

Senior plc

Results for the year ended 31 December 2007

Group delivers 91% increase in adjusted profit before tax.

FINANCIAL HIGHLIGHTS	Year ended 31 December		
	2007	2006	
REVENUE	£470.7m	£387.9m	+21%
OPERATING PROFIT	£41.5m	£24.5m	+69%
PROFIT BEFORE TAX	£34.3m	£18.1m	+90%
BASIC EARNINGS PER SHARE	7.17p	4.35p	+65%
ADJUSTED PROFIT BEFORE TAX ⁽¹⁾	£37.8m	£19.8m	+91%
ADJUSTED EARNINGS PER SHARE ⁽¹⁾	7.71p	4.65p	+66%
TOTAL DIVIDENDS (PAID AND PROPOSED) PER SHARE	2.40p	2.00p	+20%
FREE CASH FLOW ⁽²⁾	£18.5m	£5.1m	+263%
NET BORROWINGS	£94.8m	£96.7m	

(1) Adjusted profit before tax and adjusted earnings per share arise before a £0.7m loss on sale of fixed assets (2006 - £0.4m), a £3.3m charge for amortisation of intangible assets acquired on acquisitions (2006 - £1.3m) and the release of a provision set up on a previous acquisition of £0.5m (2006 - £nil). Adjusted earnings per share excludes the tax impact of these items.

(2) See Note 9(b) for derivation of free cash flow.

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

“The Group has delivered an outstanding set of results, with adjusted profit before tax 91% ahead of the prior year and free cash flow 263% better. The continuing growth in build rates of commercial aircraft, improving profitability of the heavy duty diesel engine products, continuing strength of the global energy markets, and the future contributions from Absolute Manufacturing and Capo Industries, the North American aerospace businesses acquired in recent months, mean prospects for the Group are very encouraging. Consequently, the Board is pleased to recommend a 20% increase in the full year dividend”.

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This announcement, together with other information on Senior plc may be found at: www.seniorplc.com

Note to Editors:

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

CHAIRMAN'S STATEMENT

The Group has delivered an outstanding set of results, with adjusted profit before tax 91% ahead of the prior year and free cash flow 263% better. AMT and Sterling Machine, the two North American aerospace businesses which were acquired during 2006, both delivered very strong performances in 2007. The new heavy duty diesel products for the North American market went into full production in the year and made an increasing contribution as the year progressed. Demand in the energy sector continued at an exceptional level. Two further aerospace companies, Absolute Manufacturing, Inc. ("Absolute") and Capo Industries, Inc. ("Capo") joined the Group in December 2007 and January 2008, respectively. This backdrop, together with the record order books of the civil aircraft manufacturers, means prospects for the Group are very encouraging and, consequently, the Board is pleased to recommend a 20% increase in the full year dividend.

Financial Results

Significant progress was made in almost all aspects of performance during 2007 with revenue, profit and cash flow all showing very healthy increases over 2006.

Group revenue increased by 21% to £470.7m (2006 - £387.9m) and operating profit increased by 69% to £41.5m (2006 - £24.5m), largely due to the increased build rates for civil aircraft, strong energy markets, the new heavy duty diesel products going into production, and full year contributions from AMT and Sterling Machine. Group revenue increased by 18% and adjusted operating profit increased by 57%, on a constant currency basis and before the benefit of acquisitions.

Adjusted profit before tax, the measure which the Board believes best reflects the true underlying performance of the business, increased by 91% to £37.8m (2006 - £19.8m). Adjusted profit before tax is before the loss on sale of fixed assets of £0.7m (2006 - £0.4m), a £3.3m (2006 - £1.3m) charge for the amortisation of intangible assets acquired on acquisitions and the benefit of the release of a provision of £0.5m (2006 - £nil) originally set up on a previous acquisition.

Adjusted earnings per share increased by 66% to 7.71p (2006 - 4.65p), after an increased underlying tax charge of 20.6% (2006 - 17.7%).

Year-end net debt reduced to £94.8m (2006 - £96.7m), despite the acquisition of Absolute for £7.0m, and the ongoing investment in increased manufacturing capacity and capability across the Group.

Dividend

In 2006, the Board sanctioned the first dividend increase for seven years and signalled its intention to adopt a progressive dividend policy. Given the excellent results in 2007 and encouraging future prospects, the Board is recommending a further increase in the dividend. It is proposed that the final dividend for 2007 be 1.70 pence per share (2006 - 1.381p), an increase of 23%. When added to the 0.70p interim dividend, this will bring the full year dividend to 2.40p, an increase of 20% over the 2.00p for 2006. The final dividend, if approved, will be paid on 30 May 2008 to shareholders on the register at close of business on 2 May 2008.

