrying interest at the rate of 5.85% to refinance the $25m (£12.6m) loan notes which were repaid on 29 June 2007.

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Designed by Sheppard Day Corporate
Printed by Beacon Press using pureprint – their environmental print technology

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