Senior plc

Results for the year ended 31 December 2010

Record adjusted profit before tax, up 36%, driven by significant margin improvement

FINANCIAL HIGHLIGHTS	Year ended 31 December		
	2010	2009	
REVENUE	**£566.9m**	£540.1m	**+5%**
OPERATING PROFIT	**£62.2m**	£61.0m	**+2%**
ADJUSTED OPERATING PROFIT (1)	**£75.4m**	£59.4m	**+27%**
ADJUSTED OPERATING MARGIN (1)	**13.3%**	11.0%	**+2.3ppts**
PROFIT BEFORE TAX	**£52.1m**	£49.6m	**+5%**
ADJUSTED PROFIT BEFORE TAX (1)	**£65.3m**	£48.0m	**+36%**
BASIC EARNINGS PER SHARE	**10.11p**	9.79p	**+3%**
ADJUSTED EARNINGS PER SHARE (1)	**12.01p**	8.91p	**+35%**
TOTAL DIVIDENDS (PAID AND PROPOSED) PER SHARE	**3.12p**	2.60p	**+20%**
FREE CASH FLOW (2)	**£58.8m**	£60.1m	**-2%**
NET DEBT (2)	**£63.7m**	£102.3m	**£39m better**

(1) Adjusted figures are stated before profit on disposal of fixed assets of £0.2m (2009 - £0.1m loss), a £4.6m charge for amortisation of intangible assets acquired on acquisitions (2009 - £4.6m), a £8.7m charge for impairment of goodwill (2009 - £nil), acquisition costs of £0.1m (2009 - £nil) and an exceptional pension gain of £nil (2009 - £6.3m). Adjusted earnings per share takes account of the tax impact of these items.

(2) See Notes 11(b) and 11(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 $1.55 (2009 - $1.56) and €1.16 (2009 - €1.12), respectively. The US dollar and Euro rates applied to the balance sheet at 31 December 2010 were $1.57 (2009 - $1.61) and €1.17 (2009 - €1.13), respectively.

Group Highlights

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

Commenting on the results, Martin Clark, Chairman of Senior plc, said:

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

For further information please contact:

Mark Rollins, Group Chief Executive, Senior plc	01923 714738
Simon Nicholls, Group Finance Director, Senior plc	01923 714722
Clare Hunt, Finsbury Group	020 7251 3801

This Release represents the Company's dissemination announcement in accordance with the requirements of Rule 6.3.5 of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. The full Annual Report & Accounts 2010, together with other information on Senior plc, may be found at: www.seniorplc.com

The information contained in this Release is an extract from the Annual Report & Accounts 2010, however, some references to Note and page numbers have been amended to reflect Note and page numbers appropriate to this Release.

The Directors' Responsibility Statement has been prepared in connection with the full Financial Statements, Operating and Financial Review and Directors' Report as included in the Annual Report & Accounts 2010. Therefore, certain Notes and parts of the Directors' Report reported on are not included within this Release.

Note to Editors

Senior is an international manufacturing Group with operations in 11 countries. It is listed on the main market of the London Stock Exchange (symbol SNR). 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.

Cautionary Statement

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

CHAIRMAN'S STATEMENT

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

Financial Results

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

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

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

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

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

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

Dividend

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

Markets and Operations

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

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

Aerospace Division

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

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

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

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

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

Flexonics Division

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

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

With the notable exception of sales to the petrochemical market, which declined by 26%, sales in the Group's industrial markets were generally satisfactory and were notably strong in German markets. After a number of years of healthy increases, global sales of large metallic and fabric expansion joints, manufactured by the Group's Senior Flexonics Pathway business, eased down in 2010 from record levels, although margins held up well as a result of a greater demand for emergency repair services. Industrial dampers are a complementary product to expansion joints, being sold to the same industries and customers, and the acquisition of WahlcoMetroflex, Inc., the market leader in dampers in North America, can be expected to enhance the growth prospects of both businesses.

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

Employees and the Board

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

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

Outlook

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

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

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

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

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

Martin Clark
Chairman

OPERATING AND FINANCIAL REVIEW

To the members of Senior plc

This Operating and Financial Review ("OFR") has been prepared solely to provide additional information to enable shareholders to assess the Company's objectives and strategies and the potential for these to be fulfilled. The OFR should not be relied upon by any other party for any other purpose.

The OFR contains certain forward-looking statements. Such statements have been made by the Directors in good faith based on the information available to them at the time of their approval of this Report, and should be treated with caution due to the inherent uncertainties underlying any such forward-looking information.

This OFR has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters that are significant to Senior plc and its subsidiary undertakings when viewed as a whole. The OFR is organised under the following headings:

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

Business Model and Operations

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

The Group is split into two Divisions, Aerospace and Flexonics, and as described more fully in the Divisional Review on pages 16 to 18, operates in the following five key market sectors:

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

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

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

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

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

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

All Group operations are required to maintain a strong focus on cash generation, in particular concentrating on tight controls over discretionary expenditure and improved efficiencies in working capital management. This requires a clear understanding that the working capital cycle begins when a customer places an order and only ends when cash is collected at the end of the process. Senior has made excellent progress with this initiative in recent years, as evidenced by its consistently strong free cash flow generation. Sustaining and, where possible, building further on this position is a key Group objective.

Senior aims to utilise its available funding capacity to invest in organic growth and operational improvement opportunities, aligning its improvement initiatives with the key value drivers within the business. The Group also plans to target a select number of complementary acquisitions to accelerate growth and enhance the overall asset portfolio.

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

Senior aims to be consistent in its approach to all stakeholders. This means meeting every commitment that is made, at all times acting with integrity and in an ethical manner, complying with all legal and regulatory requirements and being a responsible member of each community within which it operates.

