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Senior plc

Annual Report & Accounts 2011

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senior

Financial highlights

£640.7m
Revenue
(2010 – £566 9m)

13.8%
Adjusted operating margin*
(2010 – 13 3%)

£78.0m
Adjusted profit before tax*
(2010 – £65 3m)

£72.7m
Profit before tax
(2010 – £52 1m)

14.55p
Adjusted earnings per share*
(2010 – 12 01p)

13.68p
Basic earnings per share
(2010 – 10 11p)

3.80p
Dividends per share
(2010 – 3 12p)

26.8%
Return on capital employed
(2010 – 26 1%)

£55.6m
Free cash flow**
(2010 – £58 8m)

£93.0m
Net debt**
(2010 – £63 7m)

* Adjusted figures are stated before loss on disposal of fixed assets of £0 3m (2010 – £0 2m profit), a £4 4m charge for amortisation of intangible assets acquired on acquisitions (2010 – £4 6m) a £nil charge for impairment of goodwill (2010 – £8 7m) and acquisition costs of £0 6m (2010 – £0 1m) Adjusted earnings per share takes account of the tax impact of these items

** See Notes 34(b) and 34(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 60 (2010 – $1 55) and €1 15 (2010 – €1 16), respectively The US dollar and Euro rates applied to the balance sheet at 31 December 2011 were $1 55 (2010 – $1 57) and €1 20 (2010 – €1 17) respectively

Group revenue	+13%
Adjusted profit before tax	+19%
Adjusted operating margin	+0 5ppts
Dividends per share	+22%
Net debt	£29m increase
Return on capital employed	+0 7ppts

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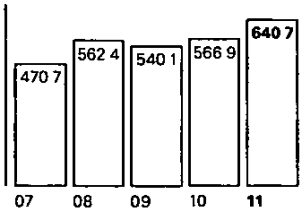
Group at a glance

Our business 2007 to 2011

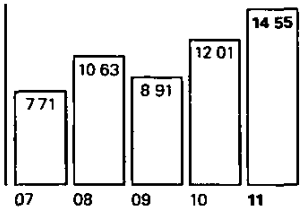
The Group has made significant progress in the implementation of its strategy in the last five years with strong growth achieved in all of the following financial measures

Calculated as the compound annual growth rate for the period 2007 to 2011
ppts - percentage points

Revenue
+8% p a *
£m



Adjusted earnings per share
+17% p a *
Pence



Aerospace 2011

60% of Group revenue

What we do

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

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

Structures
- Precision machined airframe and systems components and assemblies

2011 Highlights

- Continuing benefit from increase in build rates on large commercial aircraft programmes
- Acquisitions of Damar and Weston are highly complementary to Senior's existing large commercial aircraft programmes
- Weston SEA Limited is Senior's first facility in south-east Asia (Thailand) and has significant growth potential
- Strong demand in Senior's military programmes, due to increased build rates
- Slight recovery in regional and business jet markets from a low base, and Senior outperforms market growth
- Record operating margin achieved through favourable revenue mix and further progress with operational excellence initiatives

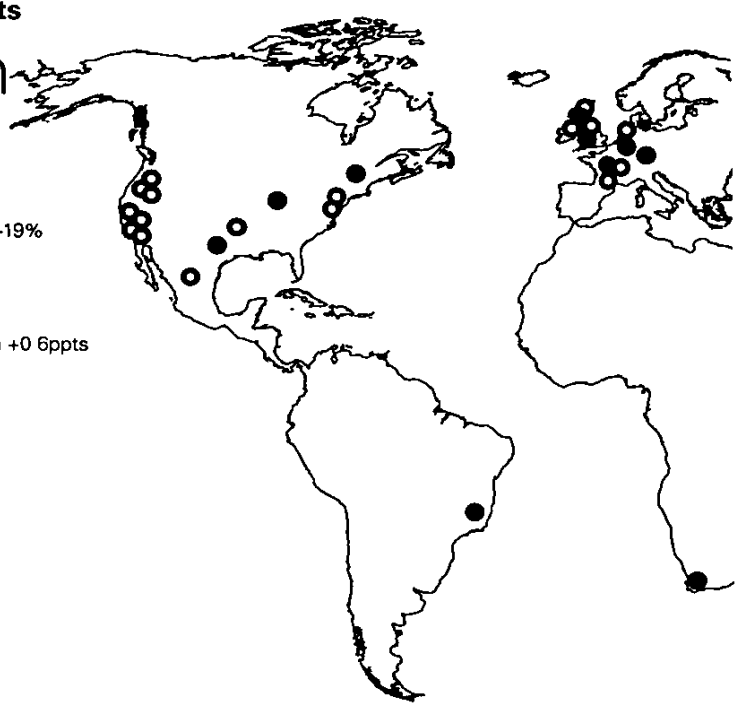
Aerospace highlights

£382.6m
Revenue +15%

£59.6m
Adjusted operating profit +19%

15.6%
Adjusted operating margin +0 6ppts

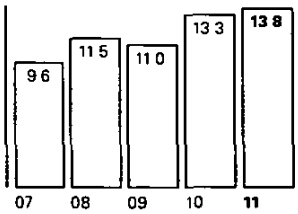
3,445
Employees worldwide



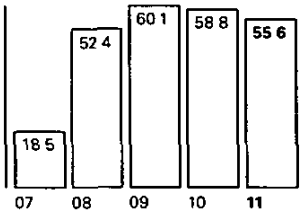
Aerospace locations
North America (eleven)
United Kingdom (three)
Continental Europe (three)
Thailand (one)

Senior is an international manufacturing group providing engineered products for demanding operating environments to original equipment producers in the worldwide aerospace, defence, land vehicle and energy markets

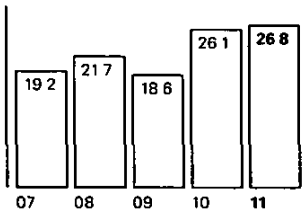
Return on revenue margin
+1 1% p a **
%

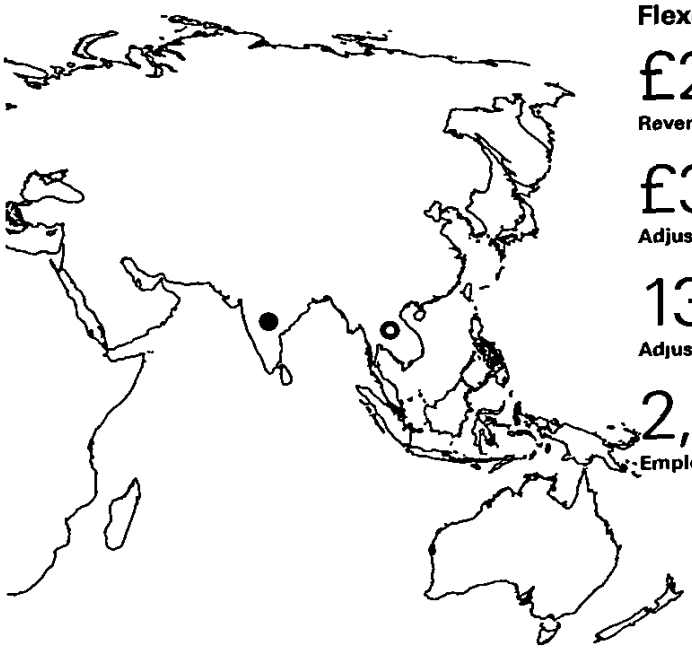


Free cash flow
+32% p a *
£m



Return on capital employed
+1 9% p a **
%





● **Flexonics locations**
North America (three)
United Kingdom (two)
Continental Europe (three)
South Africa (one)
India (one)
Brazil (one)

Flexonics highlights

£258.5m
Revenue +11%

£36.0m
Adjusted operating profit +14%

13.9%
Adjusted operating margin +0 4ppts

2,400
Employees worldwide

Flexonics 2011
40% of Group revenue

What we do

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

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

2011 Highlights

- Increased sales in majority of land vehicle markets, with most significant increase occurring in medium- and heavy-duty truck sales in North America
- New truck programmes in Europe provided additional positive contribution
- Low-cost country passenger car production footprint continues to develop, with good growth achieved in India and the Czech Republic in particular
- Industrial activity generally favourable with strong major contract activity in UK nuclear
- Slight increase in power and energy markets in the US, with potential for stronger growth once new emission legislation is passed
- Record operating margin achieved through benefits of increased volume, effective cost control and operational efficiency improvements

Chairman's statement

Martin Clark Chairman

Senior delivered a record set of results in 2011 Adjusted profit before tax increased by 19%, driven by strong revenue growth and continuing margin improvements, and healthy operating cash flows resulted in the net debt to EBITDA ratio remaining at only 0 8 times after significant investment in capacity expansion and acquisitions Trading has been in line with expectations since the start of 2012 and this, combined with the healthy long-term prospects for the Group, gives the Board the confidence to recommend a 22% increase in the full-year dividend for 2011, in line with the increase in adjusted earnings per share

Group strategy
The Group operates in five strategic market sectors three in Aerospace – Structures, Fluid Conveyance Systems and Gas Turbine Engines and two in Flexonics – Land Vehicle Emission Control and Industrial Process Control Senior's products are typically single sourced, highly engineered and require advanced manufacturing processes for their production

The Group's overall strategy, as well as the specific strategic objectives and achievements applying to each of the five market sectors, is set out in more detail in the Operating and financial review Of the very significant progress made during 2011 in delivering the Group's stated strategy, the acquisitions of two commercial aerospace businesses Damar Machine Company ("Damar") on 25 March and Weston EU Limited ("Weston"), on 25 November are particularly significant for the Group's future Damar, located close to Boeing's commercial aircraft assembly facilities in Seattle, USA, and Weston, with facilities in the UK and Thailand, significantly increase the Group's exposure to the strongly growing commercial aircraft market place and extend the Group's aerospace machining capabilities into Europe and Asia Weston, with its significant Airbus exposure, also provides more balance to Senior's historical bias to Boeing aircraft programmes as well as adding new manufacturing, product and geographic capabilities to the Group It has made a solid start under Senior's ownership and integration is on track

2011 Financial results
During 2011, Group revenue increased by 13% to £640 7m (2010 – £566 9m), with sales to the commercial aircraft and heavy-duty land vehicle markets seeing the strongest growth Reported operating profit, excluding goodwill impairment (2011 – £nil 2010 – £8 7m) increased by 17% to £83 0m (2010 – £70 9m), with adjusted operating margins improving to a record level of 13 8% (2010 – 13 3%) The improved margins bear testament to Senior's long-standing focus on operational excellence Reported profit before tax was £72 7m (2010 – £52 1m), a 40% improvement

Adjusted profit before tax, the measure which the Board believes most accurately reflects the true underlying performance of the business, increased by 19% to £78 0m (2010 – £65 3m) Adjusted earnings per share increased by 21% to 14 55 pence (2010 – 12 01 pence) A full derivation of adjusted profit before tax is included in the Operating and financial review

The Group continued to demonstrate its strong cash-generative nature, delivering free cash flow of £55 6m (2010 – £58 8m) after increased net capital expenditure investment of £21 8m (2010 – £12 1m) This strong performance meant the year-end net debt level of £93 0m (2010 – £63 7m) represented only 0 8 times (31 December 2010 – 0 7 times) earnings before interest, tax, depreciation and amortisation ("EBITDA") even after acquisition expenditure of £68 6m in the year

The Group's 2011 financial performance is discussed in greater detail in the Operating and financial review which follows this statement

Group highlights

- **STRONG REVENUE GROWTH FOR BOTH THE AEROSPACE AND FLEXONICS DIVISIONS**
- **A SECOND CONSECUTIVE YEAR OF RECORD GROUP OPERATING MARGINS, NOW 13 8%**
- **ADJUSTED PROFIT BEFORE TAX OF £78 0M, 19% AHEAD OF THE PRIOR YEAR**
- **ACQUISITION OF TWO COMMERCIAL AEROSPACE BUSINESSES, WITH A COMBINED ANNUAL REVENUE OF £70M**
- **STRONG CASH FLOWS RESULTING IN A CONTINUED PRUDENT LEVEL OF NET DEBT**
- **BOEING 787 AND 747-8 ENTERED INTO SERVICE AIRBUS AND BOEING ORDER INTAKE STRONG**
- **FULL YEAR DIVIDEND PROPOSED TO INCREASE BY 22%, IN LINE WITH THE GROWTH IN ADJUSTED EPS**
- **GROUP OUTLOOK REMAINS ENCOURAGING**

"Adjusted profit before tax increased by 19% to record levels, driven by strong revenue growth and continuing margin improvements This, together with resultant strong cash flow and encouraging future prospects for the Group, gives the Board the confidence to recommend a 22% dividend increase for the year"

Martin Clark Chairman

Dividend

The Board is recommending a final dividend of 2 65 pence per share (2010 – 2 12 pence), bringing the total dividend for the year to 3 80 pence (2010 – 3 12 pence), a 22% increase over 2010 At the level recommended, the full-year dividend would be covered 3 8 times (2010 – 3 8 times) by adjusted underlying earnings per share The final dividend, if approved, will be paid on 31 May 2012 to shareholders on the register at close of business on 4 May 2012

Markets and operations

Aerospace division

The Aerospace Division benefited from the continued implementation of the Group's strategy to increase its market share on large commercial aircraft platforms Improved volumes across all sectors, particularly in the large commercial aircraft and military and defence markets, and £15 6m of revenue from the acquired businesses resulted in reported sales for the Aerospace Division increasing by 15% to £382 6m (2010 – £333 8m) The reported operating margin for the Division increased to 15 6% (2010 – 15 0%) as increased volumes were delivered from existing cost bases and efficiencies improved As a result, the Aerospace Division's reported adjusted operating profit increased by 19% to £59 6m (2010 – £50 0m)

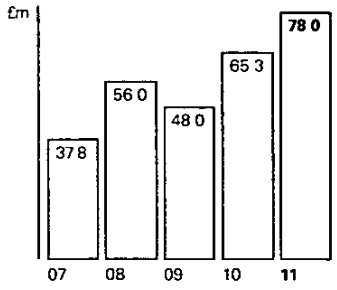
Overall, the market for commercial aircraft (57% of 2011 divisional sales) improved during 2011, from an already healthy level, with production of large commercial aircraft (42% of divisional sales) leading the way and the Division's sales to this market increasing by 23% over the prior year Increased build rates, higher market share and the acquisitions of Damar and Weston were the main reasons for the increase As expected, the end market for business jets (10% of divisional sales) remained weak Deliveries of regional jets (5% of divisional sales) were slightly improved

Boeing and Airbus collectively delivered 1 011 commercial aircraft in 2011, 4% up on the prior year level of 972 aircraft More importantly, they reported a combined net order intake of 2,224 aircraft, more than twice the rate of deliveries, such that their combined order book increased to 8,208 aircraft at the end of 2011 (31 December 2010 – 6,995), an extremely healthy eight-year order book at current build rates As a consequence, Boeing and Airbus are in the early stages of increasing the build rates of almost all of their aircraft programmes over the coming years which, given large commercial aircraft represents Senior's largest market sector, provides very encouraging prospects for the Group Also important to Senior was the entry into service in the final quarter of 2011 of Boeing's 787 and 747-8 aircraft, with production of the 787, on which Senior has significant shipset value, now anticipated to increase steadily to a production rate of 120 aircraft per annum by 2014

Having reached a peak during 2008, when 1,315 aircraft were delivered, the business jet market has been in steady, albeit slowing, decline falling to 870 aircraft deliveries in 2009 and 763 in 2010 Although 2011 saw a further 6% decline, Senior increased its revenue from the business jet market by 11% during 2011 as production of certain newer and larger aircraft on which Senior has healthy content, such as Gulfstream's G500 and G650 and Bombardier's GL5000 increased As anticipated, the regional jet market was subdued although Bombardier and Embraer, currently the two largest regional jet manufacturers, did report a combined increase in deliveries to 206 aircraft (2010 – 183) Unfortunately, their combined order intake was lower than deliveries and, in Bombardier's case its order book is at a level which is expected to result in a reduction in production during 2012 More positively, China, Japan and Russia, are in the advanced stages of developing their own regional jets and Senior has good content on each The first of these, the Russian Superjet 100, entered service in 2011 with five aircraft being delivered in the year

Despite the ongoing defence budgetary cuts in North America and Europe, the Aerospace Division's sales to the military and defence market (29% of divisional sales) increased by 10% in 2011 over the prior year Senior's principal military programmes are the Sikorsky Black Hawk helicopter, where market share gains were achieved, and the Lockheed Martin C-130J military air-transporter, where build rates increased In addition to the apparent 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, where increasing development revenue was reported in 2011, can be anticipated to provide sales growth for Senior in this generally uncertain marketplace

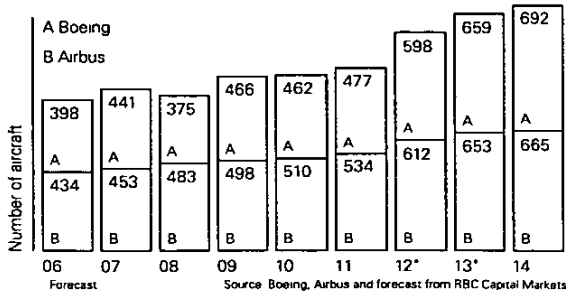
Adjusted profit before tax (£m)



Large commercial aircraft build rate forecast

(Number of aircraft)

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



Source Boeing, Airbus and forecast from RBC Capital Markets

Chairman's statement continued

Flexonics division
With the exception of the passenger vehicle sector the Flexonics Division saw increased volumes across all of its principal markets, with the heavy truck and off-highway vehicle sector seeing the strongest growth Total revenue for the Division increased by 11% to £258 5m (2010 – £233 5m) In a similar fashion to the Aerospace Division, the operating margin of the Flexonics Division improved to 13 9% (2010 – 13 5%), due to the increased volumes being delivered from existing cost bases and manufacturing efficiency improvements These revenue and margin increases resulted in reported adjusted operating profit for the Division increasing by 14% to £36 0m (2010 – £31 6m)

Sales to land vehicle markets (passenger vehicles, commercial trucks and off-highway vehicles) accounted for 52% of the Flexonics Division's sales in 2011 In line with the Group's strategy, the proportion of divisional sales to heavy-duty vehicle markets increased to 22% in 2011 (2010 – 19%) and the proportion to land vehicle markets was 30% in 2011 (2010 – 34%) Sales to industrial markets, such as petrochemical power generation, medical and heating & ventilation, accounted for the remaining 48% of divisional sales in 2011

European passenger vehicles and North American heavy-duty diesel vehicles are currently the most important land vehicle markets for the Group, accounting for around 75% of land vehicle sales in 2011 Over half of the remainder was derived from the European truck market (mainly Germany) and the Brazilian passenger vehicle sector Senior also has a meaningful and growing presence in the Indian passenger vehicle market 2011 saw mixed fortunes for the Group's largest markets with the number of medium- and heavy-duty trucks sold in North America increasing by 37% to 375,000 vehicles whilst the number of passenger vehicles registered in the 27 European Union countries declined by 2% to 13 1 million vehicles In Europe, sales of medium- and heavy-duty trucks increased by 25% but, in Brazil, passenger vehicle sales ended slightly below the volumes seen in 2010 as the market gradually weakened after a strong start In total, the Group's land vehicle sales were 8% higher in 2011 than during the prior year

Activity in the Group's industrial markets was generally healthy throughout 2011, with volumes in the German general industrial, UK nuclear, North American fuel cell and Canadian oil sands markets seeing the strongest improvements Overall, the Group's industrial revenue was 14% higher than in 2010, partially due to the full-year effect of the WahlcoMetroflex acquisition made in August 2010 However, sales of large metallic and fabric expansion joints, the Group's primary industrial product, saw some weakness in North America during 2011, principally due to a delay in the implementation of anticipated environmental legislation Pleasingly, order intake improved markedly towards the year-end, largely due to bookings from Asia and the positive impact of increased collaboration across the Division, and the order book for large industrial expansion joints is at an encouraging level going into 2012

Employees and the board
As previously announced, I intend to retire from the Board at the close of the Group's Annual General Meeting on 27 April this year after 11 years on the Board, the last five as its Chairman Senior has made considerable progress during this period and the Group is well positioned to continue to do so for the foreseeable future These achievements are largely down to the hard work and dedication of the Group's management and employees and I would personally like to thank everybody involved for contributing to Senior's success during this time

As a result of the healthy organic growth and the acquisitions of Damar and Weston, the Group's headcount increased to 5,878 by the end of the year (31 December 2010 – 4,949) Two-thirds of the increase in headcount was due to the two acquisitions, to whose employees I would like to extend an especially warm welcome to the Group

During the second quarter of 2011, and following the departure of Michael Steel as a non-executive Director, the opportunity was taken to enlarge and strengthen the Board through the recruitment of two additional non-executive Directors Accordingly, Andy Hamment (Group Marketing Director of Ultra Electronics Holdings plc) and Mark E Vernon (Group Chief Executive Officer of Spirax-Sarco Engineering plc) joined the Board on 29 April Mark and Andy each have extensive experience of managing successful international specialist engineering companies, operating in similar environments to Senior, which is already proving to be of significant value to the Group

On 26 January this year, the Board announced the forthcoming appointment of Charles Berry as Chairman of the Group upon my retirement Charles brings a broad experience of listed companies and industrial markets, most recently as Chairman of Drax Group plc, and has the right skills and personality to lead the Group through the next phase of its successful growth development He will join the Board as a non-executive Director on 1 March 2012, with the intention of taking over from me as its Chairman at the conclusion of the Group's Annual General Meeting I wish him every success for the future

Outlook
I retire from Senior at a time when the Group is well positioned, financially, operationally and managerially, to benefit from the healthy number of opportunities in front of it, 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 Clearly, global uncertainties remain, notably in the European financial sector, which might possibly lead to reduced demand for some of the Group's products or result in sudden swings in exchange rates, with the US dollar to the pound sterling rate particularly important to Senior Nevertheless, against this backdrop, Senior's future prospects appear healthy

The large commercial aircraft sector, Senior's most important, is a truly global market with the growing economies in Asia helping to boost the order book of Boeing and Airbus to record levels of around eight years at 2011 build-rates Consequently, Boeing and Airbus have recently indicated that they expect their combined 2012 aircraft deliveries to be around 15% above 2011 levels and that, because of the already announced increases in build rates, volumes will increase at a healthy pace over the following two to three years The entry into service of Boeing's 787 in the final quarter of 2011 was particularly important for Senior, given the Group's significant content on the aircraft and Boeing's stated aim to be building at least ten per month by the end of 2014 Airbus now expects the A350 on which the Group has an increasingly healthy content, to enter service in around two years' time so providing further growth momentum In respect to the longer-term outlook, Boeing and Airbus have recently announced the future development of more fuel-efficient versions of their narrow-bodied aircraft, which is providing Senior with an opportunity to increase its content on these high volume programmes early progress has been encouraging The Group's recent acquisitions of Damar and Weston, whose activities are focused in the growing and visible large commercial aircraft sector, further underpin Senior's growth potential

In 2011, deliveries of business jets were only just over half of 2008 peak levels and, although a significant near-term pick-up in demand is not likely, gradual longer-term growth can reasonably be expected as the global economy improves In the regional jet market, Embraer's production outlook appears broadly stable whilst Bombardier has announced a reduction in production levels for 2012 It is, however, optimistic of improved activity when its CSeries aircraft on which Senior has over $400k of content per aircraft starts production during 2013 In addition, the recently developed Chinese, Japanese and Russian regional jets are each projected to provide growth for Senior as they enter service, and increase build rates, over the coming years

To date, announcements of cuts in military and defence spending have not materially affected the future build rates of the Group's two main military programmes the C-130J military air-transport aircraft and the Black Hawk helicopter, which are currently expected to remain at healthy levels for at least the next two years, supported by strong export demand Looking further ahead, market share gains and the medium-term entry into service of the Joint Strike Fighter and A400M can be expected to provide growth opportunities

In the Flexonics Division demand for many of the Group's products, both in the land vehicle and industrial sectors, is driven by ever-tightening environmental legislation and global economic growth, with the majority of the Division's activities based outside of Europe More specifically, the near-term outlook for the North American medium- and heavy-duty truck market appears good with the Group currently investing in additional capacity to fulfil increasing customer demand, whilst in Europe new programme wins are partially off-setting the continuing weak demand for passenger vehicles In the European truck market, the Group continues to gain market share, albeit from a low base Having a global footprint and being able to support their customers' world-wide needs, is increasingly important for suppliers to the land vehicle market Senior is generally well placed in this regard, with the exception of China where expansion opportunities are currently being developed On the industrial side of the Flexonics Division, the global market for large expansion joints is expected to improve slightly from the levels seen in 2011, with the Group's order book currently higher than at the same time last year Demand for specialist ducting to the UK nuclear industry is also holding up well Elsewhere, short-term order books are normal for many of the other industrial products in the Division and so future activity levels are much harder to predict

Overall, the current year has started in line with the Board's expectations and prospects for the remainder of 2012 and beyond remain encouraging

Martin Clark
Chairman

Capabilities and market overview

Aerospace 2011

Capabilities

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

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

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

Market overview

Large commercial aircraft
- Revenue growth of 23% underpinned by increasing build rates in Airbus and Boeing large commercial aircraft platforms
- Deliveries of the new B787 and B747-8 aircraft commenced in Q4
- Build rates on all major platforms expected to increase in 2012 and beyond
- Record OEM order books of approximately eight years of production at current build rates, underpin Senior's future continued growth prospects
- Airbus and Boeing announced plans to build new fuel efficient narrow body aircraft, the A320neo and 737 MAX respectively, with over 1,400 firm orders for these aircraft secured by the year end Developing new opportunities on these aircraft provide potential for further growth as they come to market in the second half of the decade

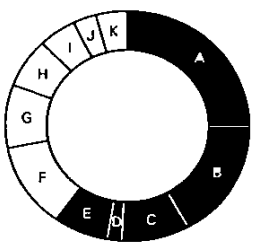
Military aerospace
- Revenue increased by 10% in 2011, reflecting a robust footprint on well established platforms
- Senior's main military programmes are the C-130J transport aircraft and the Black Hawk helicopter, well funded core programmes that also benefit from export sales
- Short-term outlook remains stable, although with some risk in the medium-term due to pressure on the US defence budget and the prospect of reduced military activity in Iraq and Afghanistan
- Healthy shipset content on new programmes, such as the A400M military transport aircraft and the Joint Strike Fighter should help mitigate the impact of any reduction in funding that may affect established programmes

Regional and business jets
- Regional jet production increased slightly from a low base
- Business jet market remains subdued
- Senior's sales to regional and business jet programmes, outperformed the market, increasing by 5% and 11% respectively
- Regional jet sales are likely to continue to improve for Senior in the medium term driven by new platforms e g Bombardier CSeries, Mitsubishi MRJ, Sukhoi SuperJet 100
- Business jet sales benefited from Senior's exposure to large cabin platforms where there is strong international demand
- Continued modest recovery in the business jet sector is forecast for 2012

Market segments

■ Aerospace ☐ Flexonics

Markets
A Large Commercial Aircraft **25%**
B Military & Defence **17%**
C Regional and business jet **9%**
D Space & non-military helicopter **2%**
E Other **7%**
F Passenger vehicles **12%**
G Truck **9%**
H Power & energy **7%**
I Heating ventilation and solar **5%**
J Petrochemical **3%**
K Other industrial **4%**



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

Flexonics 2011

Capabilities

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

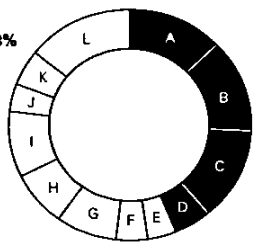
Industrial process control
Design and manufacture of fluid conveyance products for a range of industrial process control applications mainly in the petrochemical and power generation industries Significant exposure to maintenance and upgrade requirements including provision of on-site services Increasing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

Market overview

Land vehicle emission control
- Total truck and off highway sales increased by 31%, principally due to increased production of medium- and heavy-duty truck engines in North America
- New truck programmes in Europe, Brazil and India were of benefit to the Group
- Increased focus on truck/off-highway applications will continue with further opportunities sought in emerging markets
- Sales in the passenger car sector declined by 5%, due to reduced sales in European markets and a slight decline in Brazil However, markets in India continue to grow steadily
- Increasing emission regulations, both in the EU the USA and developing countries (e g Brazil, India and China) continue to drive product development cycles
- Production footprint in low-cost countries (Brazil, India, South Africa, Czech Republic) continues to grow

Industrial process control
- Industrial revenues increased by 14% with recoveries being seen in global power generation and petrochemical markets
- Major capital expenditure in power generation industry in the USA remains subdued due to uncertainty in timing of emission regulations relating to the Clean Air Act although some signs of increased activity occurred towards the year-end
- Continued success with securing major overseas large industrial expansion joint projects
- Projections for 2012 reflect continued steady recovery in the energy and petrochemical sectors, combined with potential benefits from the implementation of clean air regulations in the USA when passed

Products
- A Airframe structural parts **13%**
- B Engine structures and mountings **13%**
- C High pressure ducting **13%**
- D Helicopter machined parts **5%**
- E Low pressure ducting and other composites **4%**
- F Fluid control systems **4%**
- G Other **8%**
- H Exhaust flexes **8%**
- I Emission control **9%**
- J Fuel distribution **4%**
- K HVAC ducting **5%**
- L Expansion joints dampers diverters and bellows **14%**



AEROSPACE – STRUCTURES

OPERATIONAL EXCELLENCE UNDERPINNED BY PEOPLE AND PROCESSES

Operational excellence within Senior means providing customers with quality products, delivered on time and produced in the most efficient way, utilising state of the art equipment and Lean Manufacturing principles, all supported by high quality people and processes For example, the Group's AMT facility, based in Arlington near Seattle USA, machines monolithic aluminium wing rib kits for the Boeing 737 which are supplied direct to line at Boeing's nearby Renton facility Senior services all aerospace sectors with a wide range of structural products and assemblies from its global footprint located in the UK, USA, Mexico, Continental Europe and Thailand

AEROSPACE – FLUID CONVEYANCE SYSTEMS

PROVIDING MARKET-LEADING SOLUTIONS

Senior provides its fluid systems customers with a wide range of engineered integrated fluid conveyance products and system solutions These are typically installed on large commercial aircraft, business jets, regional jets, military aircraft and rotorcraft Both metallic and composite technologies are utilised in order to optimise delivery of air, fuel and hydraulic fluids Senior also provides a range of engineered fluid-related control devices

AEROSPACE – STRUCTURES AND GAS TURBINE ENGINES

PORTFOLIO ENHANCEMENT THROUGH FOCUSED ACQUISITIONS

Senior acquired UK-based Weston EU Limited and its subsidiary, Weston SEA Limited based in Thailand (collectively "Weston") in November 2011 Weston manufactures and assembles a variety of precision machined structural parts and flight critical gas turbine engine components principally for Airbus end platforms Weston is an excellent strategic fit for Senior, enhancing the Group's hard metal machining capabilities and expanding its presence in rotating gas turbine engine components Weston's European and Asian facilities are also highly complementary to Senior's existing, largely North American and Boeing-based, aerospace businesses

FLEXONICS – INDUSTRIAL PROCESS CONTROL

DESIGN, FABRICATION AND INSTALLATION OF ENGINEERED PRODUCTS FOR DEMANDING INDUSTRIAL OPERATING ENVIRONMENTS

Senior offers a through life cycle service from design to de-commissioning for a range of products utilised in large industrial process control facilities These critical function products, including expansion joints, dampers and diverters, are typically provided to the petrochemical, nuclear, power generation and industrial processing industries Senior's global footprint is leading to increasing emerging market opportunities in this sector Senior is also investing in alternative energy solutions including solar and fuel cell technologies

FLEXONICS – LAND VEHICLE EMISSION CONTROL

PROVIDING ENGINEERED PRODUCTS TO MEET INCREASINGLY STRINGENT EMISSION CONTROL LEGISLATION

Senior services a wide range of OEM customers for passenger, truck and off-highway platforms from its global operations Focused upon emission control technologies, it is continually developing fuel distribution and emission control products to meet more stringent emission control regulations Senior is also successfully expanding its footprint in developing markets through its facilities located in India, Brazil, South Africa and Mexico

