

Report of the Directors

The Directors present their report and supplementary reports, together with the audited financial statements for the year ended 31 December 2006.

Activities and Business Review

Senior plc is a holding company. Its Principal Group Undertakings are shown on page 63 and comments on each Division's results and activities in 2006 are included in the Operating and Financial Review ("OFR") on pages 7 to 13. The OFR 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 key performance indicators that management uses.

Acquisitions and Disposals

There were no disposals during the year. Sterling Machine Co., Inc. was acquired on 27 January 2006 and Aerospace Manufacturing Technologies, Inc. ("AMT") was acquired on 27 October 2006; details of the transactions are set out in Note 33 to the Financial Statements on page 53 to 54.

Results and Dividends

The results for the year are shown in the Consolidated Income Statement on page 28.

An interim dividend of 0.619p per share (2005 – 0.619p) has already been paid and the Directors recommend a final dividend of 1.381p per share (2005 – 1.286p). The final dividend, if approved, will be payable on 31 May 2007 to shareholders on the register at the close of business on 4 May 2007. This would bring the total dividend for the year to 2.000p per share (2005 – 1.905p). The prior year dividend comparative figures have been adjusted to reflect the rights issue that took place in October 2006.

Share Capital

The following table shows the changes in the Company's share capital during 2006:

Shares in issue at 1 January 2006	309,285,740
Placing to partly finance acquisition of Sterling Machine Co., Inc.	15,000,000
Shares allotted in respect of Senior plc Savings Related Share Option Plan	692,880
Shares allotted in respect of rights issue to partly finance acquisition of AMT	64,960,962
Shares in issue at 31 December 2006	389,939,582

A further 50,626 shares were allotted under the Senior plc Savings Related Share Option Plan in January and February 2007.

Further share capital details are given in Note 25 to the Financial Statements on page 51.

Financial Instruments

Note 21 to the Financial Statements on page 48 contains disclosures on Financial Instruments.

Directors

Details on the Directors who served throughout the year can be found on page 4. The Directors' interests in the shares of the Company are included in the Remuneration Report on pages 18 to 23. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings.

J R Kerr-Muir intends to retire from the Board during 2007. M Clark is to become non-executive Chairman upon J R Kerr-Muir's retirement, and I F R Much is to be appointed the Senior Independent Director.

A new non-executive Director is expected to be appointed prior to J R Kerr-Muir's retirement. M Clark and G R Menzies retire by rotation and, being eligible, offer themselves for re-election at the AGM. M Clark has no service agreement with the Company and G R Menzies has a service agreement subject to 12 months' notice by either party.

Research and Development

In 2006, the Group incurred £8.5m (2005 – £8.3m) on research and development, before recoveries from customers of £0.8m (2005 – £0.6m). The majority of the Group's efforts are focused on product development and improved manufacturing techniques.

Charitable and Political Donations

During the year, the Group made charitable donations amounting to £35,000 (2005 – £53,000), principally to local charities serving the communities in which the Group operates. No political donations were made.

Disabled Employees and Employee Consultation

The Group's policies in respect of disabled employees and job applicants, and employee consultation are set out in the Corporate Social Responsibility Report on page 24.

Policy on Payment of Creditors

The Group's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction and to seek to adhere to those terms. Based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by suppliers, the number of days outstanding at the year-end was 15 days (2005 – 37 days). However, these figures are not considered indicative of the typical payment terms adhered to, which are estimated to be on average about 30 days for the Company.

Major Shareholdings

At 28 February 2007, the following shareholders had advised holdings in excess of 3% of the issued share capital of the Company:

Barclays	31,138,259	7.98%
Legal & General Investment Management	28,056,968	7.19%
Schroder Investment Management	26,433,546	6.78%
JO Hambro Capital Management	14,627,486	3.75%
Deutsche Asset Management	13,706,031	3.51%
Aegon Asset Management	12,456,266	3.19%
HBOS	12,361,671	3.17%
Morley Fund Management	11,745,657	3.01%

Report of the Directors continued

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

Compliance with the Combined Code

The statements of compliance with the provisions of the Combined Code on Corporate Governance that was issued in 2003 by the Financial Reporting Council are set out on page 14.

Remuneration Report

The Company's policy on executive Directors' remuneration is set out in the Remuneration Report on pages 18 to 23. The Remuneration Report is to be put to shareholder vote at the Annual General Meeting on 27 April 2007.

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 2007 at the offices of ABN Amro, 250 Bishopsgate, London EC2M 4AA at 11.30 am.

Acquisition of the Company's Own Shares

The Company purchased none of its ordinary shares during the year. At the end of the year, the Directors had authority, under the shareholders' resolutions dated 28 April 2006, to make market purchases of the Company's shares up to an aggregate nominal amount of £3.24m, which represented 10% of the issued share capital of the Company.

Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- the Director has taken all the 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 Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte & Touche LLP as the Company's Auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Andrew Bodenham

Secretary

28 February 2007