Aerospace

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

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

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

Flexonics

The Flexonics Division has 11 operations. These are located in North America (three), the United Kingdom (two), continental Europe (three), South Africa, India and Brazil.

In 2010, the Flexonics Division accounted for 41% of total Group revenue. This Division's sales comprised flexible mechanisms for vehicle exhaust systems (22% of divisional sales), cooling and emission control components (17%), diesel fuel distribution pipework (14%), and sales of industrial components, principally expansion joints, control bellows and hoses (47%). The industrial components were supplied to power and boiler markets (15% of divisional sales), HVAC and solar markets (12%), oil and gas and chemical processing industries (9%) and other industrial markets (11%).

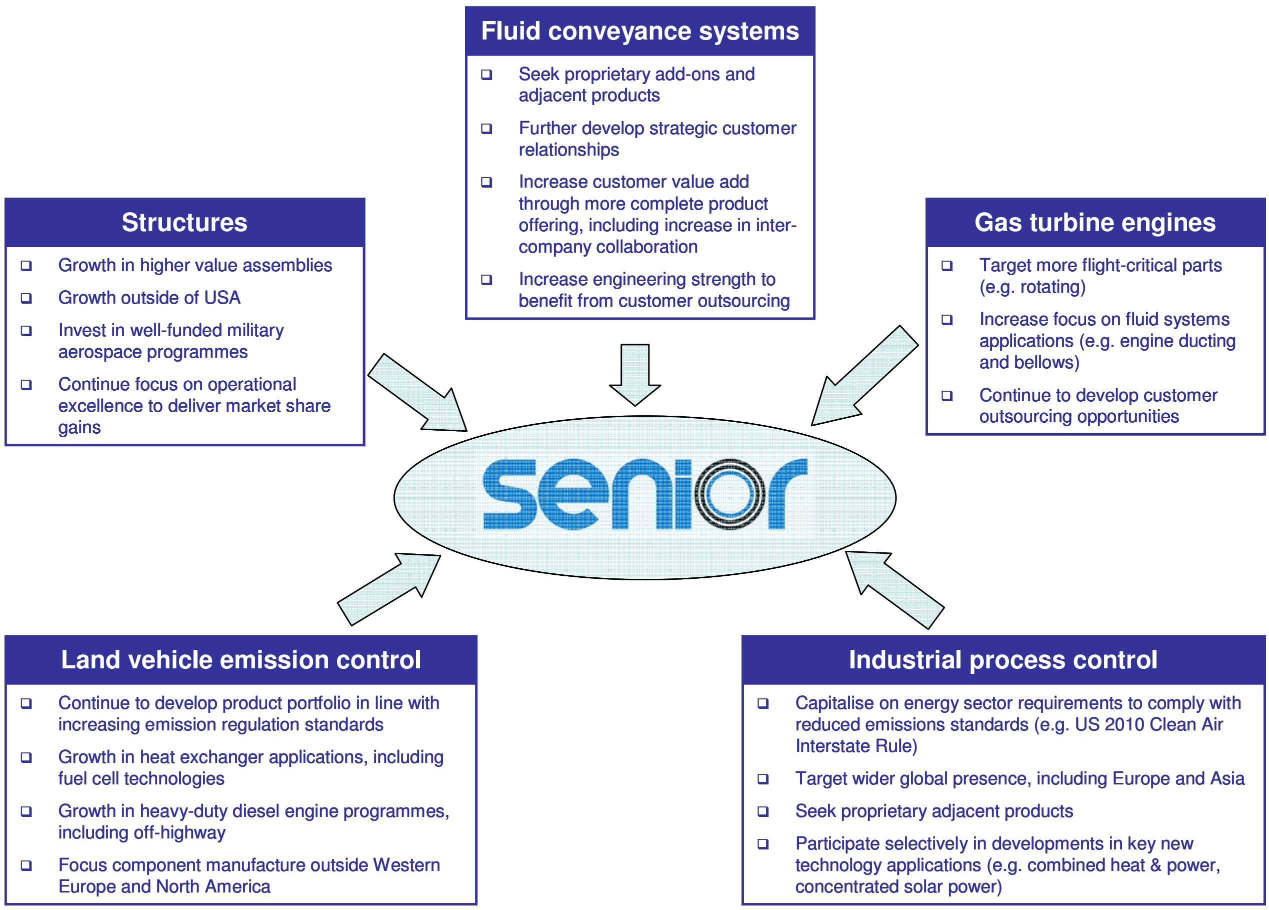
The Division's largest individual end users are land vehicle customers, including Cummins (representing 10% of divisional sales), PSA (8%), Ford (7%) and General Motors (5%). The percentage of divisional sales arising from the passenger vehicle sector in 2010 was 34% (2009 – 32%) with sales to the heavy-duty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

Strategy, Business Objectives and Key Performance Indicators

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

- optimising the value of the Group's existing operations portfolio by exceeding customer expectation through advanced process engineering and excellent factory and logistics execution, leading to market differentiation and continued growth in organic revenue, operating margins and cash flow delivery;
- targeted investment in new product development, technologies and geographic regions, for markets having higher than average growth potential, to further enhance organic growth opportunities;
- portfolio enhancement through focused acquisitions and disposal of non-core assets; both are subject to strict financial and commercial criteria, their long-term outlook and the Group's anticipated funding position; and
- creating an entrepreneurial culture within a strong control framework, and continuously striving for improvements amongst its operating businesses whilst operating in a safe and socially responsible manner.