Key growth drivers

Senior designs, manufactures and markets high-technology components and systems for the principal original equipment producers in the worldwide aerospace, defence, land vehicle and energy markets

Global GDP

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

Market share

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

Environmental legislation

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

Content on new programmes

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

Large commercial aircraft build rates

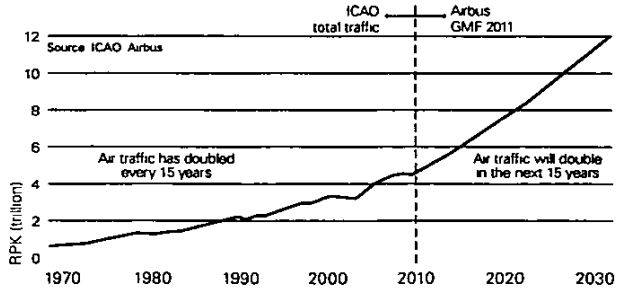
The Group has healthy shipset content on all key large commercial aircraft platforms During 2011 the Group acquired two new businesses, Damar Machine Company and Weston EU Limited, which both have additional content on a number of these platforms The Group's most significant existing platforms include Boeing's B737, B777, and the Airbus A330 and A380 which will be complemented by the B787, where the Group has its largest shipset content ever, as production of this platform ramps up in the coming years Senior will also benefit from increases in the current narrow-bodied A320 and B737 build rates which are set to increase through 2013 In the medium term Senior expects its shipset content on the A350 platform and its developing position on the new more fuel-efficient A320neo and B737 MAX aircraft, to further enhance its significant growth prospects in what is already the most important market sector for the Group

Acquisitions

The Group has a good track record of acquiring and successfully integrating new businesses, utilising an acquisition framework that has been developed as part of the strategic planning process Significant balance sheet capacity has been generated in recent years through very strong free cash flow generation This is now being utilised to support a targeted and complementary acquisition programme aiming at building further on the Group's capabilities in both the Aerospace and Flexonics Divisions In line with this strategy, the Group acquired two businesses in its Aerospace Division in 2011, Damar Machine Company and Weston EU Limited, which together significantly enhance its capabilities and geographical presence in the large commercial aircraft sector

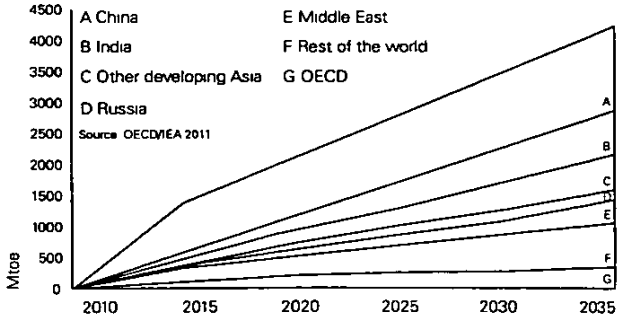
World annual traffic – revenue passenger km

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



World energy outlook 2011

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



Operating and financial review

"Senior has made good progress with implementation of its strategy in all market sectors and remains well positioned, financially, operationally and managerially, to benefit from the healthy number of future opportunities"

Mark Rollins Group Chief Executive

Mark Rollins Group Chief Executive

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

1 BUSINESS MODEL AND OPERATIONS

Senior is an international, market-leading, engineering solutions provider with operations in 12 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 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 fuel system and emission control products for medium- and heavy-duty trucks, off-road and passenger 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 environmentally driven 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

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

1 BUSINESS MODEL AND OPERATIONS (Page 18)
2 STRATEGY, BUSINESS OBJECTIVES AND KEY PERFORMANCE INDICATORS (Page 20)
3 ACQUISITIONS (Page 21)
4 FINANCIAL REVIEW (Page 24)
5 DIVISIONAL REVIEW (Page 28)
6 OUTLOOK (Page 30)
7 RISKS AND UNCERTAINTIES (Page 30)
8 RESOURCES (Page 34)
9 CORPORATE SOCIAL RESPONSIBILITY (Page 34)

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 industrial markets, the principal demand drivers are passenger vehicle sales in Europe, 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 five-year growth achieved in Group adjusted operating margin from 6 8% from 2006 to 13 8% in 2011

All Group operations are required to maintain a strong focus on cash generation, in particular concentrating on tight controls over discretionary expenditure and continuous improvements in 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 its 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, is encouraged to be embraced and managed effectively within each business unit to optimise performance Senior takes a cautious approach to risk, 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

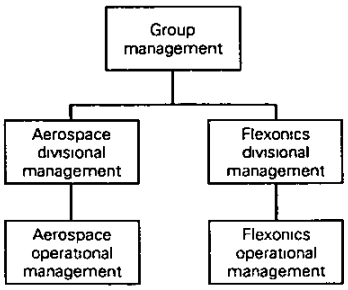
Aerospace
The Aerospace Division consists of 18 operations These are located in North America (11), the United Kingdom (three), continental Europe (three), and south-east Asia

In 2011, the Division accounted for 60% of total Group revenue Its main products were engine structures and mounting systems (22% of divisional sales), metallic ducting systems (21%), airframe and other structural parts (22%), helicopter machined parts (8%), composite ducting systems (7%) and fluid control systems (6%) The remaining 14% 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 15% of 2011 divisional sales, United Technologies (11%), Spirit AeroSystems (7%), Rolls-Royce (6%), Goodrich (4%) Bombardier (4%), GKN (4%), Airbus (4%) and GE (3%)

Organisation structure

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



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 2011, the Flexonics Division accounted for 40% of total Group revenue This Division's sales comprised cooling and emission control components (23% of divisional sales), flexible mechanisms for vehicle exhaust systems (20%), diesel fuel distribution pipework (9%), and sales of industrial components, principally expansion joints, control bellows and specialist ducting systems (48%) The industrial components were supplied to power and boiler markets (17% of divisional sales), HVAC and solar markets (13%), oil and gas and chemical processing industries (9%) and other industrial markets (9%)

The Division's largest individual end users are land vehicle customers, including Cummins (representing 15% of divisional sales), Ford (6%) PSA (6%), General Motors (5%) and Renault (4%) The percentage of divisional sales arising from the passenger vehicle sector fell in 2011 to 30% (2010 – 34%) with sales to the heavy-duty diesel engine market to customers such as Cummins and Caterpillar growing to 22% (2010 – 19%)

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

The purpose of the Executive Committee is to assist the Group Chief Executive in the performance of his duties, including

- the development and implementation of strategy, operational plans, policies, procedures, and budgets,
- the monitoring of operating and financial performance,
- the assessment and control of risk,
- the prioritisation and allocation of resources, and
- the monitoring of competitive forces in each area of operation

The Committee is also responsible for the consideration of all other matters not specifically reserved for consideration by the Board A report on the Executive Committee's activities is provided to the Board by the Group Chief Executive at each Board meeting

The Committee is comprised of the two executive Directors, Mark Rollins and Simon Nicholls, the three divisional Chief Executive Officers Laurie Fleming, Jerry Goodwin and Mike Sheppard the Group Financial Controller, Bindi Foyle, and the Group Head of Business Development, Peter Woolfrey Biographies of the Committee members are set out below

1 Mark Rollins See page 39 for biography

2 Simon Nicholls See page 39 for biography

3 Laurie Fleming A US citizen, he has worked for the Group for more than 10 years He joined the Executive Committee upon his appointment as Chief Executive of Aerospace Fluid Systems in September 2008 Prior to that appointment he had been Chief Executive of Senior Aerospace SSP

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

5 Mike Sheppard A US citizen, he has worked for the Group for more than 20 years and has been the Chief Executive of Senior Flexonics since 2002 A qualified engineer, Mike's previous positions within the Group included operational roles at the two largest Flexonics businesses, Pathway and Bartlett

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

7 Peter Woolfrey Joined the Group in 2009 as Group Head of Business Development Prior to this he worked for Smiths Aerospace and GE Aviation in a number of marketing roles

2 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

Executive Committee

1 Mark Rollins
Group Chief Executive

2 Simon Nicholls
Group Finance Director

3 Laurie Fleming
CEO – Aerospace Fluid Systems

4 Jerry Goodwin
CEO – Aerospace Structures

5 Mike Sheppard
CEO – Flexonics

6 Bindi Foyle
Group Financial Controller

7 Peter Woolfrey
Group Head of Business Development

exceed the Group's cost of capital At Group level there are four key principles to Senior's strategy which are

1. Optimising the value of the Group's existing operations portfolio by exceeding customer expectations 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,
2. Targeted investment in new product development, technologies and geographic regions, for markets having higher than average growth potential, to further enhance organic growth opportunities,
3. Portfolio enhancement through focused acquisitions and disposal of non-core assets, with decisions in both cases being subject to strict financial and commercial criteria, the operation's long-term outlook and the Group's anticipated funding position, and
4. 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 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 rate of energy intensity by 10% in the five-year period to 2015 and
- to reduce the number of recordable injuries which incur lost time by 20% in the five-year period to 2015

Senior delivered a record level of profit in 2011 and all of the Group's improvement targets (financial and non-financial) were met

3 ACQUISITIONS

The Group completed two acquisitions during the year, both funded through the utilisation of existing cash and debt facilities

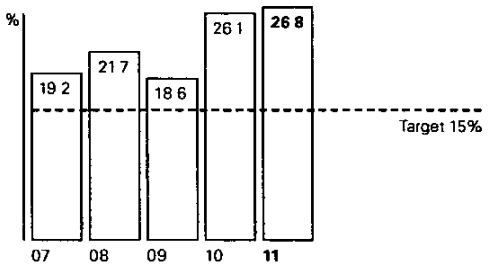
Damar Machine Company and two small related legal entities (collectively "Damar") were acquired on 25 March 2011 for a total consideration of £15 8m (including deferred consideration payable of £0 3m) plus overdraft acquired of £0 1m Damar is located in Monroe, Washington, USA and is principally a manufacturer and integrator of precision machined parts and assemblies for the commercial aerospace industry It specialises in air beams, wing skins, stow-bin parts, interior decorative assemblies, panels and bulk-head components, manufactured from aluminium, titanium and other specialist metals The business is highly complementary to the Group's existing Aerospace Structures operations located in Washington State Damar's principal end customer is Boeing and it has content on each of Boeing's 737, 747, 767 777 and 787 platforms Boeing has announced build rate increases for all of these aircraft types and, consequently, the future prospects for Damar, within Senior's Aerospace portfolio, are encouraging

The second acquisition also in Senior's Aerospace Division, was Weston EU Limited and its subsidiary Weston SEA Limited (collectively "Weston") which was acquired on 25 November 2011 Weston is located in Colne, Lancashire UK and Chonburi in Thailand The total consideration for the acquisition was £53 0m plus reimbursement of cash in the Weston business at acquisition of £4 1m Weston has a well established reputation in the aerospace industry, specialising in the machining and assembly of aerofoils aluminium and hard metal structural parts and premium aircraft-seat structures Its largest customers are Rolls-Royce, Spirit Aerosystems (Europe) and Contour Aerospace Weston has content on each of the Airbus A320 family, A330, A350 and A380 platforms, either on the engines or the aircraft structure itself More than 70% of Weston's revenue in 2011 was derived either directly or indirectly from Airbus commercial aircraft platforms The Weston acquisition represents an excellent strategic addition to Senior's Aerospace Division, with Weston's European and Asian locations, and predominantly Airbus exposure, providing an excellent complementary fit with the Group's existing North American, and largely Boeing, footprint Airbus has also announced build rate increases for all of these aircraft types and, consequently the future prospects for Weston are healthy

Financial details relating to the acquisitions are disclosed in Note 33

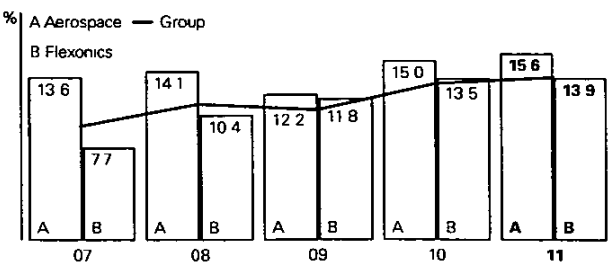
Pre-tax return on capital employed (%)

The Group s pre-tax return on capital employed has increased by 40% in the last four years This is the result of successful strategy implementation in particular increased asset utilisation



Adjusted operating margins (%)

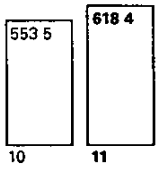
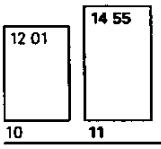
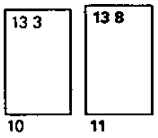
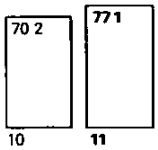
Adjusted operating margins in both Divisions have increased significantly since 2007 through a combination of improved product mix and sustained operational improvements

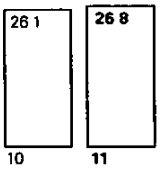
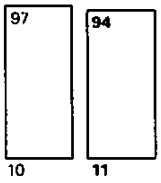
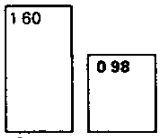


Operating and financial review continued

KEY PERFORMANCE INDICATORS

A summary of the year-on-year movements in the Key Performance Indicators ("KPIs") used to monitor progress against the targets, and the respective link to the key principles set out above, is described in the table below

	Progress
Organic revenue £m +12% 	The main drivers of organic revenue growth were increased build rates on large commercial aircraft platforms, the Group's build rate increases on key military platforms, increased sales of truck components on existing programmes in North America and a number of new programmes in Europe The Group also made good progress with the development of its activities in low-cost countries including new programme wins in India, Brazil, Mexico and the Czech Republic **Strategy** ❶❷
Adjusted earnings per share p +21% 	A combination of increased volumes in most major market sectors, continued effective operational execution and a reduced tax rate, following a Group reorganisation resulted in a significant increase in earnings per share **Strategy** ❶❷
Return on revenue margin % +0 5ppts 	A record Group adjusted operating margin of 13 8% was achieved in 2011, with both the Aerospace and Flexonics Divisions posting record figures, principally due to a combination of increased activity on major OEM programmes effective and sustained cost controls, and operational efficiency gains based on further progress with the Group's ongoing Lean Manufacturing continuous improvement initiatives **Strategy** ❶❷❹
Net cash from operating activities £m +10% 	The Group generated significant cash from operating activities in 2011 of £77 1m, driven by strong earnings growth and effective control over working capital This level of cash conversion has enabled the Group to propose a 22% dividend increase and fund increased capital expenditure of 1 2 times depreciation **Strategy** ❶

	Progress
Return on capital employed % +0 7ppts 	The increase in the Group's return on capital employed in 2011 to 26 8% (a record level) was achieved through a combination of the earnings enhancements set out above and increased balance sheet efficiency in particular effective allocation of capital expenditure to increasingly profitable programmes and control over working capital requirements at an operational level **Strategy** ❶❷❸❹
Carbon dioxide emissions/£m turnover -3% 	Through more efficient use of resources and improved asset utilisation, the Group has made good early progress on its published five-year target of improving energy efficiency by 10% between 2011 and 2015 This is the sixth consecutive year in which Senior has reduced its environmental impact **Strategy** ❹
Lost time injury frequency rate reduced by 0 62 incidents p a 	The Group takes a proactive approach to the health and safety of all employees, as described more fully in the Corporate social responsibility report on pages 35 to 37 A reduction of 39% in the number of recordable injuries, per 100 employees which incurred lost time was achieved in 2011 **Strategy** ❹

KPIS FIVE-YEAR AVERAGE ANNUAL MOVEMENTS

The Group has had considerable success in implementing its strategy over the last five years A summary of the five-year average annual movements from 2006 to 2011 in the Group's KPIs[7] is set out below

+5% p.a.
Organic revenue growth[1]

+2.6ppts p.a.
Return on capital employed increase[4]

+29% p.a.
Adjusted earnings per share growth[2]

-4% p.a.
CO_2 emissions/£m revenue[5]

+1.4ppts p.a.
Return on revenue margin increase[3]

0.4% fewer incidents p.a.
Lost time injury frequency rate[6]

+24% p a.
Net cash from operating activities

[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 £m

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

[7] Calculated as the simple average of year-on-year movements in these KPIs over the five years as published

STRATEGIC OBJECTIVES

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

What is the strategy?	Progress
Structures – Growth in higher value kitting and assemblies to deliver market share gains – Develop hard metal machining capabilities – Diversify customer base via increased collaboration between operations – Invest in well-funded military programmes – Continue focus on operational excellence to drive customer value and market share – Selective acquisitions to complement growth strategy	– Weston acquisition brings increased exposure to Airbus hard metal machining capabilities and facilities in Europe and south-east Asia – New programme wins with key customers in Mexico – Improvements in operational execution is a key driver of margin progression – Increased market share on large commercial aircraft platforms via acquisitions of Damar and Weston – Robust performance on key military programmes – Prospect of continued growth via build rate increases and new platforms coming through in medium term
Fluid conveyance systems – Further develop strategic customer relationships – Increase customer value-add through more complete product offering including increased collaboration between operations – Market share growth through increased content on new platforms (e g A320neo, B737 MAX KC390, A350) – Seek proprietary acquisitions and expand engineered product portfolio	– Strengthening of key customer relationships in both large commercial and regional/business jet sectors – New business being secured as a result of intra-Group cooperation (e g on Joint Strike Fighter) – Developing opportunities in engineered products, particularly on the A320neo and B737 MAX programmes, potentially positions the Group well for increased market share on a number of key future generation platforms – Focus on proprietary acquisitions increasing
Gas turbine engines – Target higher value-add engineered or flight-critical parts (e g rotating) – Increase focus on fluid systems applications (e g engine ducting and bellows) – Continue to develop customer outsourcing opportunities and strengthen multi-site customer relationships – Develop low-cost country footprint – Seek value-enhancing acquisitions	– Weston acquisition brings Senior's first major exposure to critical rotating gas turbine engine parts (i e airfoil blades) – Secured first content on A320neo engine ducting and working on other opportunities for a number of OEM gas turbine engine manufacturers – Acquisition of Weston brings first manufacturing capability in south-east Asia with significant capacity for growth – A number of Senior's businesses securing new contracts through collaboration and leverage of existing customer relationships
Land vehicles – Increase capability in heat exchanger technology including fuel cells – Continue to develop product portfolio in line with increasing emission regulations – Develop lower value-add component manufacture to low-cost countries – Increase emerging market footprint concentrating on markets that exhibit attractive growth characteristics – Continue to develop customer base in both on-road truck and off-highway applications – Increased focus on engineered product	– Significant increase in exhaust gas recycler products supplied in North America – New European and Brazilian truck programmes secured and first shipments made in 2011 – Increased activity in low-cost countries notably India and Czech Republic on new passenger vehicle programmes for Europe the USA and domestic consumption – Increased collaboration between North American and European management teams on development of next generation of heat exchanger products – First heavy-duty diesel engine programmes secured for manufacture in France
Industrial process control – Capitalise on sector requirements to comply with reduced emission standards – Target wider global presence and establish offshore partners for large projects – Seek proprietary adjacent products – Participate selectively in developments in key new technology applications (e g combined heat and power concentrated solar power)	– Improved collaboration between Group operations in the USA Canada and Brazil leads to increased contract wins – Delay in passing of emission legislation in USA dampens short-term performance but Group remains well positioned for growth once legislation is enacted – Increased sales of fuel cell components in the USA – Focus on additional proprietary adjacent products in existing and emerging markets – Additional concentrated solar power contracts awarded

Simon Nicholls Group Finance Director

4 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	
	2011 £m	2010 £m
Aerospace	**382 6**	333 8
Flexonics	**258 5**	233 5
Inter-segment sales	**(0 4)**	(0 4)
Group total	**640 7**	566 9

	Adjusted operating profit[1]	
	2011 £m	2010 £m
Aerospace	**59 6**	50 0
Flexonics	**36 0**	31 6
Central costs	**(7 3)**	(6 2)
Group total	**88 3**	75 4

	Margin	
	2011 %	2010 %
Aerospace	**15 6**	15 0
Flexonics	**13 9**	13 5
Group total	**13 8**	13 3

[1] Adjusted operating profit is the profit before interest and tax and before profit or loss on disposal of fixed assets amortisation of intangible assets arising on acquisitions acquisition costs and goodwill impairment

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

	2011 £m	2010 £m
Operating profit per Financial Statements	**83 0**	62 2
Loss/(profit) on sale of fixed assets	**0 3**	(0 2)
Amortisation of intangible assets from acquisitions	**4 4**	4 6
Impairment of goodwill	**–**	8 7
Acquisition costs	**0 6**	0 1
Adjusted operating profit	**88 3**	75 4

Total Group revenue increased by 13% (£73 8m) in 2011 including the adverse impact of foreign exchange movements (15% increase excluding the impact of foreign exchange) This increase included £19 6m from acquisitions £15 6m of which related to the acquisitions of Damar and Weston in the Group's Aerospace Division during the year plus an additional £4 0m relating to incremental revenue from WahlcoMetroflex which was acquired in the Flexonics Division in August 2010 Excluding acquisitions, revenue in the Group's organic operations (at constant currency) increased by 12%

In aerospace markets, the Group benefited from the impact of increasing build rates in the large commercial aircraft sector In addition a combination of increasing build rates on key platforms resulted in a further positive movement in the military sector Business and regional jet markets remained subdued during the year, although Group sales in these markets increased marginally due to the favourable mix of larger platforms in the Group's portfolio Activity levels in land vehicle markets were mixed with strong increases in North American and European truck markets, but a decline in European passenger vehicle registrations Passenger vehicle markets in India continued to grow steadily but declined marginally overall in Brazil after a strong start to the year Demand patterns in the Group's industrial markets were positive, with increases experienced in global petrochemical and power & energy markets, as well as in European heating, ventilation and solar markets

The Group's free cash flow and net debt for 2011 and the prior year were

	2011 £m	2010 £m
Free cash flow	**55 6**	58 8
Net debt	**93 0**	63 7
Net debt EBITDA ratio	**0 8x**	0 7x

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

	2011 £m	2010 £m
Net cash from operating activities	**77 1**	70 2
Interest received	**0 3**	0 7
Proceeds on disposal of tangible fixed assets	**0 3**	2 1
Purchases of tangible fixed assets	**(21 1)**	(13 5)
Purchases of intangible assets	**(1 0)**	(0 7)
Free cash flow	**55 6**	58 8

"The Group generated significant cash flow from operating activities in 2011, of £77 1m, driven by strong earnings growth and effective control over working capital This level of cash conversion has enabled the Group to fund the acquisition of two businesses in the Aerospace Division and a significant increase in expansionary capital expenditure "

Simon Nicholls Group Finance Director

The Group generated significant free cash flow of £55 6m in 2011 (2010 – £58 8m), a strong performance for the year, although marginally behind 2010 principally due to an increase in capital expenditure on future growth programmes in the commercial aerospace and heavy-duty diesel engine sectors The principal drivers of the positive underlying cash performance were the increase in operating profits combined with sustained tight controls over working capital levels, ultimately resulting in an excellent level of cash conversion The free cash flow performance was after the Group had contributed a further £7 8m in excess of service costs (2010 – £11 8m) into its defined benefit pension plans in the UK and the USA

The strong cash flow enabled the Group to fund the Damar and Weston acquisitions from existing cash and debt facilities, for a total combined consideration of £68 6m, and resulted in only a relatively modest increase in net debt of £29 3m during the year (including adverse foreign exchange movements of £2 3m) Net debt at the year-end was £93 0m (2010 – £63 7m)

Revenue
Group revenue increased by £73 8m (13%) to £640 7m (2010 – £566 9m), including £19 6m from the Group's acquisitions of Damar and Weston, in March and November 2011 respectively, and the full year effect of the acquisition of WahlcoMetroflex made in August 2010 If the effect of acquisitions and a year-on-year adverse exchange impact of £10 7m are excluded, then underlying revenue from organic operations increased by 12% on a constant currency basis In 2011, 66% of Group sales originated from North America, 11% from the UK, 16% from the Rest of Europe and 7% from the Rest of the World

Operating profit
Adjusted operating profit increased by £12 9m (17%) to £88 3m (2010 – £75 4m), principally due to the increase in organic operations' revenue, further operational improvements and year-on-year acquisition contributions of £0 9m Adjusted operating profit is before finance costs, loss on disposal of fixed assets of £0 3m (2010 – £0 2m profit), acquisition costs of £0 6m (2010 – £0 1m) amortisation of intangible assets arising on acquisitions of £4 4m (2010 – £4 6m) and impairment of goodwill of £nil (2010 – £8 7m) The Group suffered adverse foreign currency movements of £1 8m on translation of comparative profits and, if these are excluded together with the incremental profit contribution of £0 9m from acquisitions, then underlying adjusted operating profit from organic operations increased by 19% on a constant currency basis

Total Group reported operating profit increased by 33% to £83 0m (2010 – £62 2m) after charges for the amortisation of goodwill, acquisition costs and loss of disposal of fixed assets (see above) The 2010 result included the negative impact from recognising an impairment of £8 7m relating to the goodwill arising upon the acquisition of Capo Industries, Inc If this impairment amount is excluded from the year-on-year comparison then the revised increase would be 17%

Finance costs
Total finance costs, net of investment income of £0 3m (2010 – £0 5m), increased marginally to £10 3m (2010 – £10 1m) Net interest costs on borrowings remained unchanged (at £7 9m) mainly because the Group has fixed rate fully drawn US private placement facilities of $185m (£119 4m) which attract a fixed interest payment each year The Group's total net debt was below this level for the whole of 2011 and 2010

Fluctuations in the Group's net interest costs therefore arise only due to changes in cash amounts on deposit, deposit interest rates and variations in the rate of foreign exchange translation principally between the pound sterling and the US dollar The comparative year-on-year net effect of these movements was the same and therefore total net interest costs remained unchanged between 2011 and 2010

Pension-related finance charges increased to £2 4m in 2011 (2010 – £2 2m), principally due to a decrease in the expected rate of return on assets, as an increasing proportion of the Group's pension assets are invested in fixed income securities as part of the continuing implementation of liability-driven investment strategies in the Group's defined benefit pension plans

Profit before tax
Adjusted profit before tax increased by 19% to £78 0m (2010 – £65 3m) Reported profit before tax increased by 40% to £72 7m (2010 – £52 1m) The reconciling items between these two measures are shown in Note 9

Tax charge
The total tax charge increased to £17 7m (2010 – £11 7m), due to the increase in the Group's taxable profits Net tax benefits of £1 8m (2010 – £5 6m) arose from the loss on sale of fixed assets, acquisition costs, amortisation of intangible assets from acquisitions and, in 2010, goodwill impairment If these are added back, then the resultant tax charge of £19 5m (2010 – £17 3m) represented an underlying rate of 25 0% (2010 – 26 5%) on the adjusted profit before tax of £78 0m (2010 – £65 3m) The decrease in the underlying tax rate arose mainly due to a decrease in the tax rate in the USA and an increase in deferred tax assets recognised in the UK arising from the capitalisation of certain historical UK losses that are now anticipated to be available for use following the acquisition of Weston

Earnings per share
The weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 402 0 million (2010 – 399 6 million) Adjusted earnings per share increased by 21% to 14 55 pence (2010 – 12 01 pence) Basic earnings per share increased by 35% to 13 68 pence (2010 – 10 11 pence) See Note 12 for details of the basis of these calculations

Dividends
A final dividend of 2 65 pence per share is proposed for 2011, an increase of 25% from last year, which would cost £10 7m (2010 final dividend – £8 5m) This would bring the full-year dividend to 3 80 pence per share 22% above the prior year The cash outflow incurred during 2011 in respect of the final dividend for 2010 and the interim dividend for 2011 was £13 1m (2010 – £10 8m)

Research and development
The Group's expenditure on research and development increased to £11 8m during 2011 (2010 – £10 6m) Expenditure was incurred mainly on designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production

Operating and financial review continued

Capital expenditure
Gross capital expenditure increased by 56% in 2011 to £22 1m (2010 – £14 2m), principally representing investment in future growth programmes and also ongoing necessary replacement and compliance expenditure The Group's operations remain well capitalised The disposal of assets no longer required raised £0 3m (2010 – £2 1m) A higher level of capital expenditure is anticipated for 2012, 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 2011 may be summarised as follows

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	126 4	–	126 4
Goodwill and intangible assets	226 8	–	226 8
Current assets and liabilities	197 1	(149 8)	47 3
Other non-current assets and liabilities	9 7	(6 4)	3 3
Retirement benefit obligations	–	(34 5)	(34 5)
Total before net debt	560 0	(190 7)	369 3
Net debt	29 3	(122 3)	(93 0)
Total at 31 December 2011	**589 3**	**(313 0)**	**276 3**
Total at 31 December 2010	504 0	(278 1)	225 9

Net assets increased by 22% in the year to £276 3m (2010 – £225 9m), in the main as a result of retained profits of £55 0m Net assets per share increased by 22% to 68 7p (2010 – 56 3p) There were 402 2 million ordinary shares in issue at the end of 2011 (2010 – 400 9 million)

Retirement benefit obligations, as calculated in accordance with IAS 19, decreased by £3 7m to £34 5m (2010 – £38 2m) principally due to the positive impact of an increase in the value of fixed income assets in the plans and £7 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

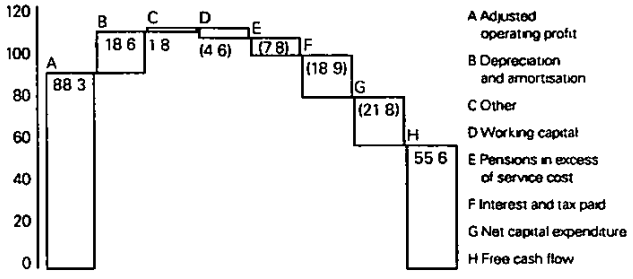
Cash flow
The Group generated significant free cash flow (whose derivation is set out in the table below) of £55 6m in 2011, marginally below the £58 8m achieved in 2010 The main driver of the year's performance was cash generated from operations of £96 3m, which is stated after taking into account additional pension contributions in excess of service costs of £7 8m and a working capital outflow of £4 6m

The positive cash flow from operations was offset by increased net capital expenditure of £21 8m (2010 – £12 1m) and tax and interest payments of £18 9m (2010 – £16 2m)

	2011 £m	2010 £m
Operating profit	**83 0**	62 2
Depreciation and amortisation	**23 0**	24 6
Working capital movement	**(4 6)**	2 5
Pension payments above service cost	**(7 8)**	(5 8)
Additional discretionary pension payments	**–**	(6 0)
Goodwill impairment	**–**	8 7
Other items	**2 7**	0 9
Cash generated from operations	**96 3**	87 1
Interest paid (net)	**(8 2)**	(7 6)
Tax paid	**(10 7)**	(8 6)
Capital expenditure	**(22 1)**	(14 2)
Sale of fixed assets	**0 3**	2 1
Free cash flow	**55 6**	58 8
Dividends	**(13 1)**	(10 8)
Acquisitions	**(68 6)**	(8 3)
Share issues	**–**	0 3
Sale of shares held by employee benefit trust	**–**	1 4
Finance lease assumed on acquisition and entered into	**(0 9)**	–
Foreign exchange variations	**(2 3)**	(2 8)
Opening net debt	**(63 7)**	(102 3)
Closing net debt	**(93 0)**	(63 7)

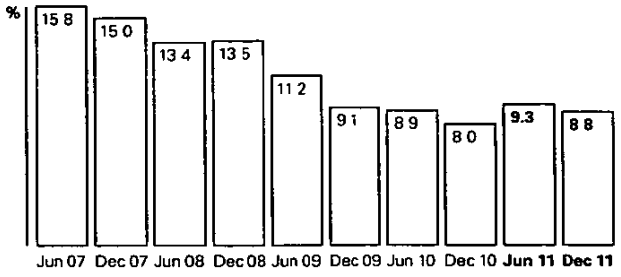
Free cash flow bridge (£m)

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



Working capital as % of 12 months' rolling revenue

The Group s success in driving down its level of working capital needs is based around a clear understanding at all levels of management that the working capital cycle begins when a customer places an order and only ends when cash is collected at the end of the process



Net debt

Net debt increased by £29 3m in the year to £93 0m (2010 – £63 7m) The principal reasons for the increase were expenditure on acquisitions of £68 6m (2010 – £8 3m) and gross capital expenditure of £22 1m (2010 – £14 2m) These increases were partially offset by the increase in cash generated by operations, which was driven by the underlying positive impact of increased profitability, continued tight controls over operational expenditure and sustained low levels of working capital At the year-end, net debt comprised gross borrowings (including finance leases of £1 6m) of £122 3m, with 98% of the Group's gross borrowings in US dollars (31 December 2010 – 99%), and cash and cash equivalents of £29 3m

The Group's committed borrowing facilities contain a requirement that the ratio of EBITDA (adjusted profit before interest, tax, depreciation and amortisation) to net interest costs must exceed 3 5x, and that the ratio of net debt to EBITDA must not exceed 3 0x At 31 December 2011, the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 13 7x (31 December 2010 – 11 8x) and the ratio of net debt to EBITDA was 0 8x (31 December 2010 – 0 7x)

Liquidity

As at 31 December 2011, the Group's gross borrowings, excluding finance leases, were £120 7m (2010 – £118 6m) The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows

	Gross borrowings[1] £m	Committed facilities £m
Within one year	1 0	–
In the second year	0 2	–
In years three to five	38 8	106 3
After five years	80 7	80 7
	120 7	187 0

[1] Gross borrowings include the use of bank overdrafts, other loans and committed facilities but exclude finance leases of £1 6m

The Group successfully refinanced its main revolving credit facility in October 2011 and, at the year-end, had committed facilities of £187 0m with a weighted average maturity of 5 2 years The Group is in a strong funding position, with headroom of £94 0m under these facilities and no borrowings due for repayment until a private placement loan of £22 6m matures in October 2014

Going concern basis

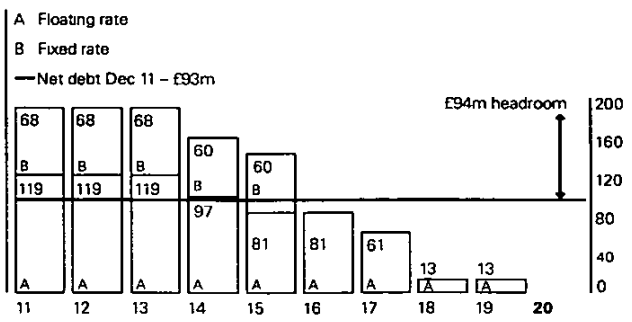
The Group's business activities, performance and position are set out in the Financial Review above and the Divisional Review below These include a description of the financial position of the Group, its cash flows, liquidity position and borrowing facilities In addition a review of the principal risks and uncertainties that are likely to affect the Group's future development is set out on pages 30 to 33 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

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 2011, 98% of the Group's gross debt was financed via revolving credit and private placement facilities, with an average maturity of 5 2 years The Group is profitable cash generative and well funded with net debt of £93 0m compared to £187 0m of committed borrowing facilities, and has no major borrowing facility renewal before mid 2014

However, economic conditions inevitably vary and so potentially create uncertainty particularly over the level of demand for the Group's products and the exchange rate between the pound sterling and the US dollar This exchange rate is important to the Group's financial performance given that around 69% of the Group's profits in 2011 were earned in the USA and 98% of its gross borrowings at 31 December 2011 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

Maturity profile of credit facilities (£m)

Senior has significant funding headroom of £94m under its committed borrowing facilities with no refinancing due until 2014



operate well within the level of its current committed borrowing facilities and banking covenants under all reasonably foreseeable scenarios As a consequence, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and the Board has continued to adopt the going concern basis in preparing the Group's Annual Report & Accounts 2011

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 2010, 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

5 DIVISIONAL REVIEW

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below It should be noted that the results for 2010 have been translated using 2011 average exchange rates in order to make appropriate comparisons at constant currency

Aerospace division

	2011 £m	2010[1] £m	Change
Revenue	**382 6**	325 7	+17%
Adjusted operating profit	**59 6**	48 7	+22%
Operating margin	**15 6%**	15 0%	+0 6ppts

[1] 2010 results translated using 2011 average exchange rates

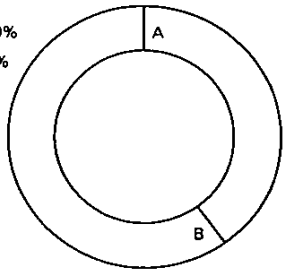
The revenue of the Aerospace Division increased by £56 9m (17%) to £382 6m (2010 – £325 7m at constant currency), including £15 6m from the acquisitions of Damar in March 2011 and Weston in November 2011 Excluding this, the increase in revenue in organic operations was 13% principally due to increases in sales to the large commercial aircraft and military sectors

The Division's sales in the large commercial aircraft market (42% of divisional sales) increased by approximately 26% in 2011, due to an increase in sales to the principal Boeing and Airbus aircraft platforms Aircraft deliveries by Boeing and Airbus increased to 1,011 in 2011 from 972 in 2010 and included the first deliveries of the Boeing 787 Dreamliner and the Boeing 747-8 The Aerospace Division benefited from the continued implementation of the Group's strategy to increase its market share on major large commercial aircraft platforms, mainly through the acquisitions of Damar Machine Company which is largely exposed to Boeing platforms, and Weston whose principal exposure is to Airbus platforms The combined 2011 Boeing and Airbus net order intake was very strong at 2,224 aircraft, which was 220% of the level of deliveries (2010 – 114% of deliveries)

Boeing's order book includes 857 orders for the B787 Dreamliner aircraft where Senior has its largest shipset content ever, and its first firm orders for the newly announced narrow-bodied platform, the Boeing 737 MAX Airbus announced its new narrow-bodied platform, the A320neo, earlier than Boeing and its firm order book is nearly 1,300 aircraft The Group is targeting an increase in its shipset value on these aircraft, to further enhance its market share position on these very important new platforms The increase in net order intake is a reflection of both airline confidence in future estimates of sustained annual increases in passenger air miles flown and the potential reduction in operating costs that is targeted on these new aircraft platforms through the use of lighter-weight materials and more efficient gas turbine engines The combined order book now stands at 8,208 aircraft at the year-end (representing approximately eight years of deliveries at current build rates) This continues to represent a solid foundation for the Group's future

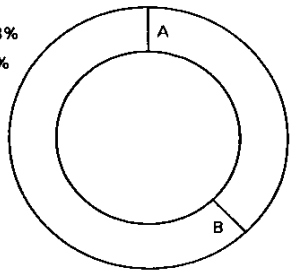
Sales

A Aerospace Division 40%
B Flexonics Division 60%



Adjusted operating profit

A Aerospace Division 38%
B Flexonics Division 62%



"A record Group operating margin of 13 8% was achieved in 2011, with both the Aerospace and Flexonics Divisions posting record figures, principally due to increased activity on major programmes, effective cost controls, and operational efficiency gains driven by further progress with ongoing continuous improvement initiatives "

Activity in regional and business jet markets was broadly as anticipated in 2011 Combined deliveries of 206 aircraft by the principal regional jet manufacturers, Embraer (105 aircraft) and Bombardier (101 aircraft), were 13% higher than the combined total of 183 achieved in 2010, whereas the business jet market remained weak with deliveries being some 6% lower than in 2010 Against this market backdrop, Senior's sales to the regional jet market increased by 7%, and those to the business jet sector increased by 14% as sales to new and larger business jet programmes outperformed the general market decline Sales in the Group's non-aerospace segment were also strong, being up 14% largely due to increased demand for land-based gas turbine components

Military markets remained robust for Senior in 2011, as the Group continued to benefit from a growth in build rates on the Black Hawk helicopter and on the C-130J transport aircraft programme In addition, activity levels increased slightly on some of the Group's less significant, but potentially important, future military programmes such as the Joint Strike Fighter, V22 tilt rotor aircraft and the A400M military transporter

The Aerospace Division's adjusted operating profit (before profit/loss on disposal of fixed assets amortisation of intangible assets arising on acquisitions, acquisition costs and impairment of goodwill) increased by £10 9m (22%) to £59 6m (2010 – £48 7m at constant currency) and the Division's operating margin increased by a further 0 6 percentage points to 15 6% (2010 – 15 0%) These increases arose due to a combination of the beneficial impact of increased volumes on core programmes and further success with the Group's operational excellence initiatives derived from the continued implementation of Lean Manufacturing methodologies in all operations

Capital expenditure for the Aerospace Division increased by 58% to £14 1m in 2011 (2010 – £8 9m), representing 123% of depreciation The increase was the result of additional investments made in equipment required to fulfil the delivery requirements on a number of growth programmes most notably in the large commercial aircraft sector, such as on the Boeing 737 and 787 platforms and the Airbus A320

Flexonics division

	2011 £m	2010[1] £m	Change
Revenue	**258 5**	230 9	+12%
Adjusted operating profit	**36 0**	31 1	+16%
Operating margin	**13 9%**	13 5%	+0 4ppts

[1] 2010 results translated using 2011 average exchange rates

Revenue in the Flexonics Division increased by £27 6m (12%) to £258 5m (2010 – £230 9m at constant currency) including £4 0m incremental revenue from the full year effect of the acquisition of WahlcoMetroflex made in August 2010 Excluding this, revenue from organic operations in the Flexonics Division increased by 10%

The Division enjoyed year-on-year increases in demand in most of its key land vehicle markets, which represented 52% of the Flexonics Division's sales in 2011 (2010 – 53%), and total sales of land vehicle components increased by approximately 9% in the period The most important of these markets for the Group are the North American medium- and heavy-duty truck market and European passenger car markets In the former total truck production was 383,000 units in 2011, an increase of 57% compared to 2010, and as a result the Group experienced a significant increase in the demand for fuel distribution and exhaust gas recycling cooler products Similarly, production in the European truck market also grew significantly by 23% and the Group continued to have success with the strategy of increasing its truck component exposure in these markets, with a number of new programmes commencing in the period

Demand in European passenger markets was not as strong with total registrations declining by 2% in the European Union The Group's sales in this market broadly followed this trend Senior's sales of passenger vehicle components in India increased by 31%, as the Group continued to make encouraging commercial and operational progress in this increasingly important market, whilst underlying activity levels in Brazilian passenger markets declined slightly

Revenue in industrial markets, representing the remaining 48% of the Flexonics Division's sales, increased by 15% in 2011 (12% for organic operations) The Group enjoyed increased sales of land-based gas turbine engine components in the power and energy markets Sales to the petrochemical sector also increased, mainly due to increased levels of oil sands activity in Canada Demand in the HVAC sector, in particular for ducting in the UK nuclear sector, increased satisfactorily and German industrial markets showed notable strength for most of the year although demand eased off during the fourth quarter Sales at WahlcoMetroflex, acquired and integrated into the Group's Pathway operation in August 2010, were below expectation principally due to a further delay in the implementation of emission control legislation over coal-fired power stations in the USA However, Pathway remains well placed to benefit from increased demand for its large industrial expansion joints and dampers once this legislation is enacted

The Flexonics Division's adjusted operating profit for 2011 increased by 16% to £36 0m (2010 – £31 1m at constant currency), and the Division's operating margin increased by a satisfactory 0 4 percentage points to 13 9% (2010 – 13 5%) 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

Capital expenditure for the Division increased by 46% to £7 6m or 109% of depreciation in 2011 (2010 – £5 2m or 62% of depreciation), reflecting an increase in requirements for investment in particular for growth in the medium- and heavy-duty truck sector of the Group's land vehicle operations

6 OUTLOOK

The current year has started in line with the Board's expectations and prospects for the remainder of 2012 and beyond remain encouraging A detailed outlook statement is included in the Chairman's Statement above

7 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 and supplementary 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 44 to 45

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 process areas identified for increased focus are strategic planning and objective setting, and the Group's approach to internal audit, business continuity IT policies and risk reporting A Risk Philosophy Statement has also been developed and rolled out across the Group

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 any individually significant event that

i) has resulted, 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 29 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 Management is required to record details of controls that are in place to mitigate each risk, make an assessment of the residual likelihood and impact of each risk having a material impact on the operation's ability to achieve its objectives, and to record any improvement measures that are targeted to strengthen the operation's internal control environment around each risk The results of these reviews are consolidated at divisional level with an accompanying divisional overlay and divisional Principal Risk lists are then submitted for review and discussion by the Executive Committee

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

Principal Group risks

Overall, the Group's risk profile is largely unchanged in 2011 compared to 2010 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 opposite and overleaf

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 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, led by the Head of Business Development, and 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 also held its second annual Capital Markets day in October 2011, attended by analysts and major shareholders, which included presentation of the Group's strategy and approach to the large commercial aircraft sector 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 again in 2011, and included the renewal of its main bank syndicated revolving credit facility As a result the Group has no major refinancing requirement until October 2014 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	Continued significant free cash flow generation, and the expectation that this will be sustained in the future, has enabled the Group to recommence a targeted acquisition programme with two further acquisitions completed in the period The Group's acquisition framework has been updated in 2011 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

RISK	MANAGEMENT ACTIONS TO MITIGATE RISK
Employee retention An inability to attract, develop and retain high-quality individuals in key management positions could severely affect the long-term success of the Group	Capable empowered and highly engaged individuals are a key asset of the business The Group 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, and this will be supplemented in 2012 with additional targeted training for the individual members of the Group's Executive Committee 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 or in initial phases of production These include the Boeing 787 Dreamliner, Bombardier's CSeries regional jet and the Airbus A350 Delays in the launch or ramp up in production of these platforms could have a material adverse impact on the Group's rate of organic growth	The Group monitors programme development and launch timing of new aircraft platforms very closely, utilising internal customer relationships and market intelligence 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 over 40% of total costs in 2011 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
Importance of emerging markets Customers' desire to move manufacture of components to low cost countries could render the Group's operations uncompetitive and have an adverse impact on profitability In addition, certain major customers require global programme support as they respond to increasing domestic demand in a number of these emerging markets	The threat of low-cost country manufacture has existed for some time in certain product lines, typically where price competition was fierce or where product manufacture involved significant labour content The Group's strategy of developing a portfolio of high value-added engineering manufacturing companies has meant 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 now actively engaged in expansion of this facility via new aerospace programmes In addition, the Group's acquisition of Weston SEA Limited (part of the Weston acquisition in the Aerospace Division) is the Group's first operation in south-east Asia This facility, in Thailand, has significant available capacity and a healthy number of viable opportunities for further expansion in the large commercial aircraft sector The significant recent growth and the development of domestic markets in some of these countries has also led to an increasing number of opportunities for the Group As a result, the Group is increasingly manufacturing products internationally, in particular in the Flexonics Division, in operations in countries such as the Czech Republic, South Africa, Brazil and India to support its customers' increasingly global needs

RISK	MANAGEMENT ACTIONS TO MITIGATE RISK
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 2011 were £34 5m (31 December 2010 – £38 2m) 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 Significant actions taken to date 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 Under a revised funding plan, agreed with the UK Pensions Regulator in April 2010, the Group is committed to contributing an additional £6 9m per annum above service cost to the UK defined benefit pension plan for the next seven years Given the Group's strong cash generation in 2009, 2010 and 2011, additional discretionary payments of £19m in total, over the three 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 The Group successfully refinanced its revolving credit facility in October 2011 and now has no major funding renewal until October 2014 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 2011 net debt was 0 8x the Group's level of EBITDA (31 December 2010 – 0 7x) with significant funding headroom of £94m under the Group's committed borrowing facilities For further details see Note 21 of the Financial Statements on page 83-88
Corporate governance breach Corporate governance legislation, (such as the UK Bribery Act and USA Foreign Corrupt Practices Act), regulations and guidance (such as the UK Corporate Governance Code and global health and safety regulations) are increasingly complex and onerous A serious breach of these rules and regulations could have a significant impact on the Group's reputation, lead to a loss of confidence on the part of investors, customers or other stakeholders and ultimately have a material adverse impact on the Group's enterprise value	The Group has well established governance policies and procedures in all key areas, including a Group Code of Business Conduct, Health and Safety Charter newly developed anti-bribery procedures and various policies and procedures over the review and reporting of risk management and internal control activities The Group Finance Director, the Group Company Secretary and the Head of Internal Audit collectively retain principal responsibility for maintaining and reporting on governance changes that may have an impact on the Group To ensure that all Directors and managers are kept up to date on the latest governance requirements, periodic governance updates are provided to the Board and Executive Committee at appropriate intervals, and to key operational management Recent examples of developments in this area include formulation of a Business Continuity Framework, IT Policy Guidelines, and anti-bribery training

8 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 2011 was 5,374 (2010 – 4,872) Of these 4,523 were in production-related roles, 55 in distribution, 323 in sales and 473 in administration Senior is an international group operating in 12 countries At the end of 2011 the Group employed a total of 5,878 people, with 49% located in North America, 20% in the United Kingdom, 17% in the rest of Europe and 14% 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 2011, the Group spent £22 1m (2010 – £14 2m) on capital expenditure to strengthen the Group's manufacturing capability, as well as its production capacity This expenditure was 1 2x the depreciation level (2010 – 0 7x)

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 14% of the shares of the Company As at 31 December 2011, the Company's share price was 171p, giving it a market capitalisation of £687 8m

In respect of debt financing, at the end of 2011 the Group had committed borrowing facilities totalling £187 0m, of which £119 4m was being utilised in addition to £2 9m of borrowings from uncommitted facilities and finance leases The Group held £29 3m in cash and hence net debt was £93 0m The committed facilities at this time consisted of US$35m (£22 6m) of loan notes due in 2014, US$25m (£16 1m) of loan notes due in 2015, US$30m (£19 4m) of loan notes due in 2017, US$75m (£48 4m) of loan notes due in 2018, US$20m (£12 9m) of loan notes due in 2020, a £60 0m multi-currency revolving credit facility maturing in 2016 and a US$12m (£7 6m) bilateral facility maturing in 2014

9 CORPORATE SOCIAL RESPONSIBILITY

The policy of the Board is to seek to enhance shareholder value in an ethical and socially responsible manner, taking into account the wishes of all stakeholders and with a particular focus on health and safety and preserving the environment Two of the Group's six KPIs, namely reductions in carbon dioxide emissions and lost time injuries, are targeted at this area Details of the Group's corporate and social responsibility principles and performance indices are set out in the Corporate social responsibility report on pages 35 to 37

Corporate social responsibility

Achievements

- UPDATED THE GROUP'S APPROACH TO BUSINESS ETHICS

- INTRODUCED REVISED HSE STRATEGY AND OBJECTIVES

- 39% DECLINE IN THE RATE OF LOST TIME ACCIDENTS

- CO_2 EMISSIONS REDUCED BY 3%

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

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

The Group's 2011 achievements in these key areas of CSR focus, together with its objectives and targets identified for 2012 and beyond, are shown in the table on page 37

Developing employees

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

Equality and diversity

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

People development

The Group is committed to developing the skills of its 5,878 employees and in 2011 Senior enhanced its Group-wide training and development programme The programme provides a range of management and leadership training to the future leaders of the business and demonstrates Senior's investment in the future of its workforce Over 200 managers have benefited from this training programme to date with plans to extend the programme further Additionally, individual training and development plans are also run by each operation, focusing on their local needs

Pay and remuneration

Each operation looks to offer competitive remuneration packages to its employees, dependent upon the skills qualifications and experience of each individual and local market conditions

Contributing to communities

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

Operating with integrity

The Board believes that operating in an ethically and socially responsible manner is an integral part of efficient and profitable business management The Group is committed to maintaining high standards of ethical behaviour in all aspects of its business, and requires its employees and agents to act with integrity at all times The Group has operated a Code of Business Conduct (the "Code") for many years During 2011, the Code was extensively revised to reflect recent legislative changes, such as the introduction of the UK Bribery Act Additionally, a separate code of business conduct for agents and company representatives was introduced

The Code applies to Senior plc, all of its subsidiaries, joint ventures and associated companies It is Group policy that business with third parties shall always be conducted at arms' length, in accordance with the highest professional standards and in compliance with the laws of the country in which the Group operation is located, the laws of the country and other jurisdictions in which the business is being transacted, and the Code

The Code states that employees must avoid situations in which their personal interests may conflict, or appear to conflict with those of the Group in situations including bribery and corruption, above normal levels of hospitality, promotional and other business expenditure, personal business interests, work for third parties, confidentiality of information, and dealing in the shares of Senior plc In response to the UK Bribery Act 2010 coming into force, an online anti-bribery training course has been developed for the Group's employees, to educate employees on this legislation, its potential impact on the Group and to reinforce what is or is not acceptable behaviour

The Group does not make donations to political parties and employees are not permitted to use corporate funds for this purpose Charitable donations are permitted by the Group's operations and an official record of these is maintained

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

To strengthen the Code, Senior has a Whistle-blowing Policy (the Policy") to encourage employees to report any suspected unethical or illegal corporate conduct within the Group The Policy sets out the procedure for the confidential reporting and investigation of any suspected misconduct The Code and the Policy are issued to all new employees as part of the induction process, and are subsequently reissued to existing employees on a periodic basis The whistle-blowing reporting procedure is also publicised at each of the Group's sites and is available for use by third parties such as suppliers and customers to report any ethical concerns that they may have

Corporate social responsibility continued

Health, safety and the environment
To lead and oversee the Group's safety and environmental objectives, Senior operates a Health Safety and Environment Committee which meets quarterly The Committee is chaired by the Group Chief Executive, who leads the Board's efforts in improving the Group's ethical, social, health, safety and environmental performance and is also responsible for external stakeholder issues The chief executives of the Group's three divisions also sit on the Committee

The basis of Senior's HSE programme is set out in the Group's Environmental Health and Safety Charter ("the Charter") The Charter has an established set of principles, practices and programmes that each operation should adhere to providing a sound foundation for the HSE management process throughout the Group A core component of the Charter is the development of local safety and environmental improvement plans that each operation is required to develop annually Verification of each operation's plans, programmes and performance is conducted through a Group HSE audit programme

Health and safety
The Group's goal remains zero occupational injuries In 2011, there were reductions in the number of recordable injuries and those which incurred lost time for the fifth year in a row Although the trend continues to move in the right direction, the Group recognises that there will always be work that can be done to improve matters further

Whilst Senior is pleased to report a year of continued improvement in safety metrics the Board is saddened to report the death of a roofing contractor at one of its UK operations in December 2011 Following the incident, a formal structured investigation was undertaken A series of actions have been communicated across the Group and will be monitored with the aim of preventing a reoccurrence of this tragic incident

Environment
The Group is committed to minimising its environmental impact by improving environmental management processes, and driving energy and resource efficiency Senior's most significant environmental impact is in the form of CO_2 emissions In 2011, the Group emitted 60,537 tonnes of CO_2, when normalised to sales, this represents a 3% reduction compared to 2010 The Group's largest source of CO_2 emissions is its energy usage and in acknowledgment of this, a 5-year target was established in 2010 to improve energy efficiency by 10% In 2011, the Group made an important first step towards this goal by improving energy efficiency by 4%

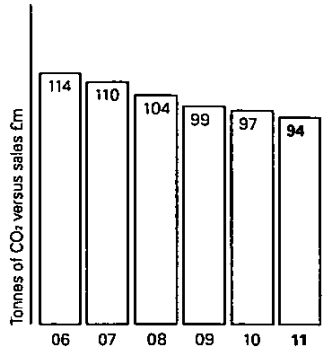
Water usage and waste generation represent the Group's other significant environmental impacts The Group's main water uses are driven by production processes, such as material cleaning and equipment cooling To reflect changes in production, Senior now measures its water consumption against sales revenue In 2011, the Group used 0 40 mega litres per £'000 of sales, representing a slight increase on 2010 (0 36 mega litres per £'000 sales) The main reason for the increase was a change in product mix at the Flexonics Division's operation in Bartlett, USA

In 2011, the total amount of waste generated by the Group was 10 308 tonnes a reduction on the 2010 levels despite the growth in Group revenue The Group has steadily increased the amount of waste which is recycled and this trend continued in 2011, with over three-quarters of the waste being recovered or reused

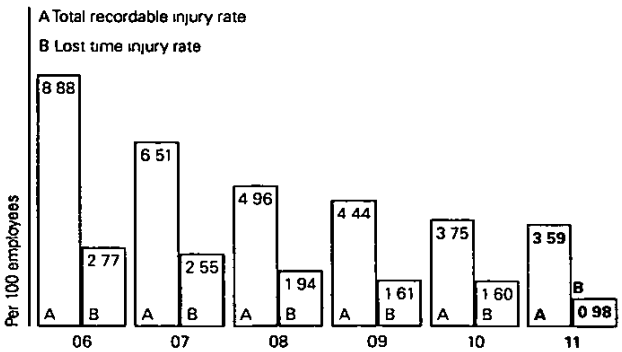
Looking forward
To help the Group further improve its safety performance, the Group introduced a series of strategic goals and actions in 2011, including training for safety leadership along with the development of tools, guidance and training to enhance workplace ergonomics the single most significant type of workplace injury

The Group will further strengthen its approach to business ethics with the introduction of a Group-wide ethics training programme

CO_2 to £m sales



Injury rates 2006-2011 (injuries per 100 employees)



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

Key areas of CSR focus

	2010	2011	Objectives and Targets
Environment			
Energy efficiency (MWh/£M turnover)[a]	223	**214**	≤ 207 MWh/£m turnover by 2014
Scope 1 GHG (tCO_2e)[b]	8,801	**9,409**	Incorporated within energy efficiency target
Scope 2 GHG (tCO_2e)[c]	42,890	**44,146**	As per Scope 1
Scope 3 GHG (tCO_2e)[d]	3,102	**6,982**	As per Scope 1
Tonnes CO_2 emitted per £1m of revenue	96 65	**94 47**	As per Scope 1
Water usage (in megalitres)	206	**256**	
Waste generated (in tonnes)	10,413	**10,308**	
Percentage of waste recycled or recovered	74%	**76%**	To increase the percentage of waste recycled or recovered to 80% by 2015
Safety			
Total Recordable Injury Rate measures the number of injuries per 100 employees	3 75	**3 59**	To reduce the 2010 Total Recordable Injury Rate by 20% by 2015
Lost Time Injury Rate tracks the number of injuries per 100 employees with one day or more away from work	1 60	**0 98**	To reduce the 2010 Lost Time Injury Rate by 20% by 2015
Business ethics and compliance			
Revise and reissue Code of Business Conduct		**Completed**	Corporate training for ethics and integrity to be rolled out during 2012
Investigate 100% of all complaints received regarding whistle-blowing		**Undertaken**	Maintain standard

[a] The energy efficiency is a measure of the Group's energy consumption relative to sales The baseline for the 10% improvement is the 2009 data These targets exclude the impact of any new acquisitions

[b] Scope 1 GHG emissions emanate from direct sources which Senior own and operate, such as natural gas or oil furnaces

[c] Scope 2 GHG emissions emanate from indirect sources, such as purchased electricity

[d] Scope 3 GHG emissions result from support and ancillary activities including business travel, movement of goods and waste disposal Some of this data is based on estimated values In 2011 the Group adopted a more comprehensive method for evaluating the CO_2 emissions of the waste materials it disposes of this is reflected in the increased Scope 3 emissions

[e] The increase in water usage is explained on page 36

Board of Directors

Main Board
The main Board met a total of nine times during the period 1 January 2011 and 31 December 2011

Audit Committee
David Best (Chairman), Andy Hamment and Ian Much The Committee met three times during the year

Nominations Committee
Martin Clark (Chairman), David Best, Andy Hamment Ian Much and Mark E Vernon The Committee met three times during the year

Remuneration Committee
Ian Much (Chairman), David Best, Martin Clark and Mark E Vernon The Committee met five times during the year

Health, Safety & Environment Committee
Mark Rollins, Mike Sheppard (Chief Executive of Flexonics), Jerry Goodwin (Chief Executive of Aerospace Structures) and Laurie Fleming (Chief Executive of Aerospace Fluid Systems) The Committee met four times during the year James Pomeroy, the Group HSE Manager, also attends each Committee meeting

Apologies for non-attendance were received from Andy Hamment for one Board meeting With this exception, there was full attendance at every meeting of the main Board and of the Committees of the Board during the year

Non-executive directors
1 Martin Clark Non-executive Chairman Martin Clark has announced that he will retire from the Board at the Company's Annual General Meeting in April 2012 Joined the Board in 2001 and is also a non-executive director of Shepherd Building Group Ltd He was previously a non-executive director of BPB plc, Blick plc Clarkson plc, and ICM Computer Group PLC He is Chairman of the Nominations Committee

Charles Berry To be appointed to the Board on 1 March 2012, and to succeed Martin Clark as the Group's Chairman at the close of its Annual General Meeting on 27 April 2012 He is also a non-executive director and the Chairman of Drax plc

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

3 Andy Hamment Non-executive Director Joined the Board in April 2011 and is also the Group Marketing Director of Ultra Electronics plc he had joined Dowty in 1988 as Managing Director of its Controls business and participated in the management buy-out process that created Ultra Electronics The Board considers Andy Hamment to be independent

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

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

Michael Steel Formerly a non-executive Director he retired from the Board at the Company's Annual General Meeting 2011

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

7 Simon Nicholls Group Finance Director A Chartered Accountant, he joined the Group and was appointed to the Board in 2008 He was a non-executive director of Hamworthy plc from August 2011 until the completion of Hamworthy's takeover in February 2012 He was previously Chief Financial Officer for Hanson plc's North American operations He is Chairman of the Group's Treasury Committee

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

Report of the Directors

The Directors present their Report and supplementary reports, together with the audited Financial Statements for the year ended 31 December 2011

Activities and business review
Senior plc is a holding company The nature of the Group's operations and its principal activities are set out in the Operating and financial review ("OFR") on pages 18 to 34 Its Principal Group Undertakings are shown on page 102 and comments on divisional results and activities in 2011 are included in the OFR The OFR also includes details of the principal risks and uncertainties facing the Group, expected future developments in the Group's business, an indication of its activities in the field of research and development, and details of the key performance indicators used by management

Acquisitions and disposals
On 25 March 2011, the Senior Group acquired 100% of the issued share capital of Damar Machine Company and two small related legal entities (collectively "Damar"), for a total consideration of US$25 3m (£15 8m), further details of this business are given on pages 21, 92 and 93

On 25 November 2011, the Senior Group also acquired 100% of the issued share capital of Weston EU Limited and its Thai subsidiary Weston SEA Limited (collectively 'Weston') for a total consideration of £53 0m plus reimbursement of the cash in the Weston business at acquisition, further details of this business are given on pages 21 and 93

There were no disposals during the year

Results and dividends
The results for the year are shown in the Consolidated Income Statement on page 58

An interim dividend of 1 15 pence per share (2010 – 1 00 pence) has already been paid and the Directors recommend a final dividend of 2 65 pence per share (2010 – 2 12 pence) The final dividend, if approved, will be payable on 31 May 2012 to shareholders on the register at the close of business on 4 May 2012 This would bring the total dividend for the year to 3 80 pence per share (2010 – 3 12 pence)

Share capital
The Company has one class of ordinary shares, which carries no right to a fixed income Each share carries the right to vote at general meetings of the Company Changes in the Company's issued share capital during 2011 were

Shares in issue at 1 January 2011	400,906,086
Allotments – Senior plc Long-Term Incentive Plan	1 256,703
Allotments – Senior plc Sharesave	86 311
Shares in issue at 31 December 2011	402,249,100

Further share capital details are given in Note 26 to the Financial Statements on page 90 Details of employee share plans are set out on pages 96 and 97

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation The Articles may be amended by special resolution of the shareholders The powers of Directors are described in the Matters Reserved for the PLC Board, which may be found on the Company's website, and in the Corporate governance report on pages 42 and 43 Each year, shareholder approval is sought to renew the Board's authority to allot relevant securities