Acquisitions

The key criteria considered by Senior for any acquisition are: compatible products in familiar markets, healthily profitable with good growth prospects, a strong management team and Group earnings enhancing prior to any synergistic benefits. In 2006 two companies, both meeting these criteria, joined the Group. Sterling Machine, a key supplier to Sikorsky, grew full year revenue by 20% in 2007. AMT was purchased towards the end of 2006 and grew full year revenue by 29% in 2007. AMT is a key supplier of machined parts for Boeing civil aircraft.

In early December 2007, Absolute was purchased for \$14.4m from its private owners. Absolute specialises in high tolerance, high surface finish parts for aircraft tyre pressure monitoring systems, flap and door movement sensor housings and for laser guidance housings, both for commercial applications and night vision defence industry equipment. The company is a machine shop working in aluminium, titanium and a variety of stainless steels and is located in Arlington, Washington State, USA. Absolute is a well invested and fast growing business and is managed by Andy Lubresky, one of its founders and former owners.

At the end of January 2008, Capo was purchased for \$85.0m from its private owners, David and Karen Feltch. David continues to head the business now that it is part of Senior. The company's high performance components are used primarily in auxiliary power units for large civil airliners and for propulsion engines for business jets. Located near Los Angeles, California, USA, Capo is a well invested machine shop specialising in the 5-axis machining of titanium and steel alloys. Prospects for the business are very encouraging.

I welcome their respective managements and employees to the Group.

Trading

The Group is organised into two divisions – Aerospace, now with fourteen operations, and Flexonics with eleven. Both Divisions are focussed on manufacturing components and systems for original equipment manufacturers. There is little aftermarket content and the Group's operations generally deliver to the required production schedules of its customers. Products are normally single sourced and engineered for specific applications.

Aerospace

The market for civil aircraft continues to be very strong both for large commercial airliners (43% of divisional sales) and business jets (9%). Regional jets (11%) also began to strengthen during 2007. 2007 was an outstanding year for order intake of large civil aircraft. Airbus and Boeing together booked net orders for 2,754 new aircraft (2006 - 1,834), delivered 894 (2006 - 832) and ended the year with an order-book of 6,848 aircraft (31 December 2006 - 4,988). At current build rates this equates to a seven-and-a-half year order-book. Overall, the military aerospace market, representing 22% of divisional sales, was stable with increasing shipments to Sikorsky offset by a reduction in the level of US Government spares.

The Aerospace Division has exposure to a wide range of customers in the industry. It has substantial work on the Airbus A380 (now in service) and whilst demand in 2007 was low, due to its well documented production delays, schedules in 2008 are now increasing. The new Boeing 787 (the "Dreamliner") has also experienced delays. Whilst it is not due into service until 2009, the aircraft is very much in demand, with Boeing having booked 817 orders for the Dreamliner by the end of 2007. This aircraft represents the largest ever individual programme for Senior Aerospace, so substantial growth can be anticipated as its production rate gathers momentum during 2008 and beyond.

Demand from customers almost universally increased during 2007. Capital expenditure of £10.9m (2006 - £7.6m) was incurred to increase capacity and capability and to bring new products into production. Sterling Machine and AMT both made outstanding contributions in their first full year in the Group. Absolute made an inaugural contribution in the last month of the year and we expect it, and Capo, to contribute positively to the Division's performance throughout 2008.

The result of this strong activity was an increase of 25% in the Aerospace Division's sales to £246.2m (2006 - £197.0m) and an increase in adjusted operating profit of 74% to £33.4m (2006 - £19.2m). The divisional operating margin increased by nearly four full percentage points to 13.6% (2006 - 9.7%).

Flexonics

The markets serviced by this Division were generally healthy during 2007. The energy sector was particularly buoyant and the Group's world leading position in the design, manufacture and installation of expansion joints, as used in most process plant pipeline systems, proved to be highly beneficial. Currently at a modest level, sales into the renewable energy market increased markedly, particularly for solar farms.

The new heavy duty diesel products, developed over the previous three years, went into full production in 2007 as tighter emission legislation came into effect in the USA. Although the level of demand for heavy trucks was subdued, this new market is incremental business for Senior and proved to be an increasingly valuable contributor as the year progressed. Having put the new diesel products into production in late 2006, the Division's capital expenditure reduced to £8.5m (2006 - £13.0m) but remained above depreciation. The new diesel components provide a solid platform for further generations of products and market penetration in the future. The passenger car sector was slightly better than expected for Senior, despite flat markets in Europe and USA.