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



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

- to achieve organic sales growth in excess of the rate of inflation;
- to increase adjusted earnings per share on an annual basis by more than the rate of inflation;
- to increase the Group's return on revenue margin each year;
- to generate sufficient cash to enable the Group to fund future growth and to follow a progressive dividend policy; and
- to maintain an overall return on capital employed in excess of the Group's cost of capital and to target a pre-tax return in excess of 15%.

These financial objectives are supported by two non-financial objectives which are:

- to reduce the Group's carbon dioxide emissions to revenue ratio by 15% from 114 tonnes per £m revenue in 2006 to below 97 tonnes by 2010; and
- to reduce the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work by 5% per annum.

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

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

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

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

(1) Organic revenue growth is the rate of growth in Group revenue, at constant exchange rates, excluding the effect of acquisitions and disposals.

(2) Adjusted earnings per share is the profit after taxation (adjusted for the profit or loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions, acquisition costs, goodwill impairment charge and exceptional pension gains) divided by the average number of shares in issue in the period.

(3) Return on revenue margin is the Group's adjusted operating profit divided by its revenue.

(4) Return on capital employed is the Group's adjusted operating profit divided by the average of the capital employed at the start and end of the period. Capital employed is total assets less total liabilities, except for those of an interest-bearing nature.

(5) CO_2 emissions/£m revenue is an estimate of the Group's carbon dioxide emissions in tonnes divided by the Group's revenue in £ millions.

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

(7) Calculated as the simple average of year-on-year movements in these KPI's over the four years, as published.

Acquisitions

The Group completed the acquisition of WahlcoMetroflex, Inc. ("WMX") on 16 August 2010 for a total consideration of £8.9m, less cash acquired of £0.6m. WMX is located in Lewiston, Maine in the USA and specialises in the manufacture of dampers, expansion joints and exhaust gas systems for the global power generation, refinery and chemical processing industries. WMX has an installed base of over 5,000 units and is a market leader in dampers in the USA. WMX is an excellent strategic fit with the Group's Senior Flexonics Pathway business, having a highly complementary customer and product portfolio. Financial details relating to this acquisition are disclosed in Note 13.

Financial Review

Summary

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

	Revenue		Adjusted Operating Profit (1)		Margin	
	2010	2009	**2010**	2009	**2010**	2009
	£m	£m	**£m**	£m	**%**	%
Aerospace	**333.8**	319.2	**50.0**	38.8	**15.0**	12.2
Flexonics	**233.5**	221.3	**31.6**	26.2	**13.5**	11.8
Inter-segment sales	**(0.4)**	(0.4)	**-**	-	**-**	-
Central costs	**-**	-	**(6.2)**	(5.6)	**-**	-
Group total	**566.9**	540.1	**75.4**	59.4	**13.3**	11.0

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

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

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

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

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

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

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

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

The Group generated significant free cash flow of £58.8m in 2010 (2009 – £60.1m), an excellent performance for the year. The principal drivers of this performance were continued good progress with the Group's Lean Manufacturing initiatives, resulting in a significant increase in operating margins in both Divisions which, combined with sustained tight controls over working capital levels and modest capital expenditure, resulted in an excellent level of cash conversion. The strong free cash flow performance was after the Group had contributed a further £11.8m in excess of service costs into its defined benefit pension plans in the UK and the US, £6.0m of which was on a voluntary basis.

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

Revenue

Group revenue increased by £26.8m (5%) to £566.9m (2009 – £540.1m), including £2.8m from the Group's acquisition of WMX on 16 August 2010. If the effect of acquisitions and a year-on-year beneficial exchange impact of £4.9m are excluded, then underlying revenue from organic operations increased by 4% on a constant currency basis. In 2010, 66% of Group sales originated from North America, 10% from the United Kingdom, 17% from the Rest of Europe and 7% from the Rest of the World.

Operating profit

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

Total Group reported operating profit increased by 2% to £62.2m (2009 – £61.0m), after the negative impact from recognising in 2010 the impairment of £8.7m relating to the goodwill arising upon the acquisition of Capo Industries, Inc. Capo Industries, Inc. was acquired by the Group in January 2008 and supplies principally to the business jet market, which declined by 42% between 2008 and 2010. No recovery is immediately foreseeable. In addition, last year's result included the positive impact of a £6.3m exceptional pension curtailment gain which arose following the implementation of a cap on future pensionable salary increases in the Group's UK defined benefit pension plan.

Finance costs

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

Profit before tax

Adjusted profit before tax increased by 36% to £65.3m (2009 – £48.0m). Reported profit before tax increased to £52.1m (2009 – £49.6m). The reconciling items between these two measures are shown in Note 4.

Tax charge

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

Earnings per share

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

Dividends

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

Research and development

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

Capital expenditure

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

Capital structure

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

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

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

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

Cash flow

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

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

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

Net debt

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

The Group's committed borrowing facilities contain a requirement that the ratio of EBITDA (adjusted profit before interest, tax, depreciation and amortisation) to net interest costs must exceed 3.5x, and that the ratio of net debt to EBITDA must not exceed 3.0x. At 31 December 2010, the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 11.8x (31 December 2009 – 10.6x) and the ratio of net debt to EBITDA was 0.7x (31 December 2009 – 1.3x).

Liquidity

As at 31 December 2010, the Group's gross borrowings excluding finance leases were £118.6m (2009 – £121.4m). The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows:

	Gross Borrowings [1]	Committed Facilities
	£m	£m
Within one year	0.3	12.7
In the second year	0.2	80.0
In years three to five	38.5	38.2
After five years	79.6	79.6
	118.6	210.5

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

At the year-end, the Group had committed facilities of £210.5m, with a weighted average maturity of 4.3 years. The Group is in a strong funding position with the next material refinancing not due until July 2012.

Going concern basis

The Group's business activities, performance and position are set out in the Financial Review above and the Divisional Review below. These include a description of the financial position of the Group, its cash flows, liquidity position and borrowing facilities. In addition, a review of the principal risks and uncertainties that are likely to affect the Group's future development is set out below. A summary of the Group's policies and processes in respect of capital and financial risk management, including foreign exchange and liquidity risks, is included in Note 21 of the Annual Report & Accounts 2010.

The Group meets its day-to-day working capital and other funding requirements through a combination of long-term funding, in the form of revolving credit and private placement facilities, and short-term overdraft borrowing. At 31 December 2010, 98% of the Group's gross debt was financed via revolving credit and private placement facilities, with an average maturity of 4.3 years. The Group is profitable, cash generative and well funded with net debt of £63.7m compared to £210.5m of committed borrowing facilities, and has no major borrowing facility renewal before mid 2012.

However, economic conditions inevitably vary and so potentially create uncertainty, particularly over the level of demand for the Group's products and the exchange rate between the Pound Sterling and the US dollar. This is important to the Group's financial performance given that around 70% of the Group's profits in 2010 were earned in the US and 99% of its gross borrowings at 31 December 2010 were denominated in US dollars. For these reasons, a sensitivity analysis has been performed on the Group's forecasts and projections, to take account of reasonably possible changes in trading performance together with foreign exchange fluctuations under the hedging policies that are in place. This analysis shows that the Group will be able to operate well within the level of its current committed borrowing facilities and banking covenants under all reasonably foreseeable scenarios. As a consequence, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Board has continued to adopt the going concern basis in preparing the Group's Annual Report & Accounts 2010.

Changes in accounting policies

The accounting policies adopted in the Financial Statements are consistent with those followed in the preparation of the Group's Annual Report & Accounts 2009, except for the adoption of Standards and Interpretations that are effective for the current financial year; these are highlighted in Note 2 of the Financial Statements, and do not have a material impact on the presentation of the Group's results.

Related party transactions

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

Divisional Review

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that the results for 2009 have been translated using 2010 average exchange rates in order to make appropriate comparisons at constant currency.

Aerospace Division

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

(1) 2009 results translated using 2010 average exchange rates.

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

The Division's sales in the large commercial aircraft market (39% of divisional sales) were broadly stable during 2010, with aircraft deliveries by Boeing and Airbus declining marginally to 972 in 2010 from 979 in 2009. The Aerospace Division benefited from a slight increase in shipments on both narrow body programmes and the Boeing 787 Dreamliner, although this was offset by a small reduction in demand for engine-related components and lower 777 deliveries. Encouragingly for the future, the 2010 Boeing and Airbus combined net order intake increased significantly to 1,104 aircraft, which was 114% of the level of deliveries (2009 – 42% of deliveries). This is a reflection of confidence in future estimates of sustained annual increases in passenger air miles flown. The combined order book now stands at 6,995 aircraft at the year-end (representing approximately seven years of deliveries at current build rates). This order book includes 847 orders for the Boeing 787 aircraft where Senior has between US$600k and US$1,100k of content per aircraft depending on engine configuration. This continues to represent a solid foundation for the Group's future.

Military markets remained robust, and the Group enjoyed an increase in shipset content on the Black Hawk helicopter resulting in increased volumes of helicopter parts delivered to Sikorsky, as well as benefiting from continued growth in build rates on the C-130 transport aircraft programme. However, regional and business jet markets declined, as expected, in 2010. Combined deliveries of 183 aircraft by the principal regional jet manufacturers, Embraer (100 aircraft) and Bombardier (83 aircraft), were 26% lower than the combined total of 248 achieved in 2009. The business jet market showed signs of stabilisation in 2010 following a significant decline in 2009, with 763 deliveries being some 12% lower than in 2009 (870 deliveries). Against this market backdrop, Senior's sales to the regional jet market declined by 18% but those to the business jet sector remained broadly stable as sales to new aircraft programmes largely offset the general market reduction. Sales in the Group's non-aerospace segment were strong, due to increased demand for edge-welded bellows, used for the manufacture of silicon wafers in the semi-conductor industry.

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

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

Flexonics Division

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

(1) 2009 results translated using 2010 average exchange rates.

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

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

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

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

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

Outlook

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

Risks and Uncertainties

Integrated risk management and Group risk philosophy

The Board is ultimately responsible for managing risk, and for the implementation of effective risk management procedures and internal control systems. Across the Group, these are designed to align with the UK Corporate Governance Code's Turnbull guidance. The Audit Committee is responsible for reviewing the effectiveness of the Group's internal control systems that were in operation during the year, and the fulfilment of this responsibility is described in the Audit Committee Report on pages 36 to 37 of the Annual Report & Accounts 2010.

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

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

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

i) has or may result in the potential to compromise its ability to achieve its objectives; or

ii) could lead to a material breach of policies and procedures; or

iii) could impact the delivery of earnings materially at a local operational level

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

Risk assessment and risk reporting procedures

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

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

Principal Group risks

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

Risk	**Management actions to mitigate risk**
Strategy	
An appropriately formulated, communicated and effectively executed strategy is essential to avoid the risk of inappropriate allocation of resources and failure to deliver on long-term performance goals.	Recognising the significant breadth of potential new growth opportunities that have become available to the Group as its profit and cash flow performance has increased, additional focus has been placed on the Group's strategic planning process including more regular strategy sessions at Executive Committee and Board level and increased participation on the part of senior operational executives in select global market teams. The Group's business development resources have been bolstered, in particular via the recruitment of a Head of Business Development. The Group also held a Capital Markets day in October 2010, attended by analysts and major shareholders, which included presentation of the Group's strategy. This presentation is available on the Company's website.

Global cyclical downturn

The potential adverse impact on the Group of significant demand declines in key markets, arising from the consequences of either sovereign debt issues, newly implemented government austerity measures and/or political instability in the Middle East, remains significant.

The Group is well positioned in its key aerospace and industrial markets, and in the emission-related sectors of land based vehicle and industrial markets, where increasingly stringent legislation should ensure that long-term demand for the Group's products remains healthy. These factors and the diversity of its end market exposures provide strong mitigation against inevitable cyclicality. The Group was recently able to demonstrate its ability to manage cyclicality, as it withstood significant declines in most of its key markets during the global recession of 2008 and 2009 and continued to remain healthily profitable and highly cash generative. The Group's financing position, which has been reported on earlier in this Operating and Financial Review, improved significantly again in 2010. Senior therefore remains well placed to be able to withstand any potential negative consequences that may arise from a further global cyclical downturn.

Programme participation

Long-term growth in demand, including participation in future development programmes in the Group's major markets, is an essential foundation for future growth. Failure to secure profitable new programme wins could have a severe impact on Group performance.

The Group has developed a portfolio of businesses that are exposed to markets which exhibit fundamental long-term growth characteristics. It aims to develop constructive and co-operative relationships with key customers in each market, providing innovative customer solutions and quality products delivered on time and in line with specifications. These are critical components of customer value that ensure continued participation in existing and future development programmes. The Group ensures that its operations are sufficiently well capitalised to be able to bid competitively on new programme opportunities, and maintains close control over operating costs to ensure that operations remain competitive on existing programmes. The Group also utilises an internal contract approval process, comprising both financial and non-financial analyses, to ensure that bids are submitted and won at acceptable margin levels.

Acquisitions

Failure to execute an effective acquisition programme would have a significant impact on the Group's ability to generate long-term value for shareholders.

Recent significant free cash flow generation, and the expectation that this will continue in the future, has enabled the Group to recommence a targeted acquisition programme. The Group's acquisition framework has been updated in 2010 to enhance the targeting process. In addition, a well-established and proven valuation, due diligence and integration process is employed by the senior management team. Post-acquisition reviews are performed on all acquisitions, comprising a full retrospective review of each deal process, including integration effectiveness, and sharing of lessons learned with the Board and across the senior management team.

Employee retention

An inability to attract, develop and retain high-quality individuals in key management positions could severely affect the long-term success of the Group.

Capable, empowered and highly engaged individuals are a key asset of the business. The Group has had recent success in attracting highly experienced senior executives from within the industry, in part attributable to the culture of the Group as described in the Operations and Business Model section of this Operating and Financial Review. The Group sponsors the development and training of key managers through an in-house management development programme. Senior management turnover ratios remain low, a further indication of success in this important area.

New aircraft platform delays

Significant shipset content has been secured on a number of new aircraft platforms currently under development. These include the Boeing 787 Dreamliner, Bombardier's CSeries regional jet and the Airbus A350. Delays in the launch of these platforms could have a material adverse impact on the Group's rate of organic growth.	The Group monitors programme development and launch timing of new aircraft platforms very closely, utilising internal customer relationships and market intelligence. It also takes a cautious approach to both capital investment in new programmes, to minimise the time between installation and utilisation of new capital equipment, and to inclusion of projected build rates and associated revenue in its financial projections. In addition, the growing breadth of Senior's exposure to a comprehensive and diverse range of aerospace industry platforms with increasing shipset content, together with its broad exposure in land vehicle and industrial markets, means that the Group's future organic growth profile is not overly dependent on any individual new aircraft platform.

Raw material costs

A significant increase in the cost of raw material inputs could have a damaging impact on the Group's profitability.	Raw materials, principally stainless steel, aluminium and various exotic metal alloys are the Group's largest input cost, representing 43% of total costs in 2010. The Group has a good track record in managing this cost exposure through a combination of fixed price purchase contracts, customer surcharge agreements and customer directed purchases at fixed costs that together ensure there is no material impact on Group operating margins from volatility in the price of these materials.

Low-cost country competition

Customers' desire to move manufacture of components to low cost countries could render the Group's operations uncompetitive and have an adverse impact on profitability.	The threat of low-cost country manufacture has existed for some time in certain product lines, typically where price competition is fierce or where product manufacture involves significant labour content. The Group's strategy of developing a portfolio of high value-added engineering manufacturing companies also means that over time it has evolved away from these types of products. However in response, in areas where these products have been retained, the Group successfully employs a strategy of retaining commercial and engineering expertise close to customers' locations, principally in North America and Europe, so enabling effective support to be readily given to its customers whilst moving manufacturing selectively to low-cost country locations. Some years ago the Group set up an operation in Mexico and is actively engaged in new aerospace programme bids to expand this facility. Similarly, the Group is increasingly manufacturing products, in the Flexonics Division, in its lower cost operations in the Czech Republic, South Africa, Brazil and India. Other low-cost country alternatives will also be considered at the appropriate time.

Pension deficit

An increase in the Group's pension deficit might have a material adverse impact on cash flow and the ability of the Group to invest for growth.	The Group operates a number of defined benefit pension plans, with the largest being a UK plan. The Group's combined pension deficits at 31 December 2010 were £38.2m (31 December 2009 - £48.1m). The Group continues to work with the Trustees of the defined benefit pension plans to implement measures to reduce the level of volatility and risk in the plans, with the ultimate aim of eliminating the Group's pension deficit. Recent significant actions taken include the closure of all North American non-union plans to new members, increases in contribution rates in the UK, a cap on future increases in pensionable salary of 2% implemented in the UK in 2009, and implementation of liability-driven investment strategies in all defined benefit pension plans. A revised 10-year funding plan has recently been submitted to the UK Pensions Regulator, based on the actuarial valuation of the UK pension plan undertaken in April 2010. Under this plan the Group is committed to contributing an additional £6.9m per annum above service cost (previously £4.9m) for the next nine years. Given the Group's strong cash generation in 2009 and 2010, additional discretionary payments of £19m in total, over the two years, were made into the Group's pension plans over and above the level of payments that had been agreed with the plans' Trustees.

Financing and liquidity

The Group could have insufficient financial resources to fund its growth strategy or meet its financial obligations as they fall due.	The Group's activities expose it to a variety of financial risks including foreign exchange risk and liquidity risk. The Group's overall treasury risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the Group's financial performance. Compliance with policies and exposure limits is reviewed by the Group's Treasury Committee on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on operations' trading activities in foreign currencies. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash flow forecasts are produced monthly, together with appropriate capacity planning and scenario analysis, to ensure that bank covenant and liquidity targets will be met. In considering the appropriate level of net debt the Group pays close attention to its level as compared to the cash generation potential of the Group, measured by adjusted profit before interest, tax, depreciation and amortisation ("EBITDA"). All of the Group's external borrowing facilities have a requirement for the ratio of net debt to EBITDA to be less than 3.0x. At 31 December 2010 net debt was 0.7x the Group's level of EBITDA (31 December 2009 – 1.3x) with significant funding headroom of £147m under the Group's committed borrowing facilities.

Resources

Employees

The key resource of the Group is its employees, who have extensive knowledge of the Group's key markets, customers, product technology and manufacturing processes. The average number of employees employed in the Group during 2010 was 4,872 (2009 – 4,873). Of these 4,072 were in production-related roles, 55 in distribution, 308 in sales and 437 in administration. Senior is an international group operating in 11 countries. At the end of 2010 the Group employed a total of 4,949 people, with 51% located in North America, 15% in the United Kingdom, 19% in the rest of Europe and 15% in the Rest of the World.

Engineering capability and manufacturing technology

A key strength of the Group is its engineering capability and manufacturing technology. The Group possesses significant product design and manufacturing engineering capabilities, which are essential to support the development of precision components for customers and improve production processes to help maximise production efficiency and product quality. This in turn maintains and enhances the Group's reputation for delivering quality added-value products to its customers on time and at a competitive price. During 2010 the Group spent £14.2m (2009 – £12.6m) on capital expenditure to strengthen the Group's manufacturing capability, as well as its production capacity. This expenditure was 0.7x the depreciation level (2009 – 0.6x).

Financial

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

In respect of debt financing, at the end of 2010 the Group had committed borrowing facilities totalling £210.5m, of which £117.8m was being utilised in addition to £1.9m of borrowings from uncommitted facilities and finance leases. The Group held £56.0m in cash and hence net debt was £63.7m. The committed facilities at this time consisted of US$35m (£22.3m) of loan notes due in 2014, US$25m (£15.9m) of loan notes due in 2015, US$30m (£19.1m) of loan notes due in 2017, US$75m (£47.8m) of loan notes due in 2018, US$20m (£12.7m) of loan notes due in 2020, an £80.0m multi-currency revolving credit facility maturing in 2012 and a US$20m (£12.7m) bilateral facility maturing in 2011.

Corporate Social Responsibility

The policy of the Board is to seek to enhance shareholder value in an ethical and socially responsible manner, taking into account the wishes of all stakeholders, and with a particular focus on health and safety and preserving the environment. Two of the Group's six KPIs, namely reductions in carbon dioxide emissions and lost time injuries, are targeted at this area. Details of the Group's corporate and social responsibility principles and performance indices are set out in the Corporate Social Responsibility Report in the Annual Report & Accounts 2010.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

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

By Order of the Board

Mark Rollins Group Chief Executive	Simon Nicholls Group Finance Director
25 February 2011	25 February 2011

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Consolidated Income Statement

For the year ended 31 December 2010

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

(1) Adjusted operating profit	4	75.4	59.4
(2) Adjusted profit before tax	4	65.3	48.0
(3) Adjusted earnings per share	7	12.01p	8.91p

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

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

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Consolidated Balance Sheet

As at 31 December 2010

	Notes	Year ended 2010 £m	Year ended 2009 £m
Non-current assets			
Goodwill	8	169.7	169.3
Other intangible assets		6.9	11.0
Property, plant and equipment	9	114.0	118.0
Deferred tax assets		1.0	0.2
Trade and other receivables		0.6	0.6
Total non-current assets		292.2	299.1
Current assets			
Inventories		75.1	65.0
Construction contracts		1.4	0.5
Trade and other receivables		79.3	79.1
Cash and cash equivalents	11c)	56.0	20.4
Total current assets		211.8	165.0
Total assets		504.0	464.1
Current liabilities			
Trade and other payables		110.5	95.6
Current tax liabilities		7.4	4.6
Obligations under finance leases		0.3	0.2
Bank overdrafts and loans		0.3	1.1
Total current liabilities		118.5	101.5
Non-current liabilities			
Bank and other loans	11c)	118.3	120.3
Retirement benefit obligations	12	38.2	48.1
Deferred tax liabilities		1.9	7.8
Obligations under finance leases		0.8	1.1
Others		0.4	0.5
Total non-current liabilities		159.6	177.8
Total liabilities		278.1	279.3
Net assets		225.9	184.8
Equity			
Issued share capital	10	40.1	39.9
Share premium account		12.3	12.1
Equity reserve		2.2	1.9
Distributable reserve		-	19.4
Hedging and translation reserve		6.2	1.6
Retained earnings		165.1	111.3
Own shares		-	(1.4)
Equity attributable to equity holders of the parent		225.9	184.8
Total equity		225.9	184.8

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Statement of Changes in Equity

For the year ended 31 December 2010

	All equity is attributable to equity holders of the parent							
	Issued share capital	Share premium account	Equity reserve	Distrib-utable reserve	Hedging and translation reserve	Retained earnings	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2009	39.8	12.0	1.7	19.4	6.3	98.4	(1.4)	176.2
Profit for the year 2009	-	-	-	-	-	39.0	-	39.0
Gains on cash flow hedges	-	-	-	-	6.8	-	-	6.8
Gains on revaluation of financial instruments	-	-	-	-	8.0	-	-	8.0
Exchange differences on translation of foreign operations	-	-	-	-	(20.6)	-	-	(20.6)
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(20.0)	-	(20.0)
Tax relating to components of other comprehensive income	-	-	-	-	1.1	3.3	-	4.4
Total comprehensive income for the period	-	-	-	-	(4.7)	22.3	-	17.6
Issue of share capital	0.1	0.1	(0.1)	-	-	-	-	0.1
Share-based payment charge	-	-	0.8	-	-	-	-	0.8
Tax relating to share-based payments	-	-	-	-	-	0.5	-	0.5
Transfer to retained earnings	-	-	(0.5)	-	-	0.5	-	-
Dividends paid	-	-	-	-	-	(10.4)	-	(10.4)
Balance at 31 December 2009	39.9	12.1	1.9	19.4	1.6	111.3	(1.4)	184.8
Profit for the year 2010	-	-	-	-	-	40.4	-	40.4
Losses on cash flow hedges	-	-	-	-	(0.4)	-	-	(0.4)
Exchange differences on translation of foreign operations	-	-	-	-	4.0	-	-	4.0
Actuarial gains on defined benefit pension schemes	-	-	-	-	-	0.4	-	0.4
Tax relating to components of other comprehensive income	-	-	-	-	1.0	1.7	-	2.7
Total comprehensive income for the period	-	-	-	-	4.6	42.5	-	47.1
Issue of share capital	0.2	0.2	(0.1)	-	-	-	-	0.3
Share-based payment charge	-	-	1.0	-	-	-	-	1.0
Sale of shares held by employee benefit trust	-	-	-	-	-	-	1.4	1.4
Tax relating to share-based payments	-	-	-	-	-	2.1	-	2.1
Transfer to retained earnings	-	-	(0.6)	(19.4)	-	20.0	-	-
Dividends paid	-	-	-	-	-	(10.8)	-	(10.8)
Balance at 31 December 2010	40.1	12.3	2.2	-	6.2	165.1	-	225.9

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Cash Flow Statement

For the year ended 31 December 2010

	Notes	Year ended 2010 £m	Year ended 2009 £m
Net cash from operating activities	11a)	70.2	69.8
Investing activities			
Interest received		0.7	2.6
Deferred consideration received		-	0.5
Proceeds on disposal of property, plant and equipment		2.1	0.3
Purchases of property, plant and equipment		(13.5)	(12.3)
Purchases of intangible assets		(0.7)	(0.3)
Acquisition of WahlcoMetroflex	13	(8.3)	-
Net cash used in investing activities		(19.7)	(9.2)
Financing activities			
Dividends paid		(10.8)	(10.4)
Repayment of borrowings		(4.6)	(20.0)
Repayments of obligations under finance leases		(0.2)	(0.2)
Share issues		0.3	0.1
Sale of shares held by employee benefit trust		1.4	-
New loans raised		-	4.5
Net cash outflow on forward contracts		-	(25.2)
Net cash used in financing activities		(13.9)	(51.2)
Net increase in cash and cash equivalents		36.6	9.4
Cash and cash equivalents at beginning of period		19.3	10.7
Effect of foreign exchange rate changes		-	(0.8)
Cash and cash equivalents at end of period	11c)	55.9	19.3

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Notes to the above Financial Statements

For the year ended 31 December 2010

1. General information

These results for the year ended 31 December 2010 are an excerpt from the forthcoming Annual Report & Accounts 2010 and do not constitute the Group's statutory accounts for 2010 or 2009. Statutory accounts for 2009 have been delivered to the Registrar of Companies, and those for 2010 will be delivered following the Company's Annual General Meeting. The Auditors have reported on both those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

2. Significant accounting policies

Whilst the financial information included in this Annual Results Release has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the Annual Report & Accounts 2010 which is available at www.seniorplc.com, hard copies of which will be distributed on or soon after 11 March 2011.

The accounting policies adopted are consistent with those followed in the preparation of the Group's Annual Report & Accounts 2010 which are unchanged from those adopted in the Group's Annual Report & Accounts 2009, except for as described below.

In the current financial year, the Group has adopted IFRS 2 (Amendment) "Group Cash-settled Share-based Payment Transactions", IFRS 3 (Revised) "Business Combinations" and IAS 27 (Amendment) "Consolidated and Separate Financial Statements".

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

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

IAS 27 (Amendment) primarily deals with the accounting for non-controlling interests and the loss of control of a subsidiary. This amendment has not led to a change in the way the Group accounts for its subsidiaries in its consolidated financial statements.

The following Standards and Interpretations are also effective from the current financial year, but currently do not impact the Group's Financial Statements: IAS 39 (Amendment) "Eligible Hedged Items" and Improvements to IFRS – as published in April 2009. IFRS 1 (Amendments) "First Time Adoption of Financial Reporting Standards" and "Additional Exemptions for First-Time Adopters"; and IFRIC 17 "Distributions of Non-cash Assets to Owners" are currently not relevant to the Group's operations.

3. Segmental 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.

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

	Aerospace	Flexonics	Elimination / Central costs	Total	Aerospace	Flexonics	Elimination / Central costs	Total
	Year ended 2010 £m	Year ended 2010 £m	Year ended 2010 £m	Year ended 2010 £m	Year ended 2009 £m	Year ended 2009 £m	Year ended 2009 £m	Year ended 2009 £m
External revenue	333.7	233.2	-	566.9	319.0	221.1	-	540.1
Inter-segment revenue	0.1	0.3	(0.4)	-	0.2	0.2	(0.4)	-
Total revenue	333.8	233.5	(0.4)	566.9	319.2	221.3	(0.4)	540.1
Adjusted operating profit (see note 4)	50.0	31.6	(6.2)	75.4	38.8	26.2	(5.6)	59.4
(Loss) / profit on sale of fixed assets	(0.1)	0.3	-	0.2	(0.1)	-	-	(0.1)
Exceptional pension gain	-	-	-	-	-	-	6.3	6.3
Amortisation of intangible assets from acquisitions	(4.6)	-	-	(4.6)	(4.6)	-	-	(4.6)
Impairment of goodwill	(8.7)	-	-	(8.7)	-	-	-	-
Acquisition costs	-	(0.1)	-	(0.1)	-	-	-	-
Operating profit	36.6	31.8	(6.2)	62.2	34.1	26.2	0.7	61.0
Investment income				0.5				1.2
Finance costs				(10.6)				(12.6)
Profit before tax				52.1				49.6
Tax				(11.7)				(10.6)
Profit after tax				40.4				39.0

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3. Segmental information continued

Segment information for assets and liabilities is presented below.

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

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

4. Adjusted operating profit and adjusted profit before tax

The provision of adjusted operating profit and adjusted profit before tax, derived in accordance with the table below, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of gains or losses arising from the sale of fixed assets, an exceptional pension gain, amortisation of intangible assets acquired on acquisitions, impairment of goodwill and acquisition costs. The goodwill impairment charge of £8.7m in 2010 relates to recognition of a reduction in the carrying value of goodwill arising upon the acquisition of Capo Industries, Inc., a business acquired in 2008 supplying principally into the business jet market. The exceptional pension gain reported in 2009 relates to the curtailment gain arising from the introduction of a cap on future pensionable earnings growth of 2% per annum from 6 April 2010 in the UK defined benefit plan.

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

5. Tax charge

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

UK Corporation tax is calculated at an effective rate of 28% (2009 – 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. Dividends

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

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these Financial Statements.

7. Earnings per share

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

Number of shares	Year ended 2010 Million	Year ended 2009 Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	399.6	398.3
Effect of dilutive potential ordinary shares:		
Share options	14.0	9.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	413.6	407.3

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

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

The denominators used for all basic, diluted and adjusted earnings per share are as detailed in the "Number of shares" table above.

The provision of an adjusted earnings per share, derived in accordance with the table above, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of the following items:

- gains or losses arising from the sale of fixed assets
- exceptional pension gain
- amortisation of intangible assets acquired on acquisitions
- impairment of goodwill
- acquisition costs

8. Goodwill

Goodwill increased by £0.4m during the year to £169.7m (2009 - £169.3m) due to goodwill arising on the acquisition of WahlcoMetroflex, Inc. of £5.5m and exchange translation differences of £3.6m, offset partially by recognition of an impairment charge of £8.7m in 2010 relating to the goodwill arising upon the acquisition of Capo Industries, Inc. No impairment charges were recognised in 2009.

9. Property, plant and equipment

During the period, the Group spent £13.5m (2009 - £12.3m) on the acquisition of property, plant and equipment. The Group also disposed of property, plant and equipment with a carrying value of £1.9m (2009 - £0.4m) for proceeds of £2.1m (2009 - £0.3m).

10. Share capital

Share capital as at 31 December 2010 amounted to £40.1m. During 2010, the Group issued 432,136 shares at an average price of 72.34p per share under share option plans raising £0.3m. 810,657 shares were also issued during 2010 under the 2005 Long Term Incentive Plan.

11. Notes to the cash flow statement

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

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

11. 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:

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

c) Analysis of net debt

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

	Year ended 2010 £m	Year ended 2009 £m
Cash and cash equivalents comprise:		
Cash	56.0	20.4
Bank overdrafts	(0.1)	(1.1)
Total	55.9	19.3

Cash and cash equivalents (which are presented as a single class of assets on the face of the Balance Sheet) 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.

12. Retirement benefit schemes

Defined Benefit Schemes

Aggregate retirement benefit liabilities are £38.2m (2009 - £48.1m). The primary components of this liability are the Group's UK pension plan and US pension plans, with deficits of £29.8m (2009 - £39.6m) and £3.3m (2009 - £3.8m) respectively. These values have been assessed by an independent actuary using current market values and discount rates. The decrease in the liability from £48.1m at 31 December 2009 to £38.2m at 31 December 2010 reflects the positive effect of plan asset returns of £16.2m, and increased total cash contributions in excess of service cost of £11.8m, offset partially by an increase in the present value of benefit obligations, due to decreases in the UK and US plan discount rate assumptions to 5.4% and 5.3%, respectively (2009 – 5.7% and 5.9%). These changes in discount rate assumptions since 31 December 2009 are in line with movements in market yields of high-quality corporate bonds which are used to determine the rate for discounting future scheme liabilities.

13. Acquisition

WahlcoMetroflex, Inc.

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

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

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

13. Acquisition continued

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

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

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

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