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements, and employees' share plans None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid

Financial instruments
Note 21 to the Financial Statements on pages 83 to 88 contains disclosures on Financial Instruments

Directors
Details of the Directors who served throughout the year can be found on pages 38 and 39 The Directors' interests in the shares of the Company are included in the Directors remuneration report on page 54 None of the Directors has any interest in contracts with the Company or its subsidiary undertakings

The provisions of the UK Corporate Governance Code which apply to financial years commencing 29 June 2011, require that all Directors of FTSE 350 companies should be subject to annual election by shareholders David Best Simon Nicholls, Ian Much and Mark Rollins will all stand for re-election at the Annual General Meeting in April 2012, Martin Clark has announced that he will retire from the Board at this Meeting

Andy Hamment and Mark E Vernon who both joined the Board in April 2011, will stand for election at the Annual General Meeting 2012 Charles Berry is to be appointed to the Board on 1 March 2012 as a non-executive Director and Chairman Designate and will also stand for election at the Annual General Meeting 2012

Board diversity
In undertaking the recent recruitment of three non-executive Directors the Board was fully cognisant of the benefits of Board diversity and actively considered a wide range of candidates before selecting Mark E Vernon and Andy Hamment as being the two strongest and most appropriate candidates for the roles of non-executive Director and Charles Berry also for the role of Chairman Designate The Board

remains committed to diversity having an aspirational goal of 15% female Board representation by the end of 2013 and a larger percentage thereafter

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

Research and development
In 2011, the Group incurred £11 8m (2010 – £10 6m) on research and development, before recoveries from customers of £1 3m (2010 – £1 4m) Product development and improving manufacturing techniques represent the primary focus of the Group s research and development activities

Charitable and political donations
During the year, the Group made charitable donations amounting to £113,000 (2010 – £138,000), principally to local charities serving the communities in which the Group operates No political donations were made by the Group during the year

Disabled employees and employee consultation
The Group's policies in respect of disabled employees and job applicants are set out in the Corporate social responsibility report on pages 35 to 37

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

Policy on payment of creditors
The Group's policy is to set the terms of payment with its suppliers when agreeing the terms of each transaction, and to seek to adhere to those terms Based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by suppliers, the number of days outstanding at the year-end was 32 days (2010 – 15 days) Typical payment terms adhered to by the Company are typically in the range of 30 to 45 days

Major shareholdings
At 24 February 2012, the Company had been notified that the following shareholders were interested in 3% or more of the issued share capital of the Company

BlackRock	14 37%
Henderson Global Investors	8 59%
Scottish Widows	6 26%
Legal & General Investment Management	5 21%
Schroder Investment Management	3 90%
Kames Capital	3 09%
JP Morgan Asset Management	3 06%
BlackRock CfD holding	3 04%

So far as is known, no other shareholder had a notifiable interest amounting to 3% or more of the issued share capital of the Company, and the Directors believe that the close company provisions of the Income and Corporation Taxes Act 1988 (as amended) do not apply to the Company

Compliance with the UK Corporate Governance Code
The statements of compliance with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council are set out on page 42

Directors' remuneration report
The Company's policy on executive Directors' remuneration is set out in the Directors' remuneration report on pages 48 to 53 The Directors' remuneration report is to be put to shareholder vote at the forthcoming Annual General Meeting

Annual General Meeting
The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held on Friday 27 April 2012 at the offices of Royal Bank of Scotland, 250 Bishopsgate, London EC2M 4AA at 11 30 am

Acquisition of the Company's own shares
The Company purchased no ordinary shares of 10p each in the capital of the Company during the year At the end of the year, the Directors had authority, under the shareholders' resolutions dated 28 April 2011, to make market purchases of the Company's shares up to an aggregate nominal amount of £4 0m, which represented approximately 10% of the issued share capital of the Company A resolution to renew this authority will be proposed at the forthcoming Annual General Meeting

Auditor
Each of the persons who is a Director of the Company at the date of approval of this Annual Report & Accounts confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware, and
- the Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information

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

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

By Order of the Board

Andrew Bodenham
Secretary
24 February 2012

Corporate governance report

This Corporate governance report describes the manner in which the Company has applied the Main Principles as set out in Sections A to E of the UK Corporate Governance Code ('the Corporate Governance Code), which applies to accounting periods beginning on or after 29 June 2010

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

Application of the principles of the Corporate Governance Code
The Principles of good corporate governance are detailed in the Corporate Governance Code under five areas These Principles have each been reviewed by the Directors and are commented upon below

Section A Leadership
The Board is structured under a non-executive Chairman, and includes two executive Directors and, at the date of this Report, four independent non-executive Directors, who were selected for appointment because of their wide industrial and commercial experience the number of independent non-executive Directors was increased from three to four in April 2011 In addition, there is an Executive Committee, chaired by the Group Chief Executive, comprising the executive Directors and other key executives within the Group Brief details of the members of the Board and of the Executive Committee are included on pages 39 and 20 respectively

The Directors consider that there is in place an effective Board which leads and controls the Group with clear divisions of responsibility between the running of the Board and the running of the Group's businesses

The Board is responsible for strategic decisions affecting the Group, including the setting of commercial strategy and the approval of Group budgets and financial statements It also approves significant financial and contractual commitments made by the Group The Board's Terms of Reference more fully describe the responsibilities of the Board, and may be found on the Company s website

The Board delegates certain of its responsibilities to the Audit, Remuneration, Nominations, and Health, Safety & Environment ("HSE") Committees The Group Chief Executive, together with the Executive Committee, is responsible for the implementation of the decisions made by the Board, and for the day-to-day conduct of the Group s operations

The Board meets formally on a regular basis (nine times in 2011), in addition there were three meetings of the Audit Committee in 2011, together with five meetings of the Remuneration Committee, three meetings of the Nominations Committee and four meetings of the HSE Committee There was full attendance at every Board meeting and Committee of the Board during the year with the sole exception noted on page 39 Other committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals The minutes arising from all Committee meetings are available to the Board

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

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

Section B Effectiveness
The Company's Nominations Committee leads the process for Board appointments, and supervises management development and succession planning It also makes recommendations to the Board on all new Board appointments and re-appointments The Committee, which consists entirely of non-executive Directors, is chaired by Martin Clark, and its composition is shown on page 39, its Terms of Reference may be found on the Company's website

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

Mark E Vernon and Andy Hamment were appointed non-executive Directors in April 2011, in accordance with the Company's formal and rigorous Board appointment procedures described above Martin Clark has announced his intention to retire from the Board at the end of the Annual General Meeting 2012 Charles Berry is to be appointed to the Board with effect from 1 March 2012 and it is intended that he shall become Chairman of the Board upon Martin Charles' retirement The process to recruit the Chairman Designate was led by the Senior Independent Director All Directors receive induction training upon joining the Board and are encouraged to update their knowledge and skills on a regular basis

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

During the year, the Board undertook a formal review to evaluate its own performance, and that of its Committees and individual Directors, this process involved the completion and review of performance assessment questionnaires and appraisal interviews The results of the evaluation process are used to improve Board performance and to determine the training needs of the Directors Ian Much, in consultation with the Directors, undertook an evaluation of the Chairman's performance, and concluded that Martin Clark provided effective leadership of the Board Based on the results of the performance evaluation process, the Chairman considers that all members of the Board, the Board collectively, and its Committees, continue to contribute effectively to the running of the Company

In compliance with the Corporate Governance Code, all Directors offered themselves for re-election at the Company's Annual General Meeting 2011 At the forthcoming Annual General Meeting all Directors will offer themselves for election or re-election as appropriate, with the exception of Martin Clark, who has announced his decision to retire from the Board at the end of the AGM

Section C Accountability
The Board determines the nature and extent of the significant risks that it is willing to take to achieve its strategic objectives and maintains a sound system of internal control, to enable it to determine the acceptable significant risks, the Company's Audit Committee reports to and advises the Board of Directors The Audit Committee report on pages 44 and 45 describes the role and activities of the Audit Committee and its relationship with the Head of Internal Audit and the external auditor

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

Section D Remuneration
The Directors' remuneration report on pages 48 to 55 describes the Board's approach to remuneration matters

Section E Relations with shareholders
The Company maintains regular contact with its institutional shareholders The Group Chief Executive and Group Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the preliminary full-year and interim results to discuss both strategic objectives and the detailed performance of the business During 2011, the Company's non-executive Chairman also attended the preliminary full-year and interim results presentations made to analysts, in March and August respectively No shareholder requested a meeting with any non-executive Directors during the year The Senior Independent Director is available to attend shareholder meetings, if this is requested by shareholders, so providing an alternative channel of communication between the Company and its shareholders

The Company makes constructive use of its Annual General Meetings to communicate with its private shareholders A presentation of the Company's performance is given following completion of the formal business at each Annual General Meeting, and a copy of the presentation, together with other investor relations material, is available on the Company's website

The total issued share capital of the Company as at 1 March 2011 (the date of the Notice of the AGM 2011) was 400 9 million ordinary shares of 10 pence each The total number of proxy votes received for the AGM 2011 represented approximately 74 7% (2010 – 66 8%) of the issued share capital of the Company

All resolutions put to shareholders at the AGM 2011 were passed on a show of hands Details of the proxy voting received by the Company for the AGM 2011 resolutions are set out in the table below

The Company is supportive of initiatives to promote greater shareholder participation and offers CREST members the facility to appoint a proxy or proxies through the CREST electronic proxy appointment service Further details of this service may be found in the proxy form

Proxy voting for the AGM 2011 resolutions

		For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1	Receipt of Financial Statements 2010	296,284,081	0	212,083	3,184,323	299,680 487
2	Approval of Directors' Remuneration Report	291,832,323	357,982	210,342	7,279,840	299 680,487
3	Declaration of a final 2010 Dividend	295,170,292	0	213 772	4,296 423	299,680,487
4	To re-elect David Best as a Director	295,556,325	725,818	214,454	3,183,890	299 680 487
5	To re-elect Martin Clark as a Director	294,676,596	1,605,769	214,232	3,183,890	299,680,487
6	To re-elect Ian Much as a Director	292 468 931	915,429	214,232	6,081,895	299,680,487
7	To re-elect Simon Nicholls as a Director	294 270 730	2,010,635	214,232	3,184,890	299,680,487
8	To re-elect Mark Rollins as a Director	294 266,603	2,015,762	214,232	3 183 890	299,680,487
9	To re-elect Deloitte LLP as auditor	294,427,565	1,857,047	210 832	3,185 043	299,680 487
10	Authority to allot equity shares	289,390,593	2 246,878	209,582	7,833,434	299,680,487
11	Disapplication of pre-emption rights	296,004,489	270 730	215,403	3,189,865	299,680,487
12	Authority to purchase own shares	292 547,548	836,001	209,443	6,087,495	299,680,487
13	14-day notice for general meetings	281,065,454	15,219,737	210 331	3 184 965	299 680,487

Audit Committee report

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

- considering and making recommendations to the Board, for it to put to the Company's shareholders for approval, the appointment of the external auditor, the audit fee, and any questions relating to the resignation or dismissal of the external auditor,
- overseeing the process for selecting the external auditor and making appropriate recommendations for its appointment
- considering (if appropriate) the degree of any work undertaken by the external auditor for the Group other than the statutory audit
- assessing annually the independence and objectivity of the external auditor, taking into account the provision if any, of non-audit services,
- monitoring the integrity of the half-year and annual Financial Statements and formal Company announcements, and reviewing significant financial reporting judgements contained within them, before their submission to the Board,
- discussing with the external auditor problems and reservations, if any, arising from the interim and final audits and any other matters the external auditor may raise,
- reviewing the effectiveness of the internal audit function, considering the major findings of internal audit activities and management's response, ensuring co-ordination between the Head of Internal Audit and the external auditor and ensuring that the Head of Internal Audit is adequately resourced and has appropriate standing within the Group,
- reviewing the effectiveness of internal financial controls and the external auditor's management letter and management's response,
- reviewing the effectiveness of the Group's risk management process ensuring that the process is active and dynamic,
- understanding the strategy at both Group and operational levels to ensure that business risks and other relevant issues are effectively identified and communicated to the Board,
- reviewing the Group s Whistle-blowing Policy, to ensure that there are in place appropriate procedures for employees to raise in confidence any concerns that they may have concerning suspected malpractice illegal acts, omissions or other unethical corporate conduct, relating to financial or other matters, and ensuring that arrangements are in place for investigation of such matters and follow-up action, and
- considering any other topics specifically delegated to the Committee by the Board from time to time

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to the steps to be taken

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

Composition of the Audit Committee
The members of the Audit Committee, all of whom are independent non-executive Directors, are David Best (Chairman), Ian Much and Andy Hamment, who was appointed to the Board and as a member of the Audit Committee in April 2011, Michael Steel was a member of the Audit Committee until April 2011, when he retired from the Board All members of the Committee have significant commercial and financial experience at a senior management level David Best has the recent and relevant financial experience required by the UK Corporate Governance Code to chair the Committee Two members constitute a quorum for the Committee

The Board expects the Audit Committee to have an understanding of

- the principles of, contents of, and developments in financial reporting, including the applicable accounting standards and statements of recommended practice,
- the key aspects of the Group's operations, including corporate policies, Group financing, products and systems of internal control
- the matters that could influence or distort the presentation of accounts and key figures,
- the principles of, and developments in company law, sector-specific laws and other relevant corporate legislation,
- the roles of internal and external auditing and risk management, and
- the regulatory framework for the Group's businesses

Meetings
The Audit Committee met three times during the year and has an agenda linked to events in the Group's financial calendar The agenda is predominantly cyclical, although each Audit Committee member has the right to require reports on matters of interest in addition to the cyclical items

The Audit Committee normally invites the non-executive Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller, Head of Internal Audit, and senior representatives of the external audit firm to attend all of its meetings, although it reserves the right to request any of these individuals to withdraw from any meeting

The Audit Committee also holds separate discussions with the Head of Internal Audit and the external auditor without the presence of executive management

External audit
The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit The Audit Committee is also responsible for monitoring the external auditor's independence, objectivity and compliance with regulatory requirements

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

The Audit Committee reviews the scope, cost and timing of the work of the external auditor, and acts to ensure that its recommendations are implemented, where appropriate The Committee also reviews the level and type of non-audit work carried out by the Company's external auditor In 2011, £0 4 m (2010– £0 3m) was paid in fees to the external auditor for non-audit work £0 2m of Deloitte s 2011 non-audit fees related to advice in connection with a significant legal restructuring of the Group This project had been subject to a competitive tendering process, Deloitte provided the lowest quotation for the work The Committee considered it was beneficial for the Company to retain Deloitte LLP for this work because of its expertise in this area and knowledge of the Group However, the Committee will continue to closely monitor the nature and level of such non-audit work, in order to balance the maintenance of objectivity and value for money The current Audit Partner was selected for the role following a rotation in 2009

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

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

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

The Audit Committee is satisfied with the effectiveness and independence of the external auditor As a consequence of its satisfaction with the results of the activities of the external auditor, the Audit Committee has recommended to the Board that Deloitte LLP is re-appointed in 2012

Internal audit

Audit committee and the internal audit function

The Audit Committee is required to assist the Board to fulfill its responsibilities relating to the effectiveness, resourcing and plans of the Group internal audit function In 2011, the Audit Committee

- considered and approved the remit of the internal audit function, its resources and revised approach following the appointment of the Head of Internal Audit in September 2010,
- ensured that the Head of Internal Audit continued to have adequate standing, free from management or other restrictions,
- ensured that the Head of Internal Audit had appropriate access to information and people to enable him to perform effectively and in accordance with the relevant professional standards,
- monitored and reviewed the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system,
- reviewed and approved the annual internal audit plan for 2011 and 2012,
- reviewed reports addressed to the Committee from the Head of Internal Audit and
- reviewed and monitored management's responsiveness to the findings and recommendations of the Head of Internal Audit

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

Overview of the actions taken by the Audit Committee to Discharge its Duties

During the year, the Audit Committee

- reviewed the Financial Statements in the Annual Report 2010, and the Interim Report 2011, as well as other formal announcements relating to the Group s financial position As part of this review, the Committee received a report from the external auditor on the audit of the Annual Report 2010 and the work carried out on the Interim Report 2011
- reviewed the effectiveness of the Group s risk management and internal control systems and disclosures made in the Annual Report 2010,
- reviewed and agreed the going concern basis to be adopted for the 2010 Financial Statements,
- assessed the effectiveness of the 2010 Audit,
- reviewed and agreed the scope of the audit and client service plan to be undertaken by the external auditor for 2011,
- agreed the fees to be paid to the external auditor for the audit of the Financial Statements 2011 and the review of the Interim Report 2011, and the fees to be paid for any non-audit work,
- reviewed the Business Continuity Plans and IT Risk Assessments of the Group s businesses,
- carried out an evaluation of the performance of the external auditor,
- agreed a programme of work for the Head of Internal Audit, and received reports from the Head of Internal Audit on the work he had undertaken and the management responses to the proposals made in his audit reports during the year,
- monitored and reviewed the effectiveness of the Internal Audit function,
- reviewed the Terms of Reference of the Audit Committee,
- reviewed the Group's Whistle-blowing Policy and procedures, and
- reviewed and agreed the effectiveness of the Audit Committee

The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness, details of the Group's system of internal control can be found within the Operating and financial review on pages 18 to 34

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its Terms of Reference and has ensured the independence and objectivity of the external auditor The Chairman of the Audit Committee will be available at the AGM 2012 to answer any questions about the work of the Committee

Approval

This Report was approved by the Audit Committee and signed on its behalf by

David Best
Chairman of the Audit Committee
24 February 2012

Remuneration report: letter to shareholders

Dear shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's Directors' remuneration report for the year ended 31 December 2011 This report explains the Group's remuneration policy and provides full details of remuneration received by executive and non-executive Directors during the year

Despite operating in challenging markets, the Group's performance has remained strong with record earnings being achieved in 2011 This is a testament to the committed and skilful work of the Group's employees and the strong leadership of its senior executive team

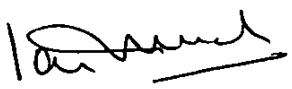
The Group's remuneration policy is designed to ensure that Senior is able to attract and retain high-calibre senior executives The Group aims to do this through a combination of a broadly market median salary combined with competitive bonus and share incentive schemes that are based on challenging financial targets The policy is also designed to take due account of corporate governance best practice

Key decisions reached by the Committee during the year, consistent with this policy, were as follows

- salary increases from 1 January 2012 were 3 5% for the executive Directors, this inflationary increase was broadly in line with average increases received by the Group's other 200 senior managers For the second consecutive year, Mark Rollins has personally decided to waive £50,000 of his salary in 2012,
- annual bonuses for the Group's 2011 performance resulted in payments of 104 7% of salary to the executive Directors consisting of 69 8% of salary in cash and 34 9% of salary in deferred shares, (2010 – 65% salary in cash) This reflected a very strong year's performance for both Group earnings, against challenging budget and prior year figures, and cash flow, against interim and full-year targets The maximum bonus potential of 105% of salary will remain unchanged for 2012,
- awards were granted to the executive Directors in 2011 under the Senior plc 2005 Long-Term Incentive Plan ('LTIP") over shares worth 100% of salary at grant, subject to relative Total Shareholder Return ("TSR") and Group earnings growth targets A similar level of grant will be awarded in 2012, and
- the performance conditions currently used in incentive schemes were reviewed by the Committee during the year to ensure they remained consistent with Group strategy, shareholders' interests and best practice Following the review, no changes are proposed for 2012 other than updating the LTIP TSR comparator group of companies In particular
  - consistent with best practice, the bonus scheme will continue to require out-performance of both challenging budgetary and year-on-year Group earnings growth targets, and
  - challenging Group earnings growth targets will continue to apply to the earnings element part of the LTIP awards, reflecting the Board's confidence in the medium-term growth prospects for the Group despite the difficult economic backdrop

The Remuneration Committee takes an active interest in shareholders' views and the voting on the Directors' remuneration report resolution, as such, it hopes to receive shareholder support for this Report at the AGM on 27 April 2012

Ian Much
Chairman of the Remuneration Committee
24 February 2012



Summary of executive Directors' remuneration for 2012

	VALUE	CONDITIONS
Base salaries	Mark Rollins £390,000[1] (2011 – £375,000)[2] Simon Nicholls £270,000 (2011 – £260,000) [1] Mark Rollins has personally decided to waive £50,000 of his awarded 2012 salary of £440,000 so receiving £390,000 [2] Mark Rollins personally decided to waive £50,000 of his awarded 2011 salary of £425,000, so receiving £375,000	– Reviewed annually, next review 1 January 2013
Pension and other benefits	– Executive Directors are members of the Group's UK final salary pension plan where their benefits accrue with respect to their capped pensionable salary – To the extent that their annual pension accrual is above the Government-imposed Annual Allowance, executive Directors receive a salary supplement equal to the pension benefit accrual foregone – Other benefits include provision of a fully expensed car or car allowance, and private medical insurance	– Salary supplements in 2012 will be Mark Rollins £nil, Simon Nicholls £10,500
Annual bonus	Maximum bonus potential of 105% of salary – up to 70% of salary in cash and – up to 35% of salary in deferred shares	– Based on i) year-on-year growth in Group earnings (37 5% of salary) ii) Group earnings performance relative to budgetary targets (30% of salary) iii) cash flow performance (37 5% of salary) – Deferred shares are released three years after award but are subject to forfeiture by a "bad leaver" and subject to clawback in certain circumstances, such as misstatement or gross misconduct
Share awards	Award of shares worth 100% of salary to be granted in March 2012 under the LTIP,	– Based on i) relative Total Shareholder Return (50% of awards) ii) Group earnings growth targets (50% of awards) – LTIP awards subject to clawback in certain circumstances, such as misstatement or gross misconduct
Share ownership	– Executive Directors are expected to retain at least 50% of shares acquired under the LTIP until they have acquired a shareholding of 100% of salary – Value of holdings at 31 December 2011 Mark Rollins 262% of salary, Simon Nicholls 42% of salary	
Service contracts	– Rolling notice period of one year – In the event of termination, executive Directors are entitled to payment of salary and benefits, plus a pro-rated bonus for the notice period – Executive Directors are required to mitigate their loss in the event of termination	

Directors' remuneration report

The Directors present their remuneration report for the year ended 31 December 2011 in accordance with Regulation 11 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 2008 Regulations") and the relevant provisions of the Listing Rules of the Financial Services Authority The Report also describes how the Board has applied the principles of the UK Corporate Governance Code in relation to Directors' Remuneration

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

The Directors' remuneration report has therefore been divided into separate sections for unaudited and audited information

UNAUDITED INFORMATION

Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors Ian Much (Chairman), David Best, Martin Clark and Mark E Vernon were members of the Committee at the year-end Martin Clark the non-executive Chairman of the Board, was considered to be independent upon appointment Michael Steel resigned from the Committee on 28 April 2011 upon his retirement from the Board, Mark E Vernon was appointed to the Committee on 29 April 2011

Role of the Remuneration Committee

The primary role of the Committee is to consider and make recommendations to the Board concerning the remuneration packages and conditions of service of the executive Directors and approximately 200 other senior managers The Terms of Reference of the Remuneration Committee may be found on the Company s website During 2011, the Committee met five times There was full attendance at all of these meetings

Advisers to the Remuneration Committee

All advisers to the Remuneration Committee are appointed and instructed by the Committee During the year, the Committee was advised by Hewitt New Bridge Street and Lane Clark & Peacock ("LCP") in relation to the review of the remuneration packages of the executive Directors and senior managers and the executive Directors' pension arrangements No remuneration consultant has any other connection with the Company, although LCP remains appointed by the Trustee of the Senior plc Pension Plan to act as the Plan's Actuary and Investment Adviser During 2011, the Company incurred fees of £9 800 from Hewitt New Bridge Street and £31,000 from LCP

The Committee does not have a formal policy of subjecting its remuneration consultants to a regular fixed-term rotation, although the Committee remains cognisant of the need to achieve objective advice and good value whilst also benefiting from the consultants knowledge of the Group

Remuneration Policy

In determining remuneration of the executive Directors and other senior managers, the Remuneration Committee seeks to maintain a competitive programme which enables the Company to attract and retain the highest calibre of executive Performance-related elements of remuneration form a significant proportion of the total remuneration package of each executive Director, details of which are set out in paragraphs c) and d) below These performance-related elements, which take into account the Company's risk policies and systems, are designed to align the Directors' interests with those of shareholders and to reward executive Directors for performance at the highest levels

The non-executive Directors do not participate in any pension, bonus, share incentive or other share option plans Their remuneration reflects both the time given and the contribution made by them to the Company's affairs during the year, including membership or chairmanship of the Board or its Committees The remuneration of the non-executive Directors is determined by the Board of Directors The non-executive Directors do not participate in any discussion or decisions relating to their own remuneration

Before recommending proposals for Board approval, the Remuneration Committee may seek advice from external remuneration consultants to ensure it is fully aware of comparative external remuneration practice as well as legislative and regulatory developments

a) Service agreements

Each executive Director has a service agreement providing for a rolling notice period of one year In the event of termination, the service agreements provide for payment of salary and applicable benefits, such as use of company car, life cover and healthcare, for the 12-month notice period, plus a pro-rated performance-related bonus, there are no provisions in the agreements, or otherwise, for additional termination payments The agreements contain provisions requiring the relevant executive Director to mitigate his loss in the event of termination

The non-executive Directors do not have service agreements with the Company Martin Clark was appointed Chairman with effect from 1 May 2007 for an initial three-year term and his appointment may be terminated by the Company or himself providing 12 months' notice expiring on or after 1 May 2010 Martin Clark has announced his intention to retire at the conclusion of the AGM to be held on 27 April 2012 Charles Berry is to be appointed to the Board with effect from 1 March 2012 and it is intended that he shall become Chairman of the Board upon Martin Clark s retirement Charles Berry s appointment may be terminated by the Company or himself either party providing 12 months notice Ian Much s appointment commenced in December 2005 for an initial three-year term, his appointment was extended for a further three years in December 2008 In December 2011, Ian Much s appointment was extended for a further 12 months to provide continuity and assist the incoming Chairman to settle into his new role David Best was appointed with effect from 1 May 2007 for an initial three-year term which was extended for a further three years in April 2010 Andy Hamment and Mark E Vernon were appointed with effect from 29 April 2011 for an initial three-year term Michael Steel retired from the Board at the conclusion of the AGM held on 28 April 2011 The appointments of the non-executive Directors, excluding Martin Clark and Charles Berry, may be terminated by the Company or non-executive Director on providing one month's notice

With prior approval of the Board, executive Directors may hold external non-executive directorships and retain any fees paid for these appointments At the year-end Mark Rollins and Simon Nicholls (from August 2011) each held one such position, for which they received and retained non-executive directorship fees of £36,667 and £12,000 in 2011 respectively

b) Base salaries
In setting the base salary of each Director, the Committee takes into account the pay practice of other companies and the performance of that Director

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

Mark Rollins' 2011 base salary was £425,000 (2010 and 2009 – £350,000) although he personally decided to waive £50,000 of his salary and actually received a salary of £375,000 in 2011 Simon Nicholls' 2011 base salary was £260,000 (2010 and 2009 – £230 000) For 2012, Mark Rollins has again chosen to waive £50,000 of his salary and will receive a salary of £390,000 and Simon Nicholls base salary is £270,000

Martin Clark's 2011 fee was £125,000 (2010 and 2009 – £90,000) although he personally decided to waive £20,000 of his fee and actually received a fee of £105,000 in 2011 Martin Clark's 2012 annual fee is £125,000 The non-executive Directors' 2011 basic annual fee was £38,000 (2010 and 2009 – £35,000), with Ian Much receiving an additional £5,000 for chairing the Remuneration Committee, David Best receiving an additional £7,000 for chairing the Trustee Board of the Senior plc Pension Plan and £5,000 for chairing the Audit Committee Michael Steel, who retired from the Board on 28 April 2011, received a fee of £13,400 Andy Hamment and Mark E Vernon were both appointed to the Board on 29 April 2011 and each received fees of £25,542 in 2011

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

No additional fees are payable for Committee membership

c) Annual performance-related bonus scheme
The Committee's policy is for performance-related pay to be a significant proportion of the total pay package The bonus potential of 65% of salary that had been available until 2010 was significantly lower than that offered to executives employed by companies that are considered to be the Group's peers and was also uncompetitive in relation to the North American market from which the Group seeks to attract many of its senior executives

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

- the annual performance-related bonus potential be increased from 65% to 70% of salary This change applies to all participants in the bonus scheme (including executive and divisional Directors, senior operational management teams and corporate employees), and
- a new deferred share bonus (the "Enhanced SMIS") worth up to 35% of salary be introduced for the executive Directors and a small number of key executives Any shares earned would be released three years after the award and would be subject to forfeiture by a "bad leaver" over that deferral period Provisions also enable the Company to claw back an element of the Enhanced SMIS bonus in certain circumstances such as misstatement or misconduct

Consistent with recent years, the 2011 bonus has been determined by earnings per share and cash flow performance as set out in the table below

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

The Group attaches significant importance to the Group s cash flow performance and delivering consistent earnings per share growth for shareholders The Committee believes that it remains appropriate for the performance-related bonus scheme to focus on these two elements The 2011 scheme provided a maximum bonus potential of 105% of salary (2010 – 65%), of which 70% would be payable in cash and 35% would be payable in deferred shares The 2011 bonus award for the executive Directors delivered a bonus of 104 7% of salary, of which 69 8% of salary was payable in cash (2010 – 65% of salary) and 34 9% of salary was paid in deferred shares (2010 – not applicable) as the Group exceeded both the interim and full-year maximum cash flow targets – interim £8 73m, full-year £37 55m The Group exceeded its earnings per share year-on-year growth target of 20% The maximum earnings per share internal target was 14 59 pence

	Cash flow target		Earnings per share target		
	Interim %	Full year %	Internal target %	Year-on-year growth %	Total %
Maximum possible cash award[1]	10 0	15 0	20 0	25 0	70 0
2011 bonus to be paid	10 0	15 0	19 8	25 0	69 8
2010 bonus to be paid	10 0	15 0	20 0	20 0	65 0
Enhanced SMIS – maximum share award[2]	5 0	7 5	10 0	12 5	35 0
2011 share award earned	5 0	7 5	9 9	12 5	34 9

[1] 2010 maximum possible cash award (total) – 65%
[2] 2010 Enhanced SMIS maximum share award (total) – not applicable

Directors' remuneration report continued

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

d) Share plans
The Company's policy regarding the granting of share options is to encourage participating Directors and other employees to build and retain a long-term stake in the Company, and to align their interests with those of the Company's shareholders

The Company complies with the dilution guidelines contained within "Executive Remuneration – ABI Guidelines on Policies and Practices" At 31 December 2011, awards outstanding and shares issued in the previous 10 years under all share plans (the 1999 Executive Share Option ("the 1999 Plan"), the 2005 Long-Term Incentive Plan ("the LTIP") and the 2006 Savings-Related Share Option Plan (the "Sharesave Plan")) amounted to 7 79% of the issued ordinary share capital of the Company At 31 December 2011, awards outstanding and shares issued in the previous 10 years under executive (discretionary) plans (the 1999 Plan and the LTIP) amounted to 4 27% of the issued ordinary share capital of the Company

Typically, share awards are satisfied by the issue of new shares The Remuneration Committee monitors the flow rates of the Company's share plans, in particular before new share awards are made, to ensure the flow rates remain within the ABI dilution guidelines

All executive Directors are eligible to participate in the following share plans

i) Senior plc 2005 Long-Term Incentive Plan ("the LTIP")
The Remuneration Committee considers that the LTIP (the main details of which are set out below) is in line with current practice and the evolving views of investors, and provides an effective link between senior management performance and reward

Each year, an award worth up to 100% of annual salary can be made to executive Directors and other senior managers An award worth of up to 200% of salary in the case of recruitment can be made, although no greater than 100% has been awarded in such circumstances to date

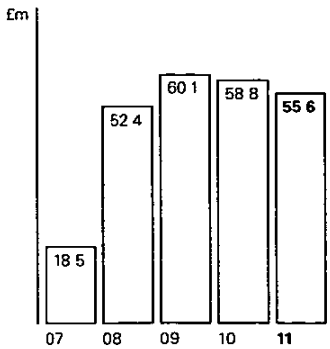
The awards made to the executive Directors in 2011 under the LTIP were limited to 100% of salary (2010 – 75% of salary) The awards are conditional allocations, where the executives will receive free ordinary shares in the Company automatically on the vesting of their award Awards will normally vest on, or shortly following, the third anniversary of grant, once the Committee has determined the extent to which the applicable performance conditions (see below) have been satisfied, and provided that the participant is still employed within the Group

All awards are subject to performance conditions set by the Remuneration Committee All LTIP awards, with the exception of the award made in 2009, have two performance conditions total shareholder return ("TSR") performance and earnings per share ("EPS') growth targets as detailed below In each case, performance is measured over a three-year performance period beginning on the first day of the financial year in which the award is made The award made in 2009 was conditional on TSR performance alone

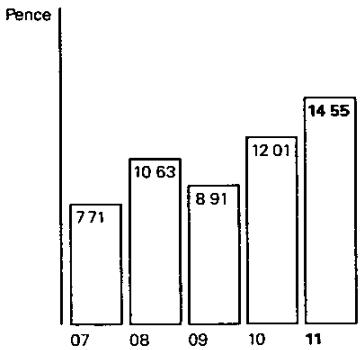
For the EPS-based element of the award, the Remuneration Committee calculates the EPS growth using the audited adjusted EPS for the third financial year of the LTIP performance period in conjunction with the relevant Office of National Statistics inflation data where the EPS-based element is RPI-linked Hewitt New Bridge Street advises the Remuneration Committee to the extent that the TSR-based element of the award has been achieved based on market data supplied by Datastream (a Thomson Reuters' product)

The Remuneration Committee encourages Directors to own shares in the Company and, in support of this policy, it expects executive Directors to retain at least 50% of the shares that vest under the LTIP, after allowing for tax liabilities until a shareholding equivalent in value to 100% of base salary is built up Based on the Company's closing share price on 31 December 2011 of 171 0p and the executive Directors' 2011 base salaries, Mark Rollins had a holding of 262% of base salary and Simon Nicholls had a holding of 42% of base salary Simon Nicholls joined the Company in 2008 and his first LTIP award vested in April 2011

Free cash flow



Adjusted EPS



TSR PERFORMANCE CONDITION

The vesting of one half of each of the awards granted in 2008, 2010 and 2011 depended on the Company's TSR performance compared to a comparator group of companies The LTIP award granted in 2009 was based solely on TSR performance

The TSR comparator group applicable to LTIP awards consists of manufacturing companies within the following FTSE All Share sectors Aerospace & Defence, Automobiles & Parts, Electronic & Electrical Equipment, and Industrial Engineering The constituent comparator companies for each year of award from 2008 are set out in the table below

2008	2009	2010	2011	2012 (Proposed)
BAe Systems	BAe Systems	BAe Systems	BAe Systems	Avon Rubber
Bodycote	Bodycote	Bodycote	Bodycote	BAe Systems
Castings	Castings	Castings	Castings	Bodycote
Charter International	Charter International	Charter International	Charter International	Chemring Group
Chemring Group	Chemring Group	Chemring Group	Chemring Group	Cobham
Chloride Group	Chloride Group	Chloride Group	Cobham	Dialight
Cobham	Cobham	Cobham	Domino Printing Sciences	Domino Printing Sciences
Domino Printing Sciences	Domino Printing Sciences	Domino Printing Sciences	e2v technologies	e2v technologies
e2v technologies	e2v technologies	e2v technologies	Fenner	Fenner
Enodis	Fenner	Fenner	GKN	GKN
Fenner	GKN	GKN	Halma	Halma
FKI	Halma	Halma	Hampson Inds	Hill & Smith
Foseco	Hampson Inds	Hampson Inds	Hill & Smith	IMI
GKN	Hill & Smith	Hill & Smith	IMI	Meggitt
Halma	IMI	IMI	Invensys	Melrose
Hampson Inds	Invensys	Invensys	Laird	Morgan Crucible
Hill & Smith	Laird Group	Laird Group	Meggitt	Oxford Instruments
IMI	Manganese Bronze Hdg	Manganese Bronze Hdg	Melrose	Qinetiq Group
Invensys	Meggitt	Meggitt	Morgan Crucible	Renishaw
Laird Group	Melrose	Melrose	Oxford Instruments	Rolls-Royce Group
Manganese Bronze Hdg	Morgan Crucible	Morgan Crucible	PV Crystalox Solar	Rotork
Meggitt	Oxford Instruments	Oxford Instruments	Qinetiq Group	Senior
Melrose	PV Crystalox Solar	PV Crystalox Solar	Renishaw	Severfield-Rowen
Morgan Crucible	Qinetiq Group	Qinetiq Group	Rolls-Royce Group	Spectris
Oxford Instruments	Raymarine	Raymarine	Rotork	Spirax-Sarco
PV Crystalox Solar	Renishaw	Renishaw	Senior	TT Electronics
Qinetiq Group	Rolls-Royce Group	Rolls-Royce Group	Severfield-Rowen	Ultra Electronics
Raymarine	Rotork	Rotork	Spectris	Umeco
Renishaw	Senior	Senior	Spirax-Sarco	Vitec Group
Rolls-Royce Group	Severfield-Rowen	Severfield-Rowen	TT Electronics	Volex
Rotork	Spectris	Spectris	Ultra Electronics	Weir Group
Senior	Spirax-Sarco	Spirax-Sarco	Umeco	Xaar
Severfield-Rowen	TT Electronics	TT Electronics	Vitec Group	XP Power
Spectris	Ultra Electronics	Ultra Electronics	Weir Group	
Spirax-Sarco	Umeco	Umeco	Xaar	
TT Electronics	Vitec Group	Vitec Group		
Ultra Electronics Hdg	VT Group	VT Group		
Umeco	Weir Group	Weir Group		
Vitec Group	Xaar	Xaar		
VT Group				
Weir Group				
Xaar				

The vesting of the TSR-related half of the LTIP awards is determined on the following basis

Ranking of Company s TSR against comparator group of companies	Vesting percentage – TSR half of an award
Below median	0%
Median	25%
Upper quintile (top 20%)	100%
Between median and upper quintile	Pro rata on a straight-line basis between 25% and 100%

TSR is averaged over three months prior to the start and end of the performance period

EPS PERFORMANCE CONDITION

The vesting of the EPS-related half of LTIP awards granted since 2005 have been, or will be, determined on the following basis

2005 – 2008		2009	2010		2011 and 2012 (proposed)	
Company's average annual adjusted EPS performance in excess of RPI	Vesting percentage – EPS half of an award	100% TSR	Growth in Company's adjusted EPS over three-year performance period	Vesting percentage – EPS half of an award	Company's average annual adjusted EPS performance in excess of RPI	Vesting percentage – EPS half of an award
Less than 5% p a	0%	N/A	Less than 10%	0%	Less than 3% p a	0%
5% p a	25%	N/A	10%	25%	3% p a	25%
12% p a	100%	N/A	25%	100%	8% p a	100%
Between 5% and 12% p a	Pro rata on a straight-line basis between 25% and 100%	N/A	Between 10% and 25%	Pro rata on a straight-line basis between 25% and 100%	Between 3% and 8% p a	Pro rata on a straight-line basis between 25% and 100%

2009 LTIP AWARD

When making the 2009 LTIP awards in March 2009, the Remuneration Committee concluded that, in the uncertain economic environment at that time, the adoption of an EPS performance condition was unrealistic and potentially demotivating to the recipients of the LTIP awards The Remuneration Committee received independent advice from Hewitt New Bridge Street, consulted with major investors and shareholder representative bodies, and had regard to prevailing best practice when considering how best to retain and motivate senior executives The Remuneration Committee concluded that the 2009 LTIP awards should be subject solely to the TSR condition, whereby the TSR performance is compared to TSR of the comparator group of manufacturing companies, as described above

Awards of up to 100% of salary are allowed under the LTIP, but in light of the fact that the EPS-related performance condition was not to be implemented, the Committee restricted the maximum 2009 LTIP award to half that level Having given due consideration to all the facts the Committee made the actual 2009 LTIP awards to the executive Directors based on 40% of their salary

2010 LTIP AWARDS

The Remuneration Committee believes that the mixture of EPS- and TSR-related performance conditions provides the best balance so that executives are encouraged to enhance underlying financial performance whilst retaining focus on the need to deliver superior returns for the Company's shareholders

With economic conditions slightly more predictable the Remuneration Committee reinstated the EPS-related performance condition over one half of the LTIP award, with the TSR-related condition applying to the other half However, given the uncertainty surrounding the outlook for UK inflation at the time of the 2010 LTIP Award, the Remuneration Committee having taken advice, and consulted major investors and shareholder representative bodies, determined that the RPI element of the EPS performance condition be removed for the 2010 LTIP award and instead an absolute three-year improvement threshold be adopted

2011 LTIP AWARDS AND PROPOSED 2012 LTIP AWARDS

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

The Committee proposes that the EPS-related performance condition remains unaltered for the 2012 LTIP awards

ii) Savings-Related Share Option Plan ("the Sharesave Plan')

The Company's Sharesave Plan was first launched in 1996 to eligible employees across the Group, and was updated and renewed for a further 10 years in 2006 There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs ('HMRC") rules for savings-related share option plans Simon Nicholls holds an option over 27 376 shares under the Sharesave Plan that may be exercised during the six-month period to 31 December 2012 at an option price of £0 25 per share

e) Retirement benefits

Mark Rollins' and Simon Nicholls' pension arrangements are provided by the Group's UK final salary pension plan and are based upon their pensionable salaries up to the HMRC "cap" Mark Rollins and Simon Nicholls both contribute 9% of salary up to the "cap" From 6 April 2006 ("A-Day") the Senior plc Pension Plan ("the Plan") the Group's UK final salary pension plan, adopted its own earnings "cap" which has been calculated on the same basis as the HMRC pre-A-Day "cap" The pensionable salary "cap" for the 2011/12 Plan year is £129 600

The executive Directors continue to be members of the Plan but only to the extent that their annual pension accrual is at or below the Government-imposed Annual Allowance (currently £50,000) In lieu of accrual above this Annual Allowance, the executive Directors have since 6 April 2011, received a salary supplement equal to the pension benefit accrual foregone In 2011 Mark Rollins received a salary supplement of £1,224 and Simon Nicholls received a salary supplement of £11,304

If the executive Directors and other senior UK managers do not wish to continue in the Plan, they are able to participate in the Senior plc Group Flexible Retirement Plan ("Senior GFRP"), a contract-based GPP arrangement with Standard Life No salary cap would be applied in the calculation of Senior GFRP contribution rates for executive Directors, there is a choice of contribution rates for executive Directors, namely 3% employee, 15% employer, or 5% employee, 20% employer As an alternative to the provision of final salary or Senior GFRP pension benefits, executive Directors would be able to choose a salary supplement of 15% of uncapped salary

f) Other benefits
The executive Directors also receive certain non-cash benefits including the provision of a fully expensed car or car allowance and private medical insurance

AUDITED INFORMATION

The information presented in the remainder of this Report has been audited, with the exception of the Directors' Interests in shares and the Total Shareholder Return graph

Directors' emoluments

	Salary or fees £000's	Salary Supplement[3] £000's	Cash Bonus £000's	Deferred Shares[4] £000's	Taxable benefits & allowances £000's	2011 Total £000's	2010 Total £000 s
Executive Directors							
Mark Rollins	**375**[1]	**1**	**297**	**–**	**17**	**690**	594
Simon Nicholls	**260**	**11**	**182**	**–**	**12**	**465**	391
Non-executive Directors							
Martin Clark	**105**[2]		**–**	**–**	**1**	**106**	90
David Best	**50**		**–**	**–**	**–**	**50**	45
Andy Hamment (from 29 April 2011)	**26**		**–**	**–**	**–**	**26**	–
Ian Much	**43**		**–**	**–**	**1**	**44**	38
Michael Steel (to 28 April 2011)	**13**		**–**	**–**	**1**	**14**	35
Mark E Vernon (from 29 April 2011)	**26**		**–**	**–**	**–**	**26**	–
	898	**12**	**479**	**–**	**32**	**1,421**	1,193

[1] Mark Rollins chose to waive £50 000 of his awarded 2011 salary of £425 000 so receiving £375 000 His bonus was based on his salary before waiver
[2] Martin Clark chose to waive £20 000 of his awarded 2011 fee of £125 000, so receiving £105,000
[3] A salary supplement equivalent to the pension benefit accrual foregone that is in excess of the Annual Allowance
[4] Awards under the Enhanced SMIS in respect of 2011 performance will be granted in March 2012 (see page 54) No awards of deferred shares were granted in 2011 The deferred shares to be granted to Mark Rollins and Simon Nicholls in March 2012 will be equivalent in value to 34 9% of 2011 base salary namely £148 325 and £90 740 respectively

Bonuses as shown above are payable to the executive Directors under the annual performance-related bonus scheme The above figures for emoluments do not include any amount for the value of share options or awards granted to, or held by, Directors

Aggregate remuneration

	2011 Total £000's	2010 Total £000 s
Emoluments	**1,421**	1,193
Gains on exercise of share options and incentives (see Awards under the Senior plc LTIP)	**556**	118
Total	**1,977**	1,311

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

Senior managers' emoluments

	2011 Total £000's	2010 Total £000 s
Short-term employee benefits	**2,543**	2 393
Post-employment benefits	**166**	148
Share-based payments	**467**	366
Total	**3,176**	2,907

Directors' interests

At 31 December 2011, the Directors who had interests (which are all beneficial), including family interests, in the 10 pence ordinary shares of the Company were as follows

	Shares 2011 Total	Shares 2010 Total
Mark Rollins	**650,000**	600,000
Simon Nicholls	**64,000**	20 000
Martin Clark	**110,000**	110 000
David Best	**40,195**	40,195
Andy Hamment	**19,788**	–
Ian Much	**20,000**	20,000
Mark E Vernon	**10,000**	–

There were no changes to the Directors' shareholdings between the end of the year and the date of this report

Share awards

Details of the following share schemes may be found on pages 50 and 52

Awards under the Senior plc LTIP

	Date of award	At 31 12 10	Awarded 2011	Vested 2011	Date of vesting	Market price on vesting 2011	Gains on vesting 2011	Forfeited 2011	Lapsed 2011	At 31 12 11	Maturity date	Estimated gain at 31 12 11[1]
Mark Rollins	13 03 08	252,631		206,146	18 03 11	134 9p	£278,091		46,485		Mar 11	–
	12 03 09	491,228								491,228	Mar 12	£840,000
	15 03 10	275,590								275,590	Mar 13	£471,259
	18 03 11		314,814							314,814	Mar 14	£538,332
Simon Nicholls	02 04 08	217,821		177,741	04 04 11	156 4p	£277,987		40,080		Mar 11	–
	12 03 09	322,807								322,807	Mar 12	£552 000
	15 03 10	181,102								181,102	Mar 13	£309,684
	18 03 11		192,592							192 592	Mar 14	£329,332

[1] Estimated gain is calculated using the closing share price on 31 December 2011 of 171 0p assuming the LTIP award vests in full

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

Year of grant	13 03 08	02 04 08	12 03 09	15 03 10	18 03 11
Market price of Company's shares (on date of award)	99 75p	103 50p	28 50p	95 25p	135 0p

Awards under the Enhanced SMIS

The Enhanced SMIS is a deferred bonus share award that was introduced in 2011 and provides shares up to 35% of base salary to a small number of key executives Shares equivalent in value to 34 9% of base salary are to be awarded to the executive Directors in March 2012 relating to the 2011 Enhanced SMIS and will vest on the third anniversary of the award

Awards under the Senior plc Sharesave Plan

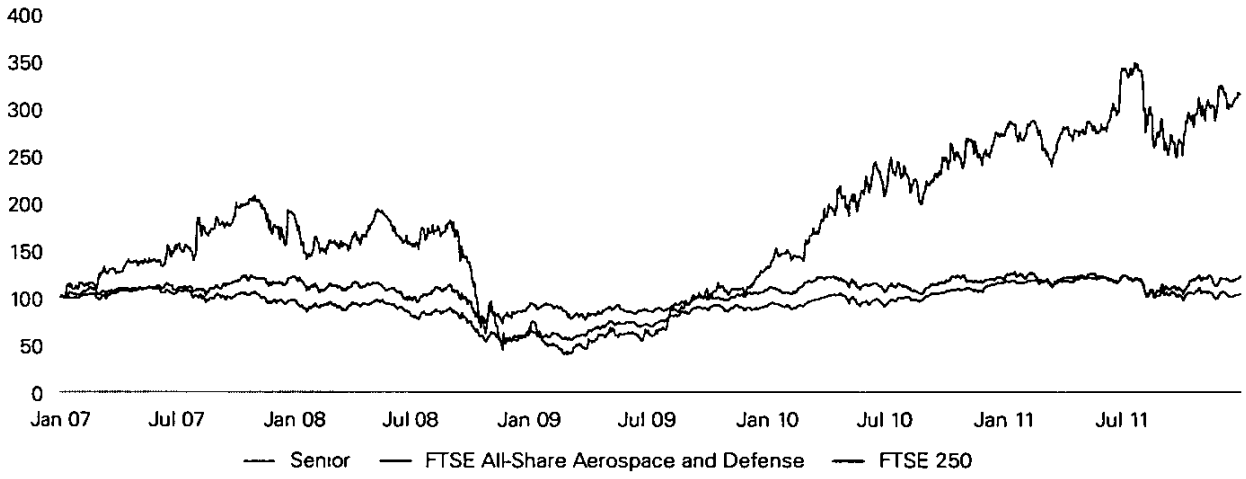
	Date of grant	At 31 12 10	Granted 2011	Exercised 2011	Date of exercise/ vesting	Market price on exercise 2011	Gains on exercise 2011	Forfeited 2011	Lapsed 2011	At 31 12 11	Exercise period/ maturity date	Option price pence	Estimated gain at 31 12 11[1]
Simon Nicholls	08 04 09	27,376								27 376	6 months to 31 12 12	25 00p	£39,969

[1] Estimated gain is calculated using the closing share price on 31 December 2011 of 171 0p

Share price performance
The closing middle market price of the shares at 31 December 2011 was 171 0p (2010 – 150 7p) During 2011, the shares traded in the range of 132 6p to 190 6p

The following graph compares the Total Shareholder Return of the Company's shares against the FTSE All-Share, Aerospace and Defense index, and the FTSE 250 index over a five-year period (where dividends are included gross of tax) This graph allows a comparison to be made against organisations facing broadly similar economic and market conditions as the Company

Senior plc Total Shareholder Return



Directors' Pension Entitlements

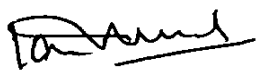
	Gross increase in accrued pension (A) £000 s	Increase in accrued pension net of inflation (B) £000 s	Total accrued pension at 31 12 11 (C) £000 s	Value of net increase in accrual over period (D) £000 s	Change in transfer value during period (E) £000 s	Transfer value of accrued pension at 31 12 11 (F) £000 s	Transfer value of accrued pension at 31 12 10 (G) £000 s
Mark Rollins	4	2	45	20	147	718	560
Simon Nicholls	4	3	15	32	66	210	133
Total	8	5	60	52	213	928	693

[1] The pension entitlement shown is that which would be paid annually on retirement based on service to and final pensionable salary at 31 December 2011
[2] The gross increase in accrued pension during the year (A) includes an increase for inflation the net increase in accrued pension (B) excludes any such increase
[3] The transfer values as at 31 December 2010 and 31 December 2011 have been calculated in accordance with the assumptions used by the Plan Trustee to calculate cash equivalent values at the relevant date
[4] Any Additional Voluntary Contributions paid by the Directors and the resulting benefits are not shown
[5] The value of net increase (D) represents the incremental value to the Director of his service during the year calculated assuming service terminated at the year-end It is based on the increase in accrued pension net of inflation (B) and is quoted after deducting the Director s contribution
[6] The change in the transfer value (E) is quoted after deducting the Director s contribution
[7] Transfer values are rounded to the thousand pounds

Shareholder approval for the Directors' remuneration report
The Company is proposing an ordinary resolution for its shareholders to approve this Directors' remuneration report at the AGM to be held on 27 April 2012

This Report was approved by the Board on 24 February 2012 and signed on its behalf by

Ian Much
Chairman of the Remuneration Committee



Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Financial Statements for each financial year Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company Financial Statements under IFRS as adopted by the EU Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these Financial Statements, International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Responsibility statement
We confirm that to the best of our knowledge

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

By Order of the Board

Mark Rollins
Group Chief Executive
24 February 2012

Simon Nicholls
Group Finance Director
24 February 2012

Independent auditor's report to the members of Senior plc

We have audited the Financial Statements of Senior plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity the Group and Parent Company Cash Flow Statements, and the related Notes 1 to 38 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Parent Company Financial Statements as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed

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

Scope of the Audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the Financial Statements In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the Audited Financial Statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on Financial Statements
In our opinion

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended
- the Group Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union,
- the Parent Company Financial Statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation

Opinion on Other Matters Prescribed by the Companies Act 2006
In our opinion

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

Matters on which we are Required to Report by Exception
We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the Directors' Statement, contained within the Operating and financial review, in relation to going concern,
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Gregory Culshaw
Gregory Culshaw ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
24 February 2012

Consolidated income statement

For the year ended 31 December 2011

	Notes	Year ended 2011 £m	Year ended 2010 £m
Continuing operations			
Revenue	3	**640 7**	566 9
Trading profit	5	**83 3**	62 0
(Loss)/profit on sale of fixed assets		**(0 3)**	0 2
Operating profit[1]		**83 0**	62 2
Investment income	7	**0 3**	0 5
Finance costs	8	**(10 6)**	(10 6)
Profit before tax[2]		**72 7**	52 1
Tax	10	**(17 7)**	(11 7)
Profit for the period	5	**55 0**	40 4
Attributable to			
Equity holders of the parent		**55 0**	40 4
Earnings per share			
Basic[3]	12	**13 68p**	10 11p
Diluted	12	**13 21p**	9 77p
[1] Adjusted operating profit	9	**88 3**	75 4
[2] Adjusted profit before tax	9	**78 0**	65 3
[3] Adjusted earnings per share	12	**14 55p**	12 01p

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Year ended 2011 £m	Year ended 2010 £m
Profit for the period	**55 0**	40 4
Other comprehensive income		
(Losses)/gains on cash flow hedges during the period	**(2 3)**	0 8
Reclassification adjustments for losses/(gains) included in profit or loss	**0 2**	(1 2)
Losses on cash flow hedges	**(2 1)**	(0 4)
Gains on revaluation of financial instruments	**0 1**	–
Exchange differences on translation of foreign operations	**(1 4)**	4 0
Actuarial (losses)/gains on defined benefit pension schemes	**(1 8)**	0 4
Other comprehensive (expense)/income	**(5 2)**	4 0
Tax relating to components of other comprehensive income	**8 8**	2 7
Other comprehensive income for the period net of tax	**3 6**	6 7
Total comprehensive income for the period	**58 6**	47 1
Attributable to		
Equity holders of the parent	**58 6**	47 1

Balance sheets

As at 31 December 2011

	Notes	Group Year ended 2011 £m	Group Year ended 2010 £m	Company Year ended 2011 £m	Company Year ended 2010 £m
Non-current assets					
Goodwill	13	**209 9**	169 7	**–**	–
Other intangible assets	14	**16 9**	6 9	**0 2**	–
Investments in subsidiaries	15	**–**	–	**251 8**	179 0
Property, plant and equipment	16	**126 4**	114 0	**0 2**	0 1
Deferred tax assets	22	**9 0**	1 0	**–**	–
Trade and other receivables	19	**0 7**	0 6	**4 7**	59 5
Total non-current assets		**362 9**	292 2	**256 9**	238 6
Current assets					
Inventories	17	**90 3**	75 1	**–**	–
Construction contracts	18	**1 0**	1 4	**–**	–
Trade and other receivables	19	**105 8**	79 3	**126 6**	50 7
Cash and cash equivalents	34c	**29 3**	56 0	**1 3**	9 7
Total current assets		**226 4**	211 8	**127 9**	60 4
Total assets		**589 3**	504 0	**384 8**	299 0
Current liabilities					
Trade and other payables	24	**135 1**	110 5	**113 6**	55 3
Current tax liabilities		**9 2**	7 4	**0 2**	0 2
Obligations under finance leases	23	**0 6**	0 3	**–**	–
Bank overdrafts and loans	20	**1 0**	0 3	**0 4**	–
Provisions	25	**5 5**	–	**–**	–
Total current liabilities		**151 4**	118 5	**114 2**	55 5
Non-current liabilities					
Trade and other payables	24	**–**	–	**–**	–
Bank and other loans	20	**119 7**	118 3	**119 4**	117 8
Retirement benefit obligations	37	**34 5**	38 2	**25 3**	29 8
Deferred tax liabilities	22	**6 0**	1 9	**–**	–
Obligations under finance leases	23	**1 0**	0 8	**–**	–
Others		**0 4**	0 4	**–**	–
Total non-current liabilities		**161 6**	159 6	**144 7**	147 6
Total liabilities		**313 0**	278 1	**258 9**	203 1
Net assets		**276 3**	225 9	**125 9**	95 9
Equity					
Issued share capital	26	**40 2**	40 1	**40 2**	40 1
Share premium account	27	**12 3**	12 3	**12 3**	12 3
Equity reserve	28	**2 7**	2 2	**2 7**	2 2
Distributable reserve	29	**–**	–	**–**	–
Hedging and translation reserve	30	**4 5**	6 2	**(0 3)**	(0 3)
Retained earnings	31	**216 6**	165 1	**71 0**	41 6
Own shares	32	**–**	–	**–**	–
Equity attributable to equity holders of the parent		**276 3**	225 9	**125 9**	95 9
Total equity		**276 3**	225 9	**125 9**	95 9

The Financial Statements of Senior plc (registered number 282772) were approved by the Board of Directors and authorised for issue on 24 February 2012. They were signed on its behalf by

Martin Clark
Director

Simon Nicholls
Director

Statements of changes in equity

For the year ended 31 December 2011

a) Group

	All equity is attributable to equity holders of the parent							
	Issued share capital £m	Share premium account £m	Equity reserve £m	Distributable reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1 January 2010	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
Profit for the year 2011	–	–	–	–	–	55 0	–	55 0
Losses on cash flow hedges	–	–	–	–	(2 1)	–	–	(2 1)
Gains on revaluation of financial instruments	–	–	–	–	0 1	–	–	0 1
Exchange differences on translation of foreign operations	–	–	–	–	(1 4)	–	–	(1 4)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(1 8)	–	(1 8)
Tax relating to components of other comprehensive income	–	–	–	–	1 7	7 1	–	8 8
Total comprehensive income for the period	–	–	–	–	(1 7)	60 3	–	58 6
Issue of share capital	0 1	–	(0 1)	–	–	–	–	–
Share-based payment charge	–	–	1 5	–	–	–	–	1 5
Tax relating to share-based payments	–	–	–	–	–	3 4	–	3 4
Transfer to retained earnings	–	–	(0 9)	–	–	0 9	–	–
Dividends paid	–	–	–	–	–	(13 1)	–	(13 1)
Balance at 31 December 2011	**40 2**	**12 3**	**2 7**	**–**	**4 5**	**216 6**	**–**	**276 3**

b) Company

	All equity is attributable to equity holders of the Company							
	Issued share capital £m	Share premium account £m	Equity reserve £m	Distributable reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1 January 2010	39 9	12 1	1 9	19 4	(0 3)	6 9	(1 4)	78 5
Profit for the year 2010	–	–	–	–	–	23 7	–	23 7
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	1 8	–	1 8
Total comprehensive income for the period	–	–	–	–	–	25 5	–	25 5
Issue of share capital	0 2	0 2	(0 1)	–	–	–	–	0 3
Share-based payment charge	–	–	1 0	–	–	–	–	1 0
Sale of shares held by employee benefit trust	–	–	–	–	–	–	1 4	1 4
Transfer to retained earnings	–	–	(0 6)	(19 4)	–	20 0	–	–
Dividends paid	–	–	–	–	–	(10 8)	–	(10 8)
Balance at 31 December 2010	40 1	12 3	2 2	–	(0 3)	41 6	–	95 9
Profit for the year 2011	–	–	–	–	–	42 1	–	42 1
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(0 5)	–	(0 5)
Total comprehensive income for the period	–	–	–	–	–	41 6	–	41 6
Issue of share capital	0 1	–	(0 1)	–	–	–	–	–
Share-based payment charge	–	–	1 5	–	–	–	–	1 5
Transfer to retained earnings	–	–	(0 9)	–	–	0 9	–	–
Dividends paid	–	–	–	–	–	(13 1)	–	(13 1)
Balance at 31 December 2011	**40 2**	**12 3**	**2 7**	**–**	**(0 3)**	**71 0**	**–**	**125 9**

Cash flow statements

For the year ended 31 December 2011

	Notes	Group Year ended 2011 £m	Group Year ended 2010 £m	Company Year ended 2011 £m	Company Year ended 2010 £m
Net cash from/(used in) operating activities	34a	**77 1**	70 2	**(17 3)**	(16 3)
Investing activities					
Interest received		**0 3**	0 7	**5 8**	8 5
Dividends received from subsidiaries		**–**	–	**50 4**	30 0
Proceeds on disposal of property, plant and equipment		**0 3**	2 1	**–**	–
Purchases of property, plant and equipment		**(21 1)**	(13 5)	**(0 1)**	–
Purchases of intangible assets		**(1 0)**	(0 7)	**(0 2)**	–
Acquisition of Damar	33	**(15 6)**	–	**–**	–
Acquisition of Weston	33	**(53 0)**	–	**–**	–
Acquisition of WahlcoMetroflex		**–**	(8 3)	**–**	–
Investment in subsidiaries		**–**	–	**(72 8)**	–
Net cash (used in)/from investing activities		**(90 1)**	(19 7)	**(16 9)**	38 5
Financing activities					
Dividends paid		**(13 1)**	(10 8)	**(13 1)**	(10 8)
Repayment of borrowings		**(0 2)**	(4 6)	**–**	–
Repayments of obligations under finance leases		**(0 4)**	(0 2)	**–**	–
Share issues		**–**	0 3	**–**	0 3
Sale of shares held by employee benefit trust		**–**	1 4	**–**	1 4
Net loans repaid by/(advanced to) subsidiaries		**–**	–	**39 7**	(6 3)
Net cash inflow/(outflow) on forward contracts		**0 2**	–	**(1 2)**	0 4
Net cash (used in)/from financing activities		**(13 5)**	(13 9)	**25 4**	(15 0)
Net (decrease)/increase in cash and cash equivalents		**(26 5)**	36 6	**(8 8)**	7 2
Cash and cash equivalents at beginning of period		**55 9**	19 3	**9 7**	2 5
Effect of foreign exchange rate changes		**(0 9)**	–	**–**	–
Cash and cash equivalents at end of period	34c	**28 5**	55 9	**0 9**	9 7

Notes to the financial statements

1 General information
Senior plc is a company incorporated in the United Kingdom under the Companies Act The address of the registered office is given on page 105 The nature of the Group's operations and its principal activities are set out in Note 4 and in the Operating and Financial Review ("OFR) on pages 18 to 34

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency) These Financial Statements are presented in Pounds Sterling, which is the Company's functional and the Group's presentation currency

2 Significant accounting policies
Basis of accounting
These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union and they therefore comply with Article 4 of the EU IAS Regulation They have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments They have also been prepared on the going concern basis as set out in the OFR on pages 18 to 34 The Directors have at the time of approving these Financial Statements, a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing these Financial Statements

In the current financial year, the Group has adopted IAS 24 "Related Party Disclosures", IFRIC 14 (Amendment) Prepayments of a Minimum Funding Requirement and Improvements to IFRSs 2010 – as published in May 2010

IAS 24 simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by government-related entities and clarifies the definition of a related party This revision does not impact the Group's related party disclosures

IFRIC 14 (Amendment) allows an entity to recognise an early payment of contributions to cover minimum funding requirements on its pension plan as a prepayment This amendment does not represent a material impact on the Group's Financial Statements

The Improvements to IFRSs 2010 incorporated necessary, but non-urgent amendments to seven International Financial Reporting Standards The amendments most relevant to the Group are

IFRS 7 Financial Instruments – Disclosures The required enhanced disclosures, where applicable have been incorporated in these Financial Statements

IAS 34 Interim Financial Reporting emphasises the principle that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual report The amended disclosure requirements where applicable, were included in the Group's Interim Financial Statements for the half-year ended 30 June 2011

The remaining five amendments in this collection of improvements do not currently impact the Group s Financial Statements

The following Standards and Interpretations are also effective from the current financial year but currently do not impact the Group's Financial Statements IAS 32 (Amendment) "Classification of Rights Issues"

IFRS 1 (Amendments) "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters", and IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" are currently not relevant to the Group s operations

At the date of authorisation of these Financial Statements, the following Standards and Interpretations which have not been applied in these Financial Statements were in issue but are not yet effective

IFRS 1	(Amendment) Removal of Fixed Dates for First-Time Adopters Effective for annual periods beginning on or after 1 July 2011
IFRS 1	(Amendment) Severe Hyperinflation Effective for annual periods beginning on or after 1 July 2011
IFRS 7	(Amendment) Disclosures – Transfers of Financial Assets Effective for annual periods beginning on or after 1 July 2011 Endorsed by the EU
IFRS 7	(Amendment) Disclosures – Offsetting Financial Assets and Financial Liabilities Effective for annual or interim periods beginning on or after 1 January 2013
IFRS 9	Financial Instruments Effective from periods commencing on or after 1 January 2015
IFRS 10	Consolidated Financial Statements Effective for annual periods beginning on or after 1 January 2013
IFRS 11	Joint Arrangements Effective for annual periods beginning on or after 1 January 2013
IFRS 12	Disclosures of Interests in Other Entities Effective for annual periods beginning on or after 1 January 2013
IFRS 13	Fair Value Measurement Effective for annual periods beginning on or after 1 January 2013
IAS 1	(Amendment) Presentation of Items of Other Comprehensive Income Effective for reporting periods beginning on or after 1 July 2012
IAS 12	(Amendment) Deferred Tax Recovery of Underlying Assets Effective for annual periods beginning on or after 1 January 2012
IAS 19	(Amendments) Employee Benefits Effective for annual periods beginning on or after 1 January 2013
IAS 27	Separate Financial Statements Effective for annual periods beginning on or after 1 January 2013
IAS 28	Investments in Associates and Joint Ventures Effective for annual periods beginning on or after 1 January 2013
IAS 32	(Amendment) Presentation – Offsetting Financial Assets and Financial Liabilities Effective for annual periods beginning on or after 1 January 2014
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine Effective for annual periods beginning on or after 1 January 2013

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

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

2 Significant accounting policies continued
The separate Financial Statements of the Company are presented as required by the Companies Act 2006 As permitted by the Act, the separate Financial Statements have been prepared in accordance with IFRS They have been prepared on the historical cost basis except for the revaluation of certain financial instruments The principal accounting policies adopted are the same as those set out below, except in respect of investments in subsidiaries, which are stated at cost less, where appropriate provisions for impairment

The principal accounting policies under IFRS are set out below

Basis of consolidation
The Consolidated Financial Statements incorporate the Financial Statements of Senior plc and the entities controlled by it (its subsidiaries) made up to 31 December Control is achieved when Senior plc has the power to govern the financial and operating policies of an invested entity so as to obtain benefits from its activities

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

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal as appropriate

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group

All intra-Group transactions, balances, income and expenses are eliminated on consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Significant accounting policies continued

Leasing

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

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

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

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

Foreign currencies

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

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

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

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

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

	Average rates 2011	Average rates 2010	**Year-end rates 2011**	Year-end rates 2010
US dollar	**1 60**	1 55	**1 55**	1 57
Euro	**1 15**	1 16	**1 20**	1 17

Government grants

Government grants received for items of a revenue nature are recognised as income over the period necessary to match them with the related costs and are deducted in reporting the related expense

Government grants relating to investment in property, plant and equipment are deducted from the initial carrying value of the related capital asset

Operating profit

Operating profit is stated before investment income and finance costs relating to external borrowings and retirement benefit obligations

Retirement benefit costs

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

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

Past service cost is recognised immediately to the extent that the benefits are already vested Otherwise, it is amortised on a straight-line basis over the period until the benefits become vested

The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs, and as reduced by the fair value of scheme assets Any net asset resulting from this calculation is limited to the past service cost plus the present value of available refunds and reductions in future contributions to the plan

Taxation

The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

2 Significant accounting policies continued

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the Group's taxable profit nor its accounting profit

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

The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the Balance Sheet at their historical cost, or at modified historical cost, being a revaluation undertaken in 1988 which has been taken as the effective cost on transition to IFRS Land and buildings were revalued to fair value at the date of revaluation

The Group does not intend to conduct annual revaluations

Fixtures, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged to write off the cost of an asset on a straight-line basis over the estimated useful life of the asset, and is charged from the time an asset becomes available for its intended use Annual rates are as follows

Freehold land	nil
Freehold buildings	2%
Improvements to leasehold buildings	according to remaining lease term
Plant and equipment	5%–33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset at disposal and is recognised in income

Other intangible assets

Other intangible assets include computer software and customer relationships acquired in a business combination Computer software is measured initially at purchase cost and the cost of customer relationships acquired in a business combination is generally based on fair market values Intangible assets are amortised on a straight-line basis over their estimated useful lives being between three and five years

Internally generated intangible assets – research and development expenditure

An internally generated intangible asset arising from the Group's development activities is recognised if all of the following conditions are met

i an asset is created that can be separately identified,

ii it is probable that the asset created will generate future economic benefits, and

iii the development cost of the asset can be measured reliably

Internally generated intangible assets are amortised on a straight-line basis over their useful lives

Development work is also carried out on a funded basis In such circumstances the costs are accumulated in inventory and are recognised when the related billings are made Any amounts held in inventory are subject to normal inventory valuation principles Otherwise expenditure on research and development activities is recognised as an expense in the period in which it is incurred

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs

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

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

2. Significant accounting policies continued

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

Inventories

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

Financial instruments

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

Financial instruments are classified as cash and cash equivalents, bank overdrafts and loans, obligations under finance leases, trade receivables, trade payables, deferred consideration receivable, other receivables and other payables, as appropriate

Non-derivative financial assets are categorised as "loans and receivables" and non-derivative financial liabilities are categorised as "other financial liabilities Derivative financial assets and liabilities that are not designated and effective as hedging instruments are categorised as "financial assets at fair value through profit or loss" and 'financial liabilities at fair value through profit or loss", respectively The classification depends on the nature and purpose of the financial assets and liabilities and is determined at the time of initial recognition

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts These are recognised in the Income Statement when there is objective evidence that the asset is impaired Significant financial difficulties of the debtor probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the asset is impaired The carrying amount of the asset is reduced through the use of an allowance account When a trade receivable is considered uncollectible it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recognised in the Income Statement

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

Non-derivative financial liabilities

Non-derivative financial liabilities are stated at amortised cost using the effective interest method The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs

Equity instruments

Equity instruments issued by the Company are recorded at the value of the proceeds received, net of direct issue costs

Derivative financial instruments and hedging

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates The Group uses foreign exchange contracts and, on occasion interest rate swap contracts to hedge these exposures The use of financial derivatives is governed by the Group's Treasury Policies as approved by the Board of Directors, which provides written principles on the use of derivatives The Group does not use derivative financial instruments for speculative purposes

Certain derivative instruments do not qualify for hedge accounting These are categorised as at "fair value through profit or loss" and are stated at fair value, with any resultant gain or loss recognised in the Income Statement

The Group designates certain hedging instruments in respect of foreign currency risk as cash flow hedges At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions The Group also documents, both at hedge inception and on an ongoing basis whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item

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

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

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

2 Significant accounting policies continued
Hedge accounting is discontinued when the hedging instrument expires or is sold terminated, exercised, or no longer qualifies for hedge accounting At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Income Statement for the period

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

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

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring and the plan has been communicated to the affected parties Provisions for the expected cost for warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products

Share-based payments
The Group has applied the requirements of IFRS 2 Share-based payments

The Group has issued equity-settled and cash-settled share-based payments to certain employees The fair value (excluding the effect of non-market-related conditions), as determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest and adjusted for the effect of non-market-related conditions

Fair value is measured by use of a Black-Scholes model for the share option plans, and a binomial model for the share awards under the 2005 Long Term Incentive Plan

The liability in respect of equity-settled amounts is included in equity, whereas the liability in respect of cash-settled amounts is included in current and non-current liabilities as appropriate

Critical accounting judgements and key sources of estimation uncertainty
In the process of applying the Group's accounting policies, management has made a number of judgements Estimates and assumptions concerning the future are also made by the Group These are continually evaluated and are based on historical experience and other factors that are considered to be relevant The resulting accounting estimates will by definition, seldom equal the related actual results

The key assumptions concerning the future and other key sources of estimation uncertainty and judgements at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows

Goodwill
The Group reviews the carrying values of its goodwill balances by carrying out impairment tests at least on an annual basis These tests require estimates to be made of the value in use of its CGUs which are dependent on estimates of future cash flows and long-term growth rates of the CGUs The carrying amount of goodwill at 31 December 2011 was £209 9m (2010 – £169 7m) Further details on these estimates are set out in Note 13

Fair value of intangible assets acquired on acquisition
On acquisition of a business the Group reviews the potential for recognising intangible assets and to date has recognised amounts in respect of customer relationships acquired The fair values of these intangible assets are dependent on estimates of attributable future revenues profitability and cash flows The carrying amount at 31 December 2011 of intangible assets in respect of customer relationships acquired was £14 9m (2010 – £5 3m)

Income taxes
In determining the Group provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made The carrying amount of net current tax liability and deferred tax assets at 31 December 2011 was £9 0m (2010 – £7 3m) and £3 0m (2010 – £0 9m liability), respectively Further details on these estimates are set out in Notes 10 and 22

Retirement benefit obligations
The asset or liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases expected return on plan assets and the rate at which liabilities are discounted Any change in these assumptions would impact the retirement benefit obligation recognised The carrying amount of retirement benefit obligations at 31 December 2011 was a liability of £34 5m (2010 – £38 2m) Further details on these estimates are set out in Note 37

3 Revenue

An analysis of the Group's revenue is as follows

	Year ended 2011 £m	Year ended 2010 £m
Sales of goods	**629 0**	558 8
Revenue from construction contracts	**11 7**	8 1
	640 7	566 9

4 Segment information

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

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

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

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

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

	Aerospace Year ended 2011 £m	Flexonics Year ended 2011 £m	Eliminations/ central costs Year ended 2011 £m	Total Year ended 2011 £m	Aerospace Year ended 2010 £m	Flexonics Year ended 2010 £m	Eliminations/ central costs Year ended 2010 £m	Total Year ended 2010 £m
External revenue	**382 4**	**258 3**	**–**	**640 7**	333 7	233 2	–	566 9
Inter-segment revenue	**0 2**	**0 2**	**(0 4)**	**–**	0 1	0 3	(0 4)	–
Total revenue	**382 6**	**258 5**	**(0 4)**	**640 7**	333 8	233 5	(0 4)	566 9
Adjusted operating profit (see Note 9)	**59 6**	**36 0**	**(7 3)**	**88 3**	50 0	31 6	(6 2)	75 4
(Loss)/profit on sale of fixed assets	**–**	**(0 3)**	**–**	**(0 3)**	(0 1)	0 3	–	0 2
Amortisation of intangible assets from acquisitions	**(4 4)**	**–**	**–**	**(4 4)**	(4 6)	–	–	(4 6)
Impairment of goodwill	**–**	**–**	**–**	**–**	(8 7)	–	–	(8 7)
Acquisition costs	**(0 6)**	**–**	**–**	**(0 6)**	–	(0 1)	–	(0 1)
Operating profit	**54 6**	**35 7**	**(7 3)**	**83 0**	36 6	31 8	(6 2)	62 2
Investment income				**0 3**				0 5
Finance costs				**(10 6)**				(10 6)
Profit before tax				**72 7**				52 1
Tax				**(17 7)**				(11 7)
Profit after tax				**55 0**				40 4

4 Segment information continued

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

Assets	Year ended 2011 £m	Year ended 2010 £m
Aerospace	**221 1**	167 0
Flexonics	**103 0**	101 9
Corporate	**1 3**	1 2
Segment assets for reportable segments	**325 4**	270 1
Unallocated		
Goodwill	**209 9**	169 7
Intangible customer relationships	**14 9**	5 3
Cash	**29 3**	56 0
Deferred and current tax	**9 2**	1 1
Others	**0 6**	1 8
Total assets per balance sheet	**589 3**	504 0

Liabilities	Year ended 2011 £m	Year ended 2010 £m
Aerospace	**73 0**	49 1
Flexonics	**47 8**	45 1
Corporate	**18 2**	13 5
Segment liabilities for reportable segments	**139 0**	107 7
Unallocated		
Debt	**120 7**	118 6
Finance leases	**1 6**	1 1
Deferred and current tax	**15 2**	9 3
Retirement benefit obligations	**34 5**	38 2
Others	**2 0**	3 2
Total liabilities per balance sheet	**313 0**	278 1

	Additions to non-current assets Year ended 2011 £m	Additions to non-current assets Year ended 2010 £m	Depreciation and amortisation Year ended 2011 £m	Depreciation and amortisation Year ended 2010 £m
Aerospace	**14 1**	8 9	**15 9**	16 1
Flexonics	**7 8**	5 2	**7 0**	8 4
Subtotal continuing operations	**21 9**	14 1	**22 9**	24 5
Unallocated corporate amounts	**0 4**	0 1	**0 1**	0 1
Total	**22 3**	14 2	**23 0**	24 6

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

	Year ended 2011 £m	Year ended 2010 £m
Aerospace – Structures	**207 4**	177 8
Aerospace – Fluid Systems	**175 0**	155 9
Aerospace total	**382 4**	333 7
Land vehicles	**133 7**	123 6
Industrial	**124 6**	109 6
Flexonics total	**258 3**	233 2
Group total	**640 7**	566 9

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

4 Segment information continued

Geographical information

The Group's operations are located principally in North America and Europe

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services The carrying values of segment non-current assets are analysed by the geographical area in which the assets are located

	Sales revenue Year ended 2011 £m	Sales revenue Year ended 2010 £m	**Segment non-current assets Year ended 2011 £m**	Segment non-current assets Year ended 2010 £m
USA	**341 6**	307 0	**225 9**	210 8
UK	**69 2**	61 9	**91 1**	43 6
Rest of the World	**229 9**	198 0	**36 9**	36 8
Subtotal continuing operations	**640 7**	566 9	**353 9**	291 2
Unallocated amounts	**–**	–	**9 0**	1 0
Total	**640 7**	566 9	**362 9**	292 2

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

5 Trading profit and profit for the period

Trading profit for continuing operations can be analysed as follows

	Year ended 2011 £m	Year ended 2010 £m
Revenue	**640 7**	566 9
Cost of sales	**(474 0)**	(418 6)
Gross profit	**166 7**	148 3
Distribution costs	**(3 9)**	(3 7)
Administrative expenses	**(79 5)**	(82 6)
Trading profit	**83 3**	62 0

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

	Year ended 2011 £m	Year ended 2010 £m
Net foreign exchange gains	**(0 4)**	(0 8)
Research and development costs	**11 8**	10 6
Depreciation of property, plant and equipment	**18 0**	19 4
Amortisation of intangible assets included in administration expenses	**5 0**	5 2
Impairment of goodwill	**–**	8 7
Cost of inventories recognised as expense	**474 0**	418 6
Provision for impairment for doubtful receivables	**0 7**	0 7
Staff costs (see Note 6)	**192 7**	169 2
Government grants received	**(0 4)**	(0 4)

All research and development costs were expensed during the year

5 Trading profit and profit for the period continued

The analysis of the Auditor's remuneration is as follows

	Year ended 2011 £m	Year ended 2010 £m
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	**0 1**	0 1
Fees payable to the Company's Auditor and their associates for other services to the Group		
– The audit of the Company's subsidiaries	**0 5**	0 5
Total audit fees	**0 6**	0 6
– Taxation compliance services	**0 1**	0 1
– Other taxation advisory services	**0 3**	0 2
Total non-audit fees	**0 4**	0 3

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the Consolidated Financial Statements are required to disclose such fees on a consolidated basis

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on pages 44 to 45 No services were provided pursuant to contingent fee arrangements

6 Staff costs

The average monthly number of employees (including Directors) was

	Group Year ended 2011 Number	Group Year ended 2010 Number
Production	**4,523**	4,072
Distribution	**55**	55
Sales	**323**	308
Administration	**473**	437
	5,374	4 872

	Year ended 2011 £m	Year ended 2010 £m
Their aggregate remuneration comprised		
Wages and salaries	**162 4**	143 7
Social security costs	**21 3**	18 5
Other pension costs – defined contribution (see Note 37a)	**4 9**	3 9
Other pension costs – defined benefit (see Note 37e)	**1 7**	1 7
Share-based payments	**2 4**	1 4
Total	**192 7**	169 2

7 Investment income

	Year ended 2011 £m	Year ended 2010 £m
Interest on bank deposits	**0 2**	0 4
Others	**0 1**	0 1
Total income	**0 3**	0 5

The Company earned investment income of £5 7m (2010 – £8 2m) on financial assets all of which relate to the "Loans and receivables" category

8 Finance costs

	Year ended 2011 £m	Year ended 2010 £m
Interest on bank overdrafts and loans	**0 5**	0 5
Interest on other loans	**7 6**	7 8
Interest on obligations under finance leases	**0 1**	0 1
Net finance cost of retirement benefit obligations (Note 36e)	**2 4**	2 2
Total finance costs	**10 6**	10 6

The Company incurred finance costs of £8 7m (2010 – £9 3m) on financial liabilities all of which relate to the 'Other financial liabilities" category

9 Adjusted operating profit and adjusted profit before tax

The provision of adjusted operating profit and adjusted profit before tax derived in accordance with the table below, has been included to identify the performance of operations from the time of acquisition or until the time of disposal, prior to the impact of gains or losses arising from the sale of fixed assets, amortisation of intangible assets acquired on acquisitions impairment of goodwill and acquisition costs The goodwill impairment charge of £8 7m in 2010 relates to recognition of a reduction in the carrying value of goodwill arising upon the acquisition of Capo Industries, Inc , a business acquired in 2008 supplying principally into the business jet market (see Note 13)

	Year ended 2011 £m	Year ended 2010 £m
Operating profit	**83 0**	62 2
Loss/(profit) on sale of fixed assets	**0 3**	(0 2)
Amortisation of intangible assets from acquisitions	**4 4**	4 6
Impairment of goodwill	**–**	8 7
Acquisition costs	**0 6**	0 1
Adjustments to operating profit	**5 3**	13 2
Adjusted operating profit	**88 3**	75 4
Profit before tax	**72.7**	52 1
Adjustments to profit as above before tax	**5 3**	13 2
Adjusted profit before tax	**78 0**	65 3

10 Tax charge

	Year ended 2011 £m	Year ended 2010 £m
Current tax		
UK Corporation Tax	–	–
Foreign tax	**14 4**	14 8
Adjustments in respect of prior periods	**(0 9)**	0 7
	13 5	15 5
Deferred tax (Note 22)		
Current year	**4 7**	(0 8)
Adjustments in respect of prior periods	**(0 5)**	(3 0)
	4 2	(3 8)
	17 7	11 7
Attributable to		
Continuing operations	**17 7**	11 7

The Finance Act 2011, which provides for a reduction in the main rate of corporation tax from 26% to 25%, effective from 1 April 2012, was substantively enacted on 5 July 2011 The impact of the rate reduction has been reflected in the calculation of the UK deferred tax asset recognised at 31 December

The Government has also indicated that it intends to enact a future reduction in the main tax rate of 1% down to 24% on 1 April 2013 The future 1% main tax rate reduction is expected to result in a reduction to the value of the deferred tax asset recognised in respect of the UK operations

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

UK Corporation Tax is calculated at an effective rate of 26 5% (2010 – 28%) of the estimated assessable profit for the year

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

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

	Year ended 2011 £m	Year ended 2011 %	Year ended 2010 £m	Year ended 2010 %
Profit before tax from continuing operations	**72 7**		52 1	
Tax at the UK Corporation tax rate of 26 5% (2010 – 28%)	**19 3**		14 6	
Tax effect of income/expenses that are non-taxable/deductible in determining taxable profit	**(1 5)**		0 1	
Tax suffered on dividends from subsidiaries	**0 4**		0 9	
Tax effect of unrelieved tax losses	**0 3**		0 1	
Tax effect of movements in temporary differences not previously recognised	**(3 5)**		(2 5)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	**4 1**		0 8	
Adjustments to tax charge in respect of prior periods	**(1 4)**		(2 3)	
Tax expense and effective tax rate for the year	**17 7**	**24 3**	11 7	22 5

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

	Year ended 2011 £m	Year ended 2010 £m
Translation of foreign operations	**1 7**	1 0
Actuarial loss on retirement benefit obligations	**6 6**	0 5
Tax recovery	**0 5**	1 2
Total tax recognised directly in other comprehensive income	**8 8**	2 7
Current tax	**0 7**	1 6
Deferred tax (Note 22)	**8 1**	1 1
	8 8	2 7

10 Tax charge continued

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

	Year ended 2011 £m	Year ended 2010 £m
Current tax		
Excess tax deductions related to share-based payments on exercised options	**0 1**	–
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	**3 3**	2 1
Total tax recognised directly in equity	**3 4**	2 1

11. Dividends

	Year ended 2011 £m	Year ended 2010 £m
Amounts recognised as distributions to equity holders in the period		
Final dividend for the year ended 31 December 2010 of 2 12p (2009 – 1 70p) per share	**8 5**	6 8
Interim dividend for the year ended 31 December 2011 of 1 15p (2010 – 1 00p) per share	**4 6**	4 0
	13 1	10 8
Proposed final dividend for the year ended 31 December 2011 of 2 65p (2010 – 2 12p) per share	**10 7**	8 5

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting 2012 and has not been included as a liability in these Financial Statements

12 Earnings per share

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

Number of shares	**Year ended 2011 Million**	Year ended 2010 Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	**402 0**	399 6
Effect of dilutive potential ordinary shares		
Share options	**14 3**	14 0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**416 3**	413 6

	Year ended 2011		Year ended 2010	
Earnings and earnings per share	**Earnings £m**	**EPS Pence**	Earnings £m	EPS Pence
Profit for the period	**55 0**	**13 68**	40 4	10 11
Adjust				
Loss/(profit) on sale of fixed assets net of tax of £0 2m (2010 – £0 3m)	**0 1**	**0 02**	(0 5)	(0 13)
Amortisation of intangible assets from acquisitions net of tax of £1 6m (2010 – £1 8m)	**2 8**	**0 70**	2 8	0 70
Impairment of goodwill net of tax of £nil (2010 – £3 5m)	**–**	**–**	5 2	1 30
Acquisition costs	**0 6**	**0 15**	0 1	0 03
Adjusted earnings after tax	**58 5**	**14 55**	48 0	12 01
Earnings per share				
– basic		**13 68p**		10 11p
– diluted		**13 21p**		9 77p
– adjusted		**14 55p**		12 01p
– adjusted and diluted		**14 05p**		11 61p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2010 – £nil)

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

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

– gains or losses arising from the sale of fixed assets

– amortisation of intangible assets acquired on acquisitions

– impairment of goodwill

– acquisition costs

13 Goodwill

	Group Year ended 2011 £m	Group Year ended 2010 £m
Cost		
At 1 January	**178 3**	169 3
Exchange differences	**1 7**	3 5
Recognised on acquisition of subsidiaries (see Note 33)	**38 6**	5 5
At 31 December	**218 6**	178 3
Accumulated impairment losses		
At 1 January	**8 6**	–
Impairment charge in the year	**–**	8 7
Exchange differences	**0 1**	(0 1)
At 31 December	**8 7**	8 6
Carrying amount at 31 December	**209 9**	169 7

Goodwill acquired in a business combination is allocated at acquisition, to the CGUs that are expected to benefit from that business combination As noted in the OFR on pages 18 to 34 the Aerospace Division consists of 18 operations and the Flexonics Division consists of 11 operations Each of these operations is considered to be a separate CGU Goodwill has been allocated to 18 of these individual CGUs – 13 in Aerospace and five in Flexonics The table below highlights the carrying amount of goodwill allocated to the CGUs that are considered significant in comparison with the total carrying amount of goodwill Where the carrying amount of goodwill allocated to a CGU is individually not considered significant, it is aggregated in the table below The carrying amount of goodwill of the aggregated Aerospace CGUs is considered significant and the recoverable amounts for these units are based principally on the same key assumptions

	Group Year ended 2011 £m	Group Year ended 2010 £m
Aerospace		
– Capo Industries	**29 3**	28 9
– AMT	**34 7**	34 3
– Weston	**27 5**	–
– Jet Products	**16 6**	16 4
– Sterling Machine	**13 5**	13 3
– BWT	**15 0**	15 0
– Bird Bellows	**12 0**	12 0
– Damar	**11 4**	–
– Other Aerospace CGUs	**16 6**	16 6
	176 6	136 5
Flexonics		
– Pathway	**22 9**	22 6
– Other Flexonics CGUs	**10 4**	10 6
	33 3	33 2
Total	**209 9**	169 7

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired The 2011 goodwill impairment review was undertaken as at 31 December 2011 The recoverable amounts of all the CGUs are determined from value in use calculations The calculations for all the CGUs use cash flow forecasts derived from the most recent financial budgets and forecasts per individual unit, as approved by management for the next three years, a detailed budget covers the next financial year which is supplemented by forecasts of performance for the two years after that These forecasts, where appropriate, take account of the current economic environment as set out in the OFR on pages 18 to 34 Cash flows thereafter have been extrapolated based on estimated growth rates These growth rates do not exceed the long-term average growth rates for the relevant markets The cash flow forecasts for each CGU have also been adjusted to reflect risks specific to each CGU The pre-tax rate used to discount the forecast cash flows for all CGUs is 10 7% (2010 – 10 4%) This is based on the Group's weighted average pre-tax cost of capital and is the measurement used by management in assessing investment appraisals

13 Goodwill continued

The key assumptions used in the value in use calculations for all Aerospace CGUs are the forecast build rates for aircraft, forecast gross margins and long-term average growth rates Forecast build rates for aircraft are in line with market forecasts and guidance available from manufacturers such as Boeing and Airbus Forecast gross margins are set individually by each CGU and reflect past experience, notably the most recently achieved margins, but also factor in continuing efficiency improvements to counteract inflationary increases in underlying costs Cash flows extrapolated beyond the initial forecast period of three years are based on growth rates of 2 5% per annum which does not exceed the long-term average growth rate forecasts for the aerospace market as included in market outlooks from Boeing and Airbus As noted in the OFR on pages 18 to 34, the business jet market remains subdued and aircraft deliveries in the business jet market declined 6% in the year Taking this into consideration, projections for Capo Industries and two other aggregated Aerospace CGUs, for the initial forecast period have been expanded a further two years beyond the initial forecast period of three years to reflect the medium-term plan of management to recover from this downturn in the market Beyond this combined five-year period cash flows are projected to grow at a compound annual growth rate of 3 7% from 2017 to 2030, in line with Boeing and Bombardier 20-year market projections and 2 5% per annum thereafter as noted above Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying amount of AMT, Weston, Jet Products, Sterling Machine, BWT, Bird Bellows and all other aggregated Aerospace CGUs to exceed the recoverable amount of those units and aggregated units, respectively

The key assumptions used in the value in use calculations for Pathway (which includes WahlcoMetroflex) are the forecast orders and forecast gross margins Forecast orders are based on the orders secured and quote activity at the time of setting the budget and also reflect past experience with the build-up of orders and quote success rates Forecast gross margins reflect past experience, notably the most recently achieved margins, but also factor in expected efficiency improvements to counteract inflationary increases in underlying costs They are also adjusted to incorporate anticipated savings from headcount reductions and other cost control measures to be implemented in light of the current economic environment Cash flows extrapolated beyond the initial forecast period of three years are based on growth rates of 1% per annum which does not exceed the long-term average growth rate forecasts for power generation and energy markets as noted by the International Energy Agency Management believes that any reasonable possible change in the key assumptions on which Pathway's recoverable amount is based would not cause Pathway's carrying amount to exceed its recoverable amount No significant goodwill is associated with CGUs operating in land vehicle markets

No impairment charges were recognised in 2011 In 2010, an impairment charge of £8 7m was recognised

14 Other intangible assets

	Group Year ended 2011 Customer relationships £m	**Group Year ended 2011 Computer software £m**	**Group Year ended 2011 Total £m**	Group Year ended 2010 Customer relationships £m	Group Year ended 2010 Computer software £m	Group Year ended 2010 Total £m	**Company Year ended 2011 Computer software £m**	Company Year ended 2010 Computer software £m
Cost								
At 1 January	**25 7**	**8 6**	**34 3**	25 0	8 1	33 1	**0 1**	0 1
Additions	**–**	**1 0**	**1 0**	–	0 7	0 7	**0 2**	–
Disposals	**–**	**(0 1)**	**(0 1)**	–	(0 3)	(0 3)	**–**	–
Acquired on acquisition of subsidiaries	**14 0**	**0 1**	**14 1**	0 1	–	0 1	**–**	–
Exchange differences	**0 4**	**(0 1)**	**0 3**	0 6	0 1	0 7	**–**	–
At 31 December	**40 1**	**9 5**	**49 6**	25 7	8 6	34 3	**0 3**	0 1
Amortisation								
At 1 January	**20 4**	**7 0**	**27 4**	15 5	6 6	22 1	**0 1**	0 1
Charge for the year	**4 4**	**0 6**	**5 0**	4 6	0 6	5 2	**–**	–
Disposals	**–**	**(0 1)**	**(0 1)**	–	(0 3)	(0 3)	**–**	–
Exchange differences	**0 4**	**–**	**0 4**	0 3	0 1	0 4	**–**	–
At 31 December	**25 2**	**7 5**	**32 7**	20 4	7 0	27 4	**0 1**	0 1
Carrying amount at 31 December	**14 9**	**2 0**	**16 9**	5 3	1 6	6 9	**0 2**	–

The carrying amount of the Group's customer relationships includes amounts of £13 2m and £0 4m in respect of customer contracts acquired as part of the acquisitions of Weston and Damar in 2011 These are being amortised over 5 years and 2 8 years from the date of acquisition, respectively

In addition, the carrying amount of the Group's customer relationships includes an amount of £nil (2010 – £2 6m) and £1 3m (2010 – £2 6m) in respect of customer contracts acquired as part of the acquisitions of AMT in 2006 and Capo Industries in 2008 respectively The intangible assets in respect of Capo Industries will be amortised over the next year

15 Investments in subsidiaries

A list of the significant investments in subsidiaries, including the name country of incorporation, and proportion of ownership interest is given on page 102

	Company Year ended 2011 £m	Company Year ended 2010 £m
At 1 January	**179 0**	179 0
Additional investment in subsidiaries	**72 8**	–
At 31 December	**251 8**	179 0

The additional investment in subsidiaries in 2011 of £72 8m relates to a reorganisation of the Group's legal structure

16 Property, plant and equipment

a) Group

	Year ended 2011 Freehold land and buildings £m	Year ended 2011 Leasehold land and buildings £m	Year ended 2011 Plant and equipment £m	Year ended 2011 Total £m	Year ended 2010 Freehold land and buildings £m	Year ended 2010 Leasehold land and buildings £m	Year ended 2010 Plant and equipment £m	Year ended 2010 Total £m
Cost or valuation								
At 1 January	**60 5**	**1 8**	**256 8**	**319 1**	59 7	1 8	255 2	316 7
Additions	**1 0**	**–**	**20 3**	**21 3**	0 3	–	13 2	13 5
Acquired on acquisition of subsidiaries	**–**	**0 1**	**9 8**	**9 9**	1 5	–	0 4	1 9
Exchange differences	**(0 2)**	**0 1**	**(3 5)**	**(3 6)**	0 2	–	5 1	5 3
Disposals	**(0 1)**	**–**	**(23 2)**	**(23 3)**	(1 2)	–	(17 1)	(18 3)
At 31 December	**61 2**	**2 0**	**260 2**	**323 4**	60 5	1 8	256 8	319 1
Accumulated depreciation and impairment								
At 1 January	**16 5**	**1 3**	**187 3**	**205 1**	15 1	1 2	182 4	198 7
Charge for the year	**1 8**	**0 1**	**16 1**	**18 0**	1 7	0 1	17 6	19 4
Exchange differences	**–**	**–**	**(3 4)**	**(3 4)**	0 1	–	3 3	3 4
Eliminated on disposals	**(0 1)**	**–**	**(22 6)**	**(22 7)**	(0 4)	–	(16 0)	(16 4)
At 31 December	**18 2**	**1 4**	**177 4**	**197 0**	16 5	1 3	187 3	205 1
Carrying amount at 31 December	**43 0**	**0 6**	**82 8**	**126 4**	44 0	0 5	69 5	114 0

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £3 1m (2010 – £2 1m) in respect of assets held under finance leases Fixed assets of £0 2m were acquired under finance leases in 2011 Fixed assets with a net book value of £0 9m were acquired under finance leases with the acquisition of Weston EU Limited

Some land and buildings were revalued in 1988 and this valuation has been treated as the deemed cost under IFRS 1

At 31 December 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5 1m (2010 – £5 4m)

16 Property, plant and equipment continued

b) Company

	Year ended 2011 Plant and equipment £m	Year ended 2010 Plant and equipment £m
Cost		
At 1 January	**0 5**	0 5
Additions	**0 1**	–
Disposals	**(0 1)**	–
At 31 December	**0 5**	0 5
Accumulated depreciation		
At 1 January	**0 4**	0 4
Charge for the year	**–**	–
Eliminated on disposals	**(0 1)**	–
At 31 December	**0 3**	0 4
Carrying amount at 31 December	**0 2**	0 1

17 Inventories

	Group Year ended 2011 £m	Group Year ended 2010 £m
Raw materials	**25 8**	22 2
Work-in-progress	**44 6**	36 2
Finished goods	**19 9**	16 7
	90 3	75 1

Inventory write-downs and provisions, excluding acquisitions, decreased by £0 7m in the year (2010 – increased by £0 9m)

18 Construction contracts

	Group Year ended 2011 £m	Group Year ended 2010 £m
Contracts in progress at 31 December		
Amounts due from contract customers included in current assets	**1 0**	1 4
Amounts due to contract customers included in trade and other payables	**–**	–
	1 0	1 4
Current costs incurred plus recognised profits less recognised losses to date	**12 5**	9 0
Less progress billings	**(11 5)**	(7 6)
	1 0	1 4

At 31 December 2011, retentions held by customers for contract work amounted to £0 4m (2010 – £0 2m) Advances received from customers for contract work amounted to £0 3m (2010 – £nil)

At 31 December 2011, amounts of £0 2m (2010 – £nil) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months

19 Trade and other receivables

Trade and other receivables at 31 December comprise the following

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Non-current assets				
Trade receivables	**0 2**	–	–	–
Other receivables	**0 5**	0 6	–	–
Due from subsidiaries	–	–	**4 7**	59 5
	0 7	0 6	**4 7**	59 5
Current assets				
Trade receivables	**98 4**	71 8	–	–
Current tax recoverable	**0 2**	0 1	–	–
Value added tax	**1 0**	0 8	**0 2**	–
Currency derivatives	–	1 5	**0 7**	–
Prepayments and accrued income	**5 4**	4 3	**1 0**	0 5
Other receivables	**0 8**	0 8	**0 3**	0 4
Due from subsidiaries	–	–	**124 4**	49 8
	105 8	79 3	**126 6**	50 7
Total trade and other receivables	**106 5**	79 9	**131 3**	110 2

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies

The Group's credit risk is primarily attributable to its trade receivables The amounts presented in the Balance Sheet are net of allowances for doubtful receivables There are no other credit or impairment losses for other classes of financial assets

Further disclosures on credit risk are included in Note 21

19 Trade and other receivables continued

The average credit period taken on sales of goods is 56 days An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1 3m (2010 – £1 3m) In determining the recoverability of trade receivables the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers Accordingly, the Directors believe that there is no further credit provision risk in excess of the allowance for doubtful receivables

	Group Year ended 2011 £m	Group Year ended 2010 £m
Movements in allowance for doubtful receivables		
At 1 January	**1 3**	2 3
Provision for impairment	**0 7**	0 7
Amounts written off as uncollectible	**(0 2)**	(0 3)
Amounts recovered	**(0 4)**	(1 5)
Exchange differences	**(0 1)**	0 1
At 31 December	**1 3**	1 3
Ageing analysis of past due but not impaired trade receivables		
Up to 30 days past due	**12 3**	8 9
31 to 60 days past due	**1 6**	1 7
61 to 90 days past due	**1 5**	0 8
91 to 180 days past due	**0 3**	0 3
Total past due but not impaired	**15 7**	11 7
Not past due	**82 9**	60 1
Total trade receivables	**98 6**	71 8
Less non-current trade receivables	**(0 2)**	–
Current trade receivables	**98 4**	71 8

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

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

For the Company, the carrying amount of amounts due from subsidiaries approximates their fair value There are no past due or impaired receivable balances (2010 – £nil)

20 Bank overdrafts and loans

	Group Year ended 2011 £m	Group Year ended 2010 £m	Company Year ended 2011 £m	Company Year ended 2010 £m
Bank overdrafts	**0 8**	0 1	**0 4**	–
Other loans	**119 9**	118 5	**119 4**	117 8
	120 7	118 6	**119 8**	117 8
The borrowings are repayable as follows				
On demand or within one year	**1 0**	0 3	**0 4**	–
In the second year	**0 2**	0 2	**–**	–
In the third to fifth years inclusive	**38 8**	38 5	**38 7**	38 2
After five years	**80 7**	79 6	**80 7**	79 6
	120 7	118 6	**119 8**	117 8
Less amount due for settlement within 12 months (shown under current liabilities)	**(1 0)**	(0 3)	**(0 4)**	–
Amount due for settlement after 12 months	**119 7**	118 3	**119 4**	117 8

Analysis of borrowings by currency
31 December 2011

	Total £m	Pound Sterling £m	Euros £m	US dollars £m	Others £m
Bank overdrafts	**0 8**	–	**0 2**	–	**0 6**
Other loans	**119 9**	–	**0 5**	**119 4**	–
	120 7	–	**0 7**	**119 4**	**0 6**

An analysis of the Company's borrowings is as follows Bank overdrafts – Sterling £0 4m Other loans – US dollars £119.4m

31 December 2010

	Total £m	Pound Sterling £m	Euros £m	US dollars £m	Others £m
Bank overdrafts	0 1	–	0 1	–	–
Other loans	118 5	–	0 7	117 8	–
	118 6	–	0 8	117 8	–

An analysis of the Company s borrowings is as follows Other loans – US dollars £117 8m

The weighted average interest rates paid were as follows

	Year ended 2011 %	Year ended 2010 %
Bank overdrafts	**4 00**	3 00
Other loans	**6 46**	6 46

20 Bank overdrafts and loans continued

Bank overdrafts of £0 8m (2010 – £0 1m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk No interest rate swaps were taken out in 2010 or 2011

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

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Bank overdrafts	**0 8**	0 1	**0 4**	–
Other loans	**140 7**	132 1	**140 2**	131 4
	141 5	132 2	**140 6**	131 4

The fair value of Other loans has been determined by applying a make-whole calculation using the prevailing treasury bill yields plus the applicable credit spread for the Group

The other principal features of the Group's borrowings are as follows

Bank overdrafts are repayable on demand The effective interest rates on bank overdrafts are determined based on appropriate LIBOR rates plus applicable margin

The Group's and the Company's main loans are unsecured guaranteed loan notes in the US private placement market and revolving credit facilities

a) Loan notes of $120m, 2011 £77 4m (2010 – £76 4m) were taken out in October 2008 Notes of $25m carry interest at the rate of 6 42% and are due for repayment in October 2015 Notes of $75m carry interest at the rate of 6 84% and are due for repayment in October 2018 Notes of $20m carry interest at the rate of 6 94% and are due for repayment in October 2020

b) Loan notes of $30m, 2011 £19 4m (2010 – £19 1m) were taken out in January 2007 and are due for repayment in January 2017 The loan notes carry interest at the rate of 5 85% per annum

c) Loan notes of $35m, 2011 £22 6m (2010 – £22 3m) were taken out in October 2007 and are due for repayment in October 2014 The loan notes carry interest at the rate of 5 93% per annum

The Group also has two revolving credit facilities

A committed £60m five-year syndicated multi-currency facility was entered into in October 2011, replacing a £80m facility, which was due to mature in July 2012 There were no amounts drawn by either the Group or the Company at 31 December 2011 There were no amounts drawn by either the Group or the Company under the £80m facility at 31 December 2010

A committed $25m single bank (£16 1m) overdraft and letter of credit facility was entered into in May 2011, maturing in May 2014, replacing an existing $20m facility which matured in August 2011 There were no loans drawn under either of these facilities at 31 December 2011 and 31 December 2010

As at 31 December 2011, the Group had available £67 6m (2010 – £92 7m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met

21 Financial instruments

Capital risk management

The Group manages its capital structure to safeguard its ability to continue as a going concern whilst maximising the return to stakeholders through the optimisation of the balance between debt and equity In considering the appropriate level of net debt the Group pays close attention to its level as compared to the cash generation potential of the Group, measured by adjusted profit before interest, tax, depreciation and amortisation ("EBITDA") The Group also monitors capital on the basis of a gearing ratio This ratio is calculated as net debt divided by total capital Net debt is calculated as the total of bank and other loans, obligations under finance leases, forward exchange contract losses less cash and cash equivalents and forward exchange contract gains Total capital is the equity shown in the Consolidated Balance Sheet

All of the Group's external borrowing facilities have a requirement for the ratio of net debt to EBITDA to be less than 3 0x Internally the Group aims for this ratio to not exceed 2 5x At 31 December 2011 net debt was 0 8x the Group s level of EBITDA (31 December 2010 – 0 7x) In addition, all borrowing facilities contain the requirement for EBITDA interest cover (the number of times net interest is covered by the Group's EBITDA) to be in excess of 3 5x At 31 December 2011 EBITDA was 13 7x the level of net interest (31 December 2010 – 11 8x) Therefore the Group currently has considerable funding headroom

The Group's strategy in respect of gearing is to target a long-term gearing ratio within the range of 60% to 80% Ratios outside this range may still be considered to be acceptable, in certain circumstances The gearing ratio for the Group at the end of 2011 was 34% (2010 – 28%) The increase in 2011 is attributable mainly to the increase in net debt primarily as a result of the acquisition of Weston at the end of November 2011

Financial risk management

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

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

Foreign exchange risk management

The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on the operations' trading activities in foreign currencies Where commented on below, the sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and left unchanged throughout the reporting period, with all other variables held constant (such as interest rates)

Translation risk

The Group derived 89% of its revenue from businesses outside the United Kingdom, with 66% relating to operations in North America Fluctuations in the value of the US dollar and other currencies in relation to the Pound Sterling have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pound Sterling The Group decided not to hedge this translation risk In addition, the majority of assets are denominated in foreign currency, particularly in US dollars In order to provide a hedge against volatility in the value of these assets compared to the Group's earnings, and hence provide a natural hedge against the Group's principal lending covenant (the ratio of net debt to EBITDA), the Group aims to borrow in foreign currencies in similar proportions to its generation of foreign currency EBITDA, where practical and economic A 10% appreciation (or depreciation) of all other currencies against Pound Sterling would have increased (or decreased) 2010 Group operating profit by £8 3m (£6 3m of which would have been due to the US dollar movement) and would have increased (or decreased) net equity by £19 9m (£14 8m of which would have been due to the US dollar movement)

Transaction risk

The Group has a number of transaction-related foreign currency exposures, particularly between the Euro and the South African Rand, and between the US dollar and the Pound Sterling The Group seeks to hedge transaction-related exposures on a rolling 15- to 18-month forward basis and applies hedge accounting where the forwards can be designated in a qualifying cash flow hedge relationship Based on the net of the annual sales and purchase-related exposures, all transaction-related foreign currency exposures to Group profit after hedging in existence at 31 December 2010 are immaterial The impact on net equity is determined by the unrecognised portion of open forward contracts at the year-end A 10% appreciation (or depreciation) of the Euro against the Rand and of the US dollar against Pound Sterling would have decreased (or increased) net equity by £0 4m and £0 7m, respectively

21 Financial instruments continued

Interest rate risk management

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

The following sensitivity analysis of the Group's and the Company's exposure to interest rate risk at the reporting date has been determined based on the exposure to interest rates at the beginning of the financial year, and held constant throughout the reporting period with all other variables held constant (such as foreign exchange rates) If variable interest rates had been 0 5% lower (or higher), the Group's and Company's net profit would have increased (or decreased) by £0 2m Any fixed interest debt is held to maturity and not fair value adjusted through the profit and loss An increase (or decrease) of 0 5% in the US dollar market interest rate for the fixed rate debt held up to maturity would have decreased (or increased) the fair value of the Group's and Company's borrowings by £3 3m The Group's and Company's sensitivity to interest rates has decreased during the current period mainly due to the increased proportion of fixed debt

Credit risk management

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

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

Liquidity risk management

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

As noted in the OFR on pages 18 to 34, the Group is currently in a well-funded position with significant headroom under its committed borrowing facilities and no major renewal of borrowing facilities due until 2014 It is considered unlikely that the Group will face any significant funding issues in the foreseeable future

21 Financial instruments continued

Categories of financial instruments

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Carrying value of financial assets				
Cash and cash equivalents	**29 3**	56 0	**1 3**	9 7
Trade receivables	**98 6**	71 8	**–**	–
Other receivables	**1 3**	1 4	**0 3**	0 4
Due from subsidiaries	**–**	–	**129 1**	109 3
Loans and receivables at amortised cost	**129 2**	129 2	**130 7**	119 4
Currency derivatives used for hedging	**–**	1 5	**–**	–
Currency derivatives at fair value through profit and loss	**–**	–	**0 7**	–
Total financial assets	**129 2**	130 7	**131 4**	119 4
Carrying value of financial liabilities				
Bank overdrafts and loans	**120 7**	118 6	**119 8**	117 8
Obligations under finance leases	**1 6**	1 1	**–**	–
Trade payables	**64 8**	46 0	**0 6**	0 2
Other payables	**59 9**	57 5	**4 0**	4 1
Due to subsidiaries	**–**	–	**108 9**	50 3
Other financial liabilities at amortised cost	**247 0**	223 2	**233 3**	172 4
Currency derivatives used for hedging	**2 0**	0 9	**–**	–
Currency derivatives at fair value through profit and loss	**–**	–	**–**	0 6
Total financial liabilities	**249 0**	224 1	**233 3**	173 0
Undiscounted contractual maturity of other financial liabilities				
Amounts payable				
On demand or within one year	**134 1**	111 7	**121 6**	62 2
In the second to fifth years inclusive	**66 6**	68 0	**65 2**	66 6
After five years	**92 1**	96 3	**92 0**	96 1
	292 8	276 0	**278 8**	224 9
Less future finance charges	**(45 8)**	(52 8)	**(45 5)**	(52 5)
Other financial liabilities at amortised cost	**247 0**	223 2	**233 3**	172 4

Amounts drawn under the committed syndicated multi-currency facility, which matures in 2012, are drawn on a short-term basis and are therefore shown as payable within one year in the above contractual maturity analysis The carrying amount is a reasonable approximation of fair value for the financial assets and liabilities noted above except for bank overdrafts and loans, disclosure of which are included within Note 20

An ageing analysis of trade, deferred consideration and other receivables is as disclosed within Note 19

21 Financial instruments continued

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on the operation s trading activities in foreign currencies At the balance sheet date, total notional amounts and fair values of outstanding forward foreign exchange contracts that the Group and the Company have committed are given below

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Notional amounts				
Foreign exchange contracts – cash flow hedges	**46 6**	38 0	–	–
Foreign exchange contracts – held for trading	–	–	–	18 9
Total	**46 6**	38 0	–	18 9
Less amounts maturing within 12 months	**(38 4)**	(29 7)	–	(18 9)
Amounts maturing after 12 months	**8 2**	8 3	–	–
Contractual maturity				
Cash flow hedges balances due within one year				
Outflow	**38 6**	29 9	–	–
Inflow	**36 9**	30 6	–	–
Cash flow hedges balances due between one and two years				
Outflow	**8 0**	8 3	–	–
Inflow	**8 1**	8 4	–	–
Cash flow hedges balances due between two and three years				
Outflow	–	–	–	–
Inflow	–	–	–	–
Held for trading balances due within one year				
Outflow	–	–	–	19 5
Inflow	–	–	**0 7**	18 9
Fair values				
Foreign exchange contracts – cash flow hedges	**(2 0)**	0 6	–	–
Foreign exchange contracts – held for trading	–	–	**0 7**	(0 6)
Total (liability)/asset	**(2 0)**	0 6	**0 7**	(0 6)

These fair values are based on market values of equivalent instruments at the balance sheet date, comprising £nil (2010 – £1 5m) assets included in trade and other receivables and £2 0m (2010 – £0 9m) included in trade and other payables The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £1 7m loss (2010 – £0 5m gain) has been deferred in equity The fair values for the Company comprise £0 7m (2010 – £nil) assets included in trade and other receivables and £nil (2010 – £0 6m) included in trade and other payables

21 Financial instruments continued

Fair values

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

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

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

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

a) Group

31 December 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Foreign exchange contracts – cash flow hedges	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Foreign exchange contracts – cash flow hedges	–	2 0	–	2 0
Total liabilities	–	2 0	–	2 0

31 December 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Foreign exchange contracts – cash flow hedges	–	1 5	–	1 5
Total assets	–	1 5	–	1 5
Liabilities				
Foreign exchange contracts – cash flow hedges	–	0 9	–	0 9
Total liabilities	–	0 9	–	0 9

b) Company

31 December 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through profit or loss				
Foreign exchange contracts – held for trading	–	0 7	–	0 7
Total assets	–	0 7	–	0 7
Liabilities				
Financial assets at fair value through profit or loss				
Foreign exchange contracts – held for trading	–	–	–	–
Total liabilities	–	–	–	–

31 December 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through profit or loss				
Foreign exchange contracts – held for trading	–	–	–	–
Total assets	–	–	–	–
Liabilities				
Financial assets at fair value through profit or loss				
Foreign exchange contracts – held for trading	–	0 6	–	0 6
Total liabilities	–	0 6	–	0 6

21 Financial instruments continued
An amount of £0 2m loss (2010 – £1 2m gain) has been transferred to the Consolidated Income Statement, and is included within trading profit, in respect of contracts which matured during the period There was no ineffectiveness to be recorded from foreign exchange cash flow hedges An amount of £0 1m (2010 – £nil) has been recognised in the Consolidated Income Statement in respect of foreign exchange contracts held for trading For the Company, a net gain of £0 2m (2010 – £0 5m) has been recognised in its Income Statement in respect of foreign exchange contracts held for trading

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 18 months Amounts deferred in equity are recognised in the Income Statement in the same period in which the hedged items affect net profit or loss, which is generally within 12 months from the balance sheet date

22. Deferred tax liabilities and assets
The following are the major deferred tax liabilities and (assets) recognised by the Group and movements thereon during the current and prior reporting period

	Accelerated tax depreciation £m	Unrealised FX gains £m	Goodwill and intangible amortisation £m	Retirement benefit obligations £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 January 2010	11 7	2 4	7 9	(2 3)	(9 7)	(2 4)	7 6
Charge/(credit) to income	0 8	–	(1 5)	0 6	(3 9)	0 2	(3 8)
Credit to other comprehensive income	–	(0 6)	–	(0 5)	–	–	(1 1)
Credit directly to equity	–	–	–	–	(2 1)	–	(2 1)
Exchange differences	0 1	0 1	0 2	–	(0 1)	–	0 3
At 1 January 2011	12 6	1 9	6 6	(2 2)	(15 8)	(2 2)	0 9
Charge/(credit) to income	4 7	–	2 6	(0 5)	(1 0)	(1 6)	4 2
Credit to other comprehensive income	–	(1 0)	–	(6 6)	–	(0 5)	(8 1)
Credit directly to equity	–	–	–	–	(3 3)	–	(3 3)
Acquisition of subsidiary	–	–	3 3	–	–	–	3 3
Exchange differences	0 2	(0 1)	0 1	–	(0 2)	–	–
As 31 December 2011	**17 5**	**0 8**	**12 6**	**(9 3)**	**(20 3)**	**(4 3)**	**(3 0)**

Certain deferred tax assets and liabilities have been offset The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	Group Year ended 2011 £m	Group Year ended 2010 £m
Deferred tax liabilities	**6 0**	1 9
Deferred tax assets	**(9 0)**	(1 0)
	(3 0)	0 9

At the balance sheet date the Group has unused tax losses of £57 1m (2010 – £13 0m) available for offset against future profits A deferred tax asset has been recognised in respect of £18 9m (2010 – £7 8m) of such losses No deferred tax asset has been recognised in respect of the remaining £38 2m (2010 – £5 2m) due to the unpredictability of future profit streams Included in unrecognised tax losses are losses of £26 1m and £3 5m (2010 – £2 8m) that will expire within seven years and eight years respectively (2010 – eight years) Other losses may be carried forward indefinitely

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £131 1m (2010 – £59 9m) No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future

22 Deferred tax liabilities and assets continued

In addition, at the balance sheet date, the Group has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £nil (2010 – £34 3m), share-based payments of £0 9m (2010 – £6 7m), accelerated book depreciation of £11 2m (2010 – £5 6m) and other temporary differences of £2 0m (2010 – £0 7m) The Company has deductible temporary differences for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £27 6m (2010 – £34 3m), share-based payments of £3 1m (2010 – £2 5m), accelerated book depreciation of £0 4m (2010 – £0 6m) and other temporary differences of £0 1m (2010 – £1 0m) Deferred tax assets have not been recognised in respect of these differences due to the unpredictability of both the timing of the reversal of these temporary differences and of the future profit streams in the entities concerned

At the balance sheet date, the Group and Company have £5 0m (2010 – £5 0m) of surplus ACT previously written off for which no deferred tax asset has been recognised as it is unlikely to be recovered in the foreseeable future due to the UK earnings profile The Group also has £14 4m (2010 – £14 4m) of unused capital losses, as reduced by gains rolled over, available for offset against future capital gains for which no deferred tax asset has been recognised as no such capital gains are anticipated to arise in the foreseeable future The Company has £15 6m (2010 – £15 6m) of such unused capital losses

23 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2011 £m	Group Year ended 2010 £m	**Group Year ended 2011 £m**	Group Year ended 2010 £m
Amounts payable under finance leases				
Within one year	**0 7**	0 3	**0 6**	0 2
In the second to fifth years inclusive	**1 0**	0 8	**0 9**	0 7
After five years	**0 1**	0 2	**0 1**	0 2
	1 8	1 3	**1 6**	1 1
Less future finance charges	**(0 2)**	(0 2)	**–**	–
Present value of lease obligations	**1 6**	1 1	**1 6**	1 1
Less amount due for settlement within 12 months (shown under current liabilities)			**(0 6)**	(0 3)
Amount due for settlement after 12 months			**1 0**	0 8

It is the Group's policy to lease certain of its buildings and fixtures and equipment under finance leases The most significant lease representing approximately 30% (2010 – 69%) of the Group's obligations, expires in 2014 For the year ended 31 December 2011, the average effective borrowing rate was 6 2% (2010 – 6 2%) Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments

The fair value of the Group's lease obligations approximates their carrying amount

The Group's obligations under finance leases are secured by the lessors' charges over the leased assets

An analysis of the present value of lease obligations by currency is as follows Sterling £0 6m (2010 – £nil), Euros £0 5m (2010 – £0 8m) and US dollars £0 5m (2010 – £0 3m)

24 Trade and other payables

Trade and other payables at 31 December comprise the following

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Non-current liabilities	–	–	–	–
Current liabilities				
Trade payables	**64 8**	46 0	**0 6**	0 2
Social security and PAYE	**6 2**	5 3	**0 1**	0 1
Value Added Tax	**2 2**	0 8	–	–
Currency derivatives	**2 0**	0 9	–	0 6
Other payables and accruals	**59 9**	57 5	**4 0**	4 1
Due to subsidiaries	–	–	**108 9**	50 3
	135 1	110 5	**113 6**	55 3
Total trade and other payables	**135 1**	110 5	**113 6**	55 3

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

The average credit period taken for trade purchases is 57 days

25 Provisions

Group	Warranties £m	Other £m	Total £m
At 1 January 2011	–	–	–
Reclassification from accruals	1 8	1 0	2 8
Additional provision in the year	3 3	0 3	3 6
Utilisation of provision	(0 1)	(0 4)	(0 5)
Release of unused amounts	–	(0 4)	(0 4)
Unwinding of discount	–	–	–
Exchange difference	0 1	(0 1)	–
At 31 December 2011	5 1	0 4	5 5
Included in current liabilities	5 1	0 4	5 5

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

26. Share capital

	Group and Company **Year ended 2011 £m**	Group and Company Year ended 2010 £m
Authorised		
750 million ordinary shares of 10p each	**75 0**	75 0
Issued and fully paid		
402 2 million ordinary shares of 10p each	**40 2**	40 1

At 31 December 2010, the issued and fully paid up share capital was 400 9 million ordinary shares of 10p each

86,311 shares were issued during 2011 at an average price of 25 00p per share under share option plans raising £0 02m 1,256,703 shares were issued during 2011 under the 2005 Long Term Incentive Plan

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

27 Share premium account

	Group and Company **Year ended 2011 £m**	Group and Company Year ended 2010 £m
Balance at 1 January	**12 3**	12 1
Movement in year	**–**	0 2
Balance at 31 December	**12 3**	12 3

28 Equity reserve

	Group and Company	
	Year ended 2011 £m	Year ended 2010 £m
Balance at 1 January	**2 2**	1 9
Transfer to retained earnings reserve	**(0 9)**	(0 6)
Movement in year	**1 4**	0 9
Balance at 31 December	**2 7**	2 2

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

The movement in the year includes £1 5m (2010 – £1 0m) in respect of the share-based payment charge for the year, and £0 1m (2010 – £0 1m) release in respect of the shares issued in the year under the 2005 Long Term Incentive Plan

29 Distributable reserve

	Group and Company	
	Year ended 2011 £m	Year ended 2010 £m
Balance at 1 January	**–**	19 4
Transfer to retained earnings reserve	**–**	(19 4)
Balance at 31 December	**–**	–

This reserve was transferred to retained earnings during 2010

30 Hedging and translation reserves

a) Group

	Hedging reserve Year ended 2011 £m	**Translation reserve Year ended 2011 £m**	**Total Year ended 2011 £m**	Hedging reserve Year ended 2010 £m	Translation reserve Year ended 2010 £m	Total Year ended 2010 £m
Balance at 1 January	**(37 0)**	**43 2**	**6 2**	(36 6)	38 2	1 6
Exchange differences on translation of overseas operations	**–**	**(1 4)**	**(1 4)**	–	4 0	4 0
Change in fair value of hedging derivatives	**(2 0)**	**–**	**(2 0)**	(0 4)	–	(0 4)
Tax on items taken directly to equity	**–**	**1 7**	**1 7**	–	1 0	1 0
Balance at 31 December	**(39 0)**	**43 5**	**4 5**	(37 0)	43 2	6 2

b) Company

	Hedging reserve Year ended 2011 £m	**Translation reserve Year ended 2011 £m**	**Total Year ended 2011 £m**	Hedging reserve Year ended 2010 £m	Translation reserve Year ended 2010 £m	Total Year ended 2010 £m
Balance at 1 January and 31 December	**–**	**(0 3)**	**(0 3)**	–	(0 3)	(0 3)

31 Retained earnings

	Group Year ended 2011 £m	Group Year ended 2010 £m	Company Year ended 2011 £m	Company Year ended 2010 £m
Balance at 1 January	**165 1**	111 3	**41 6**	6 9
Dividends paid	**(13 1)**	(10 8)	**(13 1)**	(10 8)
Net profit for the year	**55 0**	40 4	**42 1**	23 7
Pension actuarial (loss)/gain	**(1 8)**	0 4	**(0 5)**	1 8
Transfer from equity reserve	**0 9**	0 6	**0 9**	0 6
Transfer from distributable reserve	**–**	19 4	**–**	19 4
Tax on deductible temporary differences	**10 5**	3 8	**–**	–
Balance at 31 December	**216 6**	165 1	**71 0**	41 6

£7 5m (2010 – £7 5m) of the Company's retained earnings are considered undistributable

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

32 Own shares

	Group and Company	
	Year ended 2011 £m	Year ended 2010 £m
Balance at 1 January	**–**	1 4
Movement in the year	**–**	(1 4)
Balance at 31 December	**–**	–

The own shares reserve represents the cost of shares purchased in the market and held by the Senior plc Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 36) All the shares held by the employee benefit trust were sold during 2010

33 Acquisitions

Damar Machine Company

On 25 March 2011, the Group acquired 100% of the issued share capital of Damar Machine Company and two small related legal entities (collectively "Damar") Damar located in Monroe, Washington, USA, is principally a manufacturer and integrator of precision machined parts and assemblies for the commercial aircraft industry The business, like the Group's existing Aerospace Division has content on each of Boeing s 737, 747 767, 777 and 787 platforms with Boeing commercial aircraft representing some 88% of Damar's 2010 revenue Over the past year, Boeing has announced build rate increases for all of these aircraft types Consequently, the future prospects for Damar, and the Group's Aerospace Division, appear highly encouraging Damar's capabilities, combined with Senior's wider market access, financial strength and operational excellence focus, are expected to lead to stronger growth prospects and improved operational efficiencies, benefiting customers, employees and shareholders The cash consideration, including acquired overdraft of £0 1m was £15 6m and the acquisition was funded from the Group's existing debt facilities

Set out below is a summary of the net assets acquired

Recognised amounts of identifiable assets acquired and liabilities assumed	£m
Identifiable intangible assets	0 6
Property, plant and equipment	2 1
Inventories	2 0
Financial assets, excluding cash and cash equivalents	1 1
Bank overdraft	(0 1)
Financial liabilities	(1 0)
Net assets acquired	4 7
Goodwill	11 1
Total consideration	15 8
Consideration satisfied by	
Cash paid	15 5
Deferred consideration payable	0 3
Total consideration	15 8
Net cash outflow arising on acquisition	
Cash consideration paid to date	15 5
Plus overdraft acquired	0 1
Net cash outflow arising on acquisition	15 6

33 Acquisitions continued

The goodwill of £11 1m results largely from the expectation that the Group will be able to leverage the existing business relationship the Group has with Boeing as well as the Group's relationships with other commercial aerospace suppliers, to generate substantial, sustainable financial growth beyond what Damar would have potentially achieved as a stand-alone company £11 1m of the goodwill is expected to be deductible for tax purposes

The intangible assets acquired as part of the acquisition relate mainly to customer contracts the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows, and are being amortised over 2 8 years

The financial assets acquired include trade receivables with a fair value of £1 0m and a gross contractual value of £1 0m, all of which is expected to be collectible

Acquisition-related costs of £0 1m are included in administrative expenses within trading profit in the Group's Consolidated Income Statement for the year ended 31 December 2011

Damar contributed £11 5m of external revenue and £0 1m to the Group's operating profit from the date of acquisition to 31 December 2011 If the acquisition had been completed on 1 January 2011, Group revenue for the 12 months ending 31 December 2011 would have been £644 8m and Group operating profit would have been £83 3m

Weston EU Limited

On 25 November 2011, the Group acquired 100% of the issued share capital of Weston EU Limited, which has a subsidiary Weston SEA Limited (collectively "Weston") Weston located in Colne, Lancashire, UK and with facilities in Chonburi, Thailand, is principally a manufacturer of precision machined parts and assemblies for the commercial aerospace industry supplying components for aircraft structures, interiors and for gas turbine engines Weston has content on each of the Airbus A320 family, A330, A350 and A380 platforms, with Airbus commercial aircraft representing over 70% of Weston's 2011 revenue Over the past year, Airbus has announced build rate increases for all of these aircraft types and, consequently, the future prospects for Weston appear highly encouraging Weston's capabilities combined with Senior's wider market access and financial strength, are expected to further enhance the future growth prospects for the Group The cash consideration, net of cash acquired of £4 1m, was £53 0m and the acquisition was funded from the Group's existing debt facilities

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

Recognised amounts of identifiable assets acquired and liabilities assumed	£m
Identifiable intangible assets	13 5
Property, plant and equipment	7 8
Inventories	6 4
Financial assets, excluding cash and cash equivalents	12 7
Cash and cash equivalents	4 1
Financial liabilities	(14 9)
Net assets acquired	29 6
Goodwill	27 5
Total consideration	57 1
Consideration satisfied by	
Cash paid	57 1
Net cash outflow arising on acquisition	
Cash consideration paid to date	57 1
Less Cash and cash equivalents acquired	(4 1)
Net cash outflow arising on acquisition	53 0

The goodwill of £27 5m represents the premium paid in anticipation of future profitability from assets that are not capable of being separately identified and separately recognised such as the assembled workforce as well as the expectation that the Group will be able to leverage its wider market access and strong financial position to generate sustainable financial growth beyond what Weston would have potentially achieved as a stand-alone company None of the goodwill is expected to be deductible for tax purposes

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

33 Acquisitions continued

The financial assets acquired include trade receivables with a fair value of £12 1m and a gross contractual value of £12 1m, all of which is expected to be collectible

Acquisition-related costs of £0 5m are included in administrative expenses within trading profit in the Group s Consolidated Income Statement for the year ended 31 December 2011

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

Weston contributed £4 1m of external revenue and £0 3m to the Group's operating profit from the date of acquisition to 31 December 2011 If the acquisition had been completed on 1 January 2011 Group revenue for the 12 months ending 31 December 2011 would have been £691 1m and Group operating profit would have been £86 1m

34 Notes to the cash flow statement

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

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Operating profit/(loss) from continuing operations	**83 0**	62 2	**(2 7)**	(2 9)
Adjustments for				
Depreciation of property, plant and equipment	**18 0**	19 4	**–**	**–**
Amortisation of intangible assets	**5 0**	5 2	–	–
Share options	**2 5**	1 4	**0 6**	0 4
Loss/(profit) on disposal of property, plant and equipment	**0 3**	(0 2)	**–**	**–**
Pension payments in excess of service cost	**(7 8)**	(11 8)	**(7 1)**	(10 2)
Impairment of goodwill	**–**	8 7	–	–
Operating cash flows before movements in working capital	**101 0**	84 9	**(9 2)**	(12 7)
Increase in inventories	**(7 3)**	(8 1)	**–**	**–**
Increase in receivables	**(13 8)**	(0 4)	**(0 1)**	–
Increase in payables	**16 5**	11 0	**0 2**	0 1
Decrease in receivables from subsidiaries	**–**	–	**0 4**	0 5
Working capital currency movements	**(0 1)**	(0 3)	**–**	–
Cash generated by/(used in) operations	**96 3**	87 1	**(8 7)**	(12 1)
Income taxes (paid)/received	**(10 7)**	(8 6)	**–**	5 0
Interest paid	**(8 5)**	(8 3)	**(8 6)**	(9 2)
Net cash from/(used in) operating activities	**77 1**	70 2	**(17 3)**	(16 3)

b) Free cash flow

Free cash flow, a non-statutory item, highlights the total net cash generated by the Group prior to corporate activity such as acquisitions disposals financing and transactions with shareholders It is derived as follows

	Group Year ended 2011 £m	Group Year ended 2010 £m
Net cash from operating activities	**77 1**	70 2
Interest received	**0 3**	0 7
Proceeds on disposal of property plant and equipment	**0 3**	2 1
Purchases of property, plant and equipment – cash	**(21 1)**	(13 5)
Purchase of intangible assets	**(1 0)**	(0 7)
Free cash flow	**55 6**	58 8

34 Notes to the cash flow statement continued

c) Analysis of group net debt

	At 1 January 2011 £m	Cash flow £m	Non-cash items £m	New finance leases £m	Assumed on acquisition £m	Exchange movement £m	**At 31 December 2011 £m**
Cash	56 0	(25 7)	–	–	–	(1 0)	**29 3**
Overdrafts	(0 1)	(0 8)	–	–	–	0 1	**(0 8)**
Cash and cash equivalents	55 9	(26 5)	–	–	–	(0 9)	**28 5**
Debt due within one year	(0 2)	0 2	(0 2)	–	–	–	**(0 2)**
Debt due after one year	(118 3)	–	0 2	–	–	(1 6)	**(119 7)**
Finance leases	(1 1)	0 4	–	(0 2)	(0 7)	–	**(1 6)**
Forward contracts	–	(0 2)	–	–	–	0 2	**–**
Total	(63 7)	(26 1)	–	(0 2)	(0 7)	(2 3)	**(93 0)**

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Cash and cash equivalents comprise				
Cash	**29 3**	56 0	**1 3**	9 7
Bank overdrafts	**(0 8)**	(0 1)	**(0 4)**	–
Total	**28 5**	55 9	**0 9**	9 7

Cash and cash equivalents held by the Group and the Company (which are presented as a single class of assets on the face of the Balance Sheets) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value

35 Operating lease arrangements

The Group and the Company as lessee

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	**6 5**	6 3	**0 2**	0 2

The Group also received £0 5m under a sub-lease recognised in the Consolidated Income Statement for the year (2010 – £0 5m)

At 31 December, the Group and the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	Group Year ended 2011 £m	Group Year ended 2010 £m	**Company Year ended 2011 £m**	Company Year ended 2010 £m
Within one year	**6 9**	5 6	**0 2**	0 2
In the second to fifth years inclusive	**19 0**	15 4	**–**	–
After five years	**12 6**	13 3	**–**	–
	38 5	34 3	**0 2**	0 2

The total of future minimum sub-lease payments expected to be received by the Group under non-cancellable sub-leases at the end of 2011 was £3 2m (2010 – £3 7m)

Operating lease payments principally represent rentals payable by the Group for certain of its manufacturing properties The leases with the four largest outstanding commitments, representing 51% (2010 – 64%) of the Group's commitment (excluding sub-leases) respectively expire in 2026 (with rentals fixed for five years), in 2018 (with rentals fixed for 1 5 years), in 2022 and in 2019

As at the date of approving the accounts the Company has guaranteed £1 1m (2010 – £1 4m) of annual lease commitments of certain current and previous subsidiary entities

36 Share-based payments

The Group recognised total expenses of £2 4m (2010 – £1 4m) related to share-based payments, of which £1 5m (2010 – £1 0m) related to equity-settled share-based payments, and £0 9m (2010 – £0 4m) related to social security costs on share-based payments At 31 December 2011, the Group had a liability of £1 3m (2010 – £0 5m) arising from share-based payments of which £1 3m (2010 – £0 5m) related to social security costs The Company recognised total expenses of £0 6m (2010 – £0 4m) related to equity-settled share-based payments At 31 December 2011 the Company had a liability of £0 4m (2010 – £0 3m) related to social security costs

The disclosures below are in respect of both Group and Company

a) 2005 Long Term Incentive Plan

Equity-Settled Long Term Incentive Plans

1,782,070 shares were awarded under the 2005 Long Term Incentive Plan on 18 March 2011 Awards under this plan have a three-year vesting period, subject to earnings per share ("EPS) and total shareholder return ("TSR") performance conditions being met Half the awards have an attaching performance target for EPS growth over the three-year performance period of at least 3% per annum above the RPI The other half of the awards begin to vest if the Company's TSR falls in the top half of a comparator group at the end of the three-year performance period Vesting levels increase with higher performance The awards are settled by delivering shares to the participants

The estimated fair value for the awards granted in the year with EPS conditions is 126 00p per share, which is essentially the share price at the date of grant of 135 00p per share less an allowance for dividends foregone over the three-year vesting period The estimated fair value for the awards granted in the year with TSR conditions is 60 20p per share, reflecting an adjustment of 48% to the fair value of the awards with EPS conditions due to the stringent TSR condition

These fair values were calculated by applying a binomial option pricing model This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition The model inputs at the date of grant were the share price of 135 00p, a risk-free interest rate of 1 7% per annum, expected volatility of 64 0% per annum, net dividend yield of 2 3% per annum and the performance conditions as noted above Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years

The following share awards were outstanding as at 31 December 2011 and 2010

	Year ended 2011 Number of shares	Year ended 2010 Number of shares
Outstanding at 1 January	**6,368,994**	5 300,384
Granted	**1,782,070**	2,122,172
Exercised	**(1,256,703)**	(810,657)
Forfeited	**(393,507)**	(242 905)
Outstanding at 31 December	**6,500,854**	6,368,994

Cash-Settled Long Term Incentive Plan

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

No phantom awards were awarded or vested under the 2005 Long Term Incentive Plan during the year The number of notional shares outstanding at 31 December 2011 and 2010 was 15,913

b) Savings-Related Share Option Plan

The Company operates a Savings-Related Share Option Plan for eligible employees across the Group There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs rules for such savings plans Savings-Related Share Options were last awarded on 29 March 2011

The estimated fair value for the award granted during the year was 51 72p This fair value was calculated by applying a Black-Scholes option pricing model The model inputs at the date of the grant were the share price of 144 40p, a risk-free interest rate of 1 78% per annum expected volatility of 58 42% per annum and a net dividend yield of 2 23% Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years

36 Share-based payments continued
The following options were outstanding as at 31 December 2011 and 2010

	Year ended 2011		Year ended 2010	
	Number of share options	**Weighted average exercise price**	Number of share options	Weighted average exercise price
Outstanding at 1 January	**9,544,519**	**25 01p**	10 730,699	27 03p
Granted	**1,227,596**	**144 40p**	–	–
Exercised	**(86,311)**	**25 00p**	(432,136)	72 34p
Forfeited	**(477,780)**	**49 26p**	(754,044)	26 76p
Expired	**(950)**	**79 50p**	–	–
Outstanding at 31 December	**10,207,074**	**38 22p**	9,544,519	25 01p
Exercisable at 31 December	–	–	950	79 50p

The weighted average share price at the date of exercise for share options exercised during the period was 157 14p (2010 – 124 53p) The options outstanding at 31 December 2011 had exercise prices of 144 40p and 25 00p per share, and a weighted average remaining contractual life of 1 2 years The options outstanding at 31 December 2010 had exercise prices of 25 00p and 79 50p per share and a weighted average remaining contractual life of 2 0 years

37 Retirement benefit schemes
The Group operates a number of pension plans in the UK, North America and Europe These include both defined contribution arrangements and defined benefit arrangements The largest defined benefit arrangement for the Group and Company, the Senior plc Pension Plan is a funded scheme in the UK, providing benefits based on final pensionable emoluments for the employees of the Group and Company This plan was closed to new employees from April 2008 A change to the Rules of the Plan was implemented prior to 31 December 2009 to introduce a cap on future pensionable earnings growth of 2% per annum from 6 April 2010 The latest full actuarial valuation was carried out as at 6 April 2010 and, for the purposes of accounting under IAS 19, this valuation has been rolled forward to 31 December 2011

In addition, the Group operates two defined benefit plans in the USA, one of which was closed to future accrual from October 2009 Separate disclosure is made for the funded UK and US defined benefit arrangements In both the UK and the USA the assets of funded plans are held in separate trustee administered funds managed by independent financial institutions and have pension costs assessed by consulting actuaries using the Projected Unit Method The Trustees are required to act in the best interests of the plans' beneficiaries For the Senior plc Pension Plan in the UK, the Trustee is Senior Trustee Limited The appointment of the Directors to the Board is determined by the plan's Trust documentation There is a policy that at least one-third of all Directors should be nominated by members of the plan Currently there are two member-nominated Directors and four Directors that have been nominated by the Company, of which the Chairman and one other Director are viewed as independent The investment strategy for the plan is decided locally by the Trustees The primary investment objective is for the plan to be able to meet benefit payments as they fall due This objective is implemented by setting strategic asset allocations using a "horizon-based" approach Under this approach, all benefit cash flows expected to fall in the next 13 years (the horizon period) are met by investment in low-risk assets such as fixed interest and index-linked bonds Cash flows after the horizon period are met by investment in more volatile assets which are expected to deliver a higher return (than bonds) in the longer term In setting this strategy, the Trustees consider a wide range of asset classes, the risk and rewards of a number of possible asset allocation options, the sustainability of each asset class within each strategy, and the need for appropriate diversification between different asset classes The Trustees continue to review their investment strategy and have also implemented a switching mechanism to secure any outperformance of equities relative to bonds, by selling equities to buy bonds

The Group also has a small number of unfunded post-retirement plans, including a closed healthcare scheme in the US Separate disclosure is provided for these arrangements

a) Defined contribution schemes
The Group has a number of different defined contribution and government-sponsored arrangements in place in the countries in which it operates None of these are individually material to the Group and the aggregate cost of such schemes for the period was £4 9m (2010 – £3 9m)

37 Retirement benefit schemes continued

b) Defined benefit schemes

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

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

	31 December 2011				31 December 2010			
	UK plans funded £m	**US plans funded £m**	**Unfunded plans £m**	**Total £m**	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Present value of defined benefit obligations	**(211 6)**	**(38 5)**	**(5 0)**	**(255 1)**	(195 8)	(33 6)	(5 1)	(234 5)
Fair value of plan assets	**186 3**	**34 3**	**–**	**220 6**	166 0	30 3	–	196 3
Plan deficit per balance sheet	**(25 3)**	**(4 2)**	**(5 0)**	**(34 5)**	(29 8)	(3 3)	(5 1)	(38 2)

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

	31 December 2011				31 December 2010			
	UK plans funded £m	**US plans funded £m**	**Unfunded plans £m**	**Total £m**	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	**195 8**	**33 6**	**5 1**	**234 5**	188 8	30 0	4 7	223 5
Current service costs	**1 0**	**0 5**	**0 2**	**1 7**	1 0	0 4	0 3	1 7
Interest cost	**10 4**	**1 7**	**0 2**	**12 3**	10 6	1 8	0 2	12 6
Contributions by plan participants	**0 7**	**–**	**–**	**0 7**	0 7	–	–	0 7
Actuarial losses	**11 9**	**3 5**	**(0 2)**	**15 2**	3 2	2 0	0 2	5 4
Benefits paid	**(8 2)**	**(1 3)**	**(0 2)**	**(9 7)**	(8 5)	(1 3)	(0 2)	(10 0)
Exchange differences	**–**	**0 5**	**(0 1)**	**0 4**	–	0 7	(0 1)	0 6
At 31 December	**211 6**	**38 5**	**5 0**	**255 1**	195 8	33 6	5 1	234 5

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

	31 December 2011				31 December 2010			
	UK plans funded £m	**US plans funded £m**	**Unfunded plans £m**	**Total £m**	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	**166 0**	**30 3**	**–**	**196 3**	149 2	26 2	–	175 4
Expected return on plan assets	**8 3**	**1 6**	**–**	**9 9**	8 4	2 0	–	10 4
Actuarial gains	**11 4**	**2 0**	**–**	**13 4**	5 0	0 8	–	5 8
Contributions from employer	**8 1**	**1 2**	**–**	**9 3**	11 2	2 0	–	13 2
Contributions by plan participants	**0 7**	**–**	**–**	**0 7**	0 7	–	–	0 7
Benefits paid	**(8 2)**	**(1 3)**	**–**	**(9 5)**	(8 5)	(1 3)	–	(9 8)
Exchange differences	**–**	**0 5**	**–**	**0 5**	–	0 6	–	0 6
At 31 December	**186 3**	**34 3**	**–**	**220 6**	166 0	30 3	–	196 3

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

	31 December 2011				31 December 2010			
	UK plans funded £m	**US plans funded £m**	**Unfunded plans £m**	**Total £m**	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost included within operating profit	**1 0**	**0 5**	**0 2**	**1 7**	1 0	0 4	0 3	1 7
Interest cost	**10 4**	**1 7**	**0 2**	**12 3**	10 6	1 8	0 2	12 6
Expected return on plan assets	**(8 3)**	**(1 6)**	**–**	**(9 9)**	(8 4)	(2 0)	–	(10 4)
Included within finance costs	**2 1**	**0 1**	**0 2**	**2 4**	2 2	(0 2)	0 2	2 2
Amount recognised in the Income Statement	**3 1**	**0 6**	**0 4**	**4 1**	3 2	0 2	0 5	3 9

Of the current service cost for the year, £0 9m (2010 – £0 9m) has been included in cost of sales, and £0 8m (2010 – £0 8m) has been included in administrative expenses

Actuarial losses of £1 8m (2010 – £0 4m gains) have been recognised in the Statement of Comprehensive Income The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income as at 31 December 2011 is £38 3m (2010 – £36 5m)

37 Retirement benefit schemes continued

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Fair value of plan assets				
Equities	**52 4**	55 3	**–**	–
Bonds	**67 1**	57 1	**33 9**	30 3
Gilts	**67 9**	54 6	**–**	–
Cash and net current (liabilities)/assets	**(1 1)**	(1 0)	**0 4**	–
Total	**186 3**	166 0	**34 3**	30 3
Actual return on plan assets	**19 7**	13 4	**3 6**	2 8
Major assumptions (per annum %)				
Inflation	**3 0%**	3 4%	**n/a**	n/a
Increase in salaries	**2 0%**	2 0%	**4 0%**	4 0%
Increase in pensions	**2 9%**	3 3%	**0 0%**	0 0%
Increase in deferred pensions	**3 0%**	3 4%	**0 0%**	0 0%
Rate used to discount plan liabilities	**4 8%**	5 4%	**4 6%**	5 3%
Expected return on assets at 31 December	**4 0%**	5 0%	**5 5%**	5 5%
Life expectancy of a male aged 65 at the year-end	**20 7**	20 6	**17 7**	17 7
Life expectancy of a male aged 65 20 years after the year-end	**22 6**	22 5	**17 7**	17 7

Benefits under the US funded plans are not linked to inflation

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

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

	2011 %	2010 %
Equities	**6 2**	6 9
Bonds	**4 1**	4 7
Gilts	**2 2**	3 4
Cash	**2 5**	3 7
Total	**4 0**	5 0

For the UK plan, the estimated impact on the plan deficit at 31 December 2011 for changes in assumptions is as follows

	Increase in plan deficit £m
0 5% decrease in the discount rate	17 0
One-year increase in life expectancy	6 0
0 5% increase in inflation	10 0

For the UK plan, the Group has agreed with the Trustees to fund the plan deficit over a nine-year period from January 2011 to December 2019 The estimated amounts of contributions expected to be paid during 2012 to the UK plan is £8 1m (£6 7m of which is to fund the past service deficit) and to the USA funded plans is £1 0m

37 Retirement benefit schemes continued

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £2 7m (2010 – £2 8m) unfunded closed pension and post-retirement healthcare plans in the USA £0 4m (2010 – £0 6m) and provision for post-retirement payments in France of £1 9m (2010 – £1 7m)

The closed pension and post-retirement healthcare plans in the US have been valued on a Projected Unit Method with the following assumptions discount rate 4 6%, and annual healthcare cost trend rate of 10 0% until the payment for medical benefits cease in December 2014 The effect of a 1% increase or decrease in the healthcare cost trend rate is negligible to the Group s results The German plan has been subject to formal actuarial valuation on a Projected Unit Method with the following assumptions discount rate 5 1%, salary growth 2 0% and inflation 2 0% In France, the provision arises from a legal obligation to make payments to retirees in the first two years post-retirement Hence, it is not subject to discounting to the same extent as the other longer-term post-retirement liabilities

h) History of experience gains and losses

UK plan funded	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	**(211 6)**	(195 8)	(188 8)	(162 8)	(172 8)
Fair value of plan assets	**186 3**	166 0	149 2	125 5	142 3
Plan deficit	**(25 3)**	(29 8)	(39 6)	(37 3)	(30 5)
Experience (loss)/gain on plan liabilities	**(1 5)**	3 8	0 6	0 1	12 8
Experience gain/(loss) on plan assets	**11 4**	5 0	8 6	(24 9)	(5 2)

US plan funded	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	**(38 5)**	(33 6)	(30 0)	(31 1)	(21 3)
Fair value of plan assets	**34 3**	30 3	26 2	21 8	19 3
Plan deficit	**(4 2)**	(3 3)	(3 8)	(9 3)	(2 0)
Experience (loss)/gain on plan liabilities	**(0 1)**	0 6	(0 3)	0 1	0 3
Experience gain/(loss) on plan assets	**2 0**	0 8	1 7	(5 2)	(0 4)

Unfunded plans	**2011 £m**	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	**(5 0)**	(5 1)	(4 7)	(4 6)	(3 8)
Fair value of plan assets	**–**	–	–	–	–
Plan deficit	**(5 0)**	(5 1)	(4 7)	(4 6)	(3 8)
Experience gain/(loss) on plan liabilities	**–**	–	–	–	–

38 Related party transactions

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

	Year ended 2011 £m	Year ended 2010 £m
Transactions in year		
Management charges	**2 4**	0 4
Pension recharges	**0 6**	0 9
Gain on foreign exchange contracts held for trading	**0 1**	0 5
Interest receivable	**5 6**	8 2
Interest payable	**(0 9)**	(1 1)
Dividend received	**50 4**	30 0
Balances at year-end		
Investments in subsidiaries	**251 8**	179 0
Amounts due from subsidiaries	**129 1**	109 3
Fair value of currency derivative assets/(liabilities)	**0 7**	(0 6)
Amounts due to subsidiaries	**(108 9)**	(50 3)

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

The remuneration of the Directors and senior managers, who are the key management personnel of the Group, is set out in the Remuneration Report on pages 48 to 55

Five-year summary

Group income statement	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Revenue					
Continuing operations	**640 7**	566 9	540 1	562 4	470 7
Adjusted operating profit					
Continuing operations	**88 3**	75 4	59 4	64 5	45 0
(Loss)/profit on sale of fixed assets	**(0 3)**	0 2	(0 1)	–	(0 7)
Release of provision from previous acquisition	**–**	–	–	–	0 5
Exceptional pension gain	**–**	–	6 3	–	–
Amortisation of intangible assets from acquisitions	**(4 4)**	(4 6)	(4 6)	(4 7)	(3 3)
Impairment of goodwill	**–**	(8 7)	–	–	–
Acquisition costs	**(0 6)**	(0 1)	–	–	–
Operating profit	**83 0**	62 2	61 0	59 8	41 5
Investment income/finance costs, net	**(7 9)**	(7 9)	(7 2)	(6 8)	(6 4)
Net finance cost of retirement benefit obligations	**(2 4)**	(2 2)	(4 2)	(1 7)	(0 8)
Profit before tax	**72 7**	52 1	49 6	51 3	34 3
Tax	**(17 7)**	(11 7)	(10 6)	(12 1)	(6 4)
Profit for the year	**55 0**	40 4	39 0	39 2	27 9
Depreciation and amortisation of intangibles	**23 0**	24 6	25 4	23 4	17 9
Gross capital expenditure (including finance lease assets)	**22 3**	14 2	12 6	24 5	19 5
Basic earnings per share	**13 68p**	10 11p	9 79p	9 92p	7 17p
Diluted earnings per share	**13 21p**	9 77p	9 58p	9 78p	7 00p
Adjusted earnings per share	**14 55p**	12 01p	8 91p	10 63p	7 71p
Dividends in respect of year – per share	**3 80p**	3 12p	2 600p	2 600p	2 400p
– value	**15 3**	12 5	10 4	10 4	9 4
Group balance sheets					
Non-current assets	**362 9**	292 2	299 1	343 7	223 4
Net current assets	**75 0**	93 3	63 5	44 5	26 5
Non-current liabilities	**(161 6)**	(159 6)	(177 8)	(212 0)	(100 0)
Net assets	**276 3**	225 9	184 8	176 2	149 9
Net borrowings	**(93 0)**	(63 7)	(102 3)	(174 5)	(94 8)
Group cash flow					
Net cash from operating activities	**77 1**	70 2	69 8	74 6	35 3
Interest received	**0 3**	0 7	2 6	1 7	0 8
Proceeds from disposal of property, plant and equipment	**0 3**	2 1	0 3	0 6	1 9
Purchase of property, plant and equipment – cash	**(21 1)**	(13 5)	(12 3)	(23 8)	(19 0)
Purchase of intangible assets	**(1 0)**	(0 7)	(0 3)	(0 7)	(0 5)
Free cash flow	**55 6**	58 8	60 1	52 4	18 5
Dividends paid	**(13 1)**	(10 8)	(10 4)	(10 3)	(8 1)
Acquisitions less disposals	**(68 6)**	(8 3)	0 5	(43 6)	(8 1)
Share issues	**–**	0 3	0 1	1 3	0 2
Sale of shares held by employee benefit trust	**–**	1 4	–	–	–
(Decrease)/increase in loans	**(0 2)**	(4 6)	(15 5)	17 5	(5 1)
Decrease in finance leases	**(0 4)**	(0 2)	(0 2)	(0 2)	(0 2)
Cash inflow/(outflow) on forward contracts	**0 2**	–	(25 2)	(13 0)	0 4
(Decrease)/increase in cash and cash equivalents	**(26 5)**	36 6	9 4	4 1	(2 4)

Principal Group undertakings

Operating companies	Business units	Locations
Senior Hargreaves Limited (incorporated in England and Wales)	Senior Hargreaves	Bury
Senior UK Limited (incorporated in England and Wales)	Senior Aerospace Bird Bellows	Congleton
	Senior Aerospace BWT	Macclesfield
	Senior Flexonics Crumlin	Crumlin
Weston EU Limited (incorporated in England and Wales)	Senior Aerospace Weston EU	Colne
Weston SEA Limited (incorporated in Thailand)	Senior Aerospace Weston SEA	Chonburi, Thailand
Senior Operations LLC (incorporated in Delaware, USA)	Senior Aerospace Absolute Manufacturing	Arlington, Washington
	Senior Aerospace AMT	Arlington, Washington
	Senior Aerospace Capo Industries	Chino, California
	Senior Aerospace Composites	Wichita, Kansas
	Senior Aerospace Jet Products	San Diego, California
	Senior Aerospace Ketema	El Cajon, California
	Senior Aerospace Metal Bellows	Sharon, Massachusetts
	Senior Aerospace Damar*	Monroe, Washington
	Senior Aerospace SSP	Burbank, California
	Senior Aerospace Sterling Machine	Enfield, Connecticut
	Senior Flexonics Bartlett	Bartlett, Illinois
	Senior Flexonics Pathway	New Braunfels, Texas
Senior Aerospace GmbH (incorporated in Switzerland)	Senior Aerospace Mexico	Saltillo, Mexico
Senior Aerospace Bosman B V (incorporated in the Netherlands)	Senior Aerospace Bosman	Rotterdam, Netherlands
Senior Calorstat SAS (incorporated in France)	Senior Aerospace Calorstat	Dourdan, France
Senior Aerospace Ermeto SAS (incorporated in France)	Senior Aerospace Ermeto	Blois, France
Senior Automotive Blois SAS (incorporated in France)	Senior Flexonics Blois	Blois, France
Senior Flexonics SA (Pty) Limited (incorporated in the Republic of South Africa)	Senior Flexonics Cape Town	Cape Town, South Africa
Senior Flexonics GmbH** (incorporated in Germany)	Senior Flexonics Berghofer	Kassel, Germany
Senior India Private Limited (incorporated in India)	Senior Flexonics New Delhi	New Delhi, India
Senior Flexonics Czech s r o (incorporated in the Czech Republic)	Senior Flexonics Olomouc	Olomouc, Czech Republic
Senior do Brasil Ltda (incorporated in Brazil)	Senior Flexonics São Paulo	São Paulo, Brazil
Senior Operations (Canada) Limited (incorporated in Canada)	Senior Flexonics Canada	Brampton, Ontario

* Damar Machine Company was acquired on 25 March 2011, and was merged into Senior Operations LLC on 30 June 2011

** Senior Berghofer GmbH changed its name to Senior Flexonics GmbH on 1 September 2011

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

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

Additional shareholder information

Analysis of shareholders at 31 December 2011

	Shareholders		Issued shares	
	Number	%	Millions	%
By category				
Corporate bodies	807	24 41	387 93	96 45
Other shareholders	2,499	75 59	14 32	3 55
	3,306	**100 00**	**402 25**	**100 00**
By range of holdings				
1 – 24,999	2,870	86 81	11 90	2 96
25,000 – 49,999	118	3 57	4 17	1 04
50 000 – 249,999	153	4 63	17 77	4 42
250 000 – 499,999	41	1 24	14 26	3 54
500,000 – 999 999	48	1 45	34 65	8 61
1,000 000 – and over	76	2 30	319 50	79 43
	3,306	**100 00**	**402 25**	**100 00**

The number of shares in issue at 31 December 2011 was 402 249 100

Share Registrars
All shareholder records are maintained by Equiniti and all correspondence should be addressed to the Registrar Senior plc at the Equiniti address shown on page 104, quoting the reference number starting with 0228 detailed on your dividend vouchers The Registrar should be notified regarding changes to name or address, loss of share certificate, or request for, or change to, a dividend mandate

Equiniti provides a range of shareholder information on-line Shareholders can check their holdings, update details and obtain practical help on transferring shares at www shareview co uk

Instead of payment by post to your registered address dividends can be paid through the BACS system direct into a UK bank or building society account, with the dividend voucher still sent to your registered address If you wish to use this facility and have not previously applied then please apply direct to Equiniti and request a dividend mandate form Shareholders who are currently receiving duplicate sets of Company mailings, as a result of any inconsistency in name or address details, should write direct to Equiniti so holdings can be combined if appropriate

CREST proxy voting
CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 27 April 2012 and any adjournment(s) thereof by using the procedures described in the CREST Manual Further details relating to voting via CREST may be found on the 2012 AGM Notice of Meeting and Form of Proxy

2012 Financial calendar

The key events for the Company are set out below
Some of the dates are indicative only and may be subject to change

Monday 27 February
Preliminary announcement of the 2011 Annual Results

Friday 9 March
Publication of the Annual Report & Accounts 2011

Thursday 26 April
Interim Management Statement

Friday 27 April
Annual General Meeting

Wednesday 2 May
Shares ex-dividend for the 2011 final dividend

Friday 4 May
Record date for shareholders on register to receive 2011 final dividend

Thursday 31 May
Payment of the 2011 final dividend

Monday 23 July
Preliminary announcement of the 2012 Interim Results

Friday 27 July
Publication of the Interim Report 2012

Monday 22 October
Interim Management Statement

Wednesday 24 October
Shares ex-dividend for the 2012 interim dividend

Friday 26 October
Record date for shareholders on register to receive 2012 interim dividend

Friday 30 November
Payment of the 2012 interim dividend

Wednesday 12 December
Pre-Close Trading Statement

Officers and advisers

Secretary and Registered Office
Andrew Bodenham
Senior plc
59/61 High Street, Rickmansworth, Hertfordshire WD3 1RH

Registered in England and Wales No 282772

Registrars
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Auditor
Deloitte LLP
Abbots House, Abbey Street, Reading RG1 3BD

Solicitors
Slaughter and May
One Bunhill Row, London EC1Y 8YY

Principal UK Clearing Bankers
Lloyds Banking Group plc
25 Gresham Street, London EC2V 7HN

Financial Advisers
Lazards & Co Limited
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