The Flexonics Division, without making any acquisitions during the year, increased annual sales by 17% to £225.0m (2006 - £191.5m) and increased adjusted operating profit by 47% to £17.4m (2006 - £11.8m). The operating margin for the Division increased to 7.7% (2006 - 6.2%). The contributing factors to this organic growth largely remain in place as we enter 2008.

Employees and the Board

As well as warmly welcoming all new employees to Senior, I would like to thank everyone for another year of unstinting effort, commitment, energy and initiative. Without the endeavours of its employees, the Group would not have made such a dramatic step forward in 2007.

It is important that Senior has the right people in the right roles, especially given the lean nature of its organisation and its semi-autonomous subsidiaries. This is particularly key in executive Board positions, so I am pleased to congratulate Mark Rollins on his appointment as the new Group Chief Executive, effective 17 March 2008. Mark has been an exceptional Executive Director for the past eight years and I look forward to working alongside him in the future. Recruitment of his replacement, as Group Finance Director, is making good progress.

Finally, I would like to extend sincere thanks to Graham Menzies, who retires from Senior at the forthcoming AGM after eight successful years as its Group Chief Executive. Throughout this period, Graham has provided determined, skilful and energetic leadership, transforming the Group into a much better business than the one he inherited. He leaves with the Group in terrific shape, and the Board and his colleagues wish him a long, healthy and happy retirement.

Outlook

The commercial aerospace market (63% of the Senior Aerospace Division's sales) goes from strength to strength with Boeing and Airbus increasing the rate of production of their aircraft, on the back of record order books. The military aerospace market remains healthy. Absolute and Capo are now making their first contributions to Group profitability.

The industrial markets of the Flexonics Division, such as power generation and oil and gas, have remained strong going into 2008 and prospects are good for another excellent year. The heavy duty diesel products continue to improve their contribution with our customers anticipating volume growth towards the end of the year.

2008 can, therefore, be expected to deliver further meaningful growth. Trading in the first two months of 2008 has been ahead of the Board's expectations.

Martin Clark

BUSINESS REVIEW

Operations

Senior is an international manufacturing group with operations in 11 countries. Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, defence, diesel engine, exhaust system and energy markets. The Group is split into two Divisions, Aerospace and Flexonics.

Aerospace

Following the recent acquisition of two aerospace businesses, Absolute Manufacturing, Inc. ("Absolute") in December 2007 and Capo Industries, Inc. ("Capo") at the end of January 2008, the Aerospace Division now consists of 14 operating companies, nine of which are located in the USA, two in the United Kingdom and three in continental Europe. In 2007, the Division's main products were engine structures and mounting systems (27% of divisional sales), metallic ducting systems (19%), airframe and other structural parts (16%), composite ducting systems (12%), helicopter machined parts (7%) and fluid control systems (5%). 14% of divisional sales were to non-aerospace, but related technology, markets. Sales of airframe and other structural parts increased significantly during 2007 (3% of divisional sales in 2006) as AMT had only been owned by Senior for the final two months of 2006. The Division's largest customers include Boeing, representing 12% of 2007 divisional sales, United Technologies, GE, Airbus, Rolls-Royce, Goodrich and Bombardier.

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 2007, the Division's sales comprised of flexible mechanisms for vehicle exhaust systems (29% of divisional sales), cooling and emission control components (15%), diesel fuel distribution pipework (14%) and expansion joints and ducting for the heating and ventilation market (11%). Expansion joints, control bellows and hoses for the power and boiler market accounted for 12% of divisional sales, for the oil and gas and chemical processing industries (5%) and for other industrial markets (14%). In 2007, an increased percentage of sales came from diesel fuel distribution pipework and cooling and emission control component sectors as production of the Group's new heavy duty diesel products ramped up. Whilst the Division's three largest end users remain automotive customers (General Motors, PSA and Ford), the percentage of divisional sales coming from the automotive market fell to 47% (2006 - 55%) with sales to the heavy duty diesel engine market (e.g. Cummins, Caterpillar and Siemens) growing to 11% of divisional sales (2006 - 2%).

Acquisitions

Since the Group last reported, two acquisitions have been completed.

Absolute was acquired on 10 December 2007 for \$14.4m (£7.0m). Absolute specialises in the machining of high tolerance and high surface finish parts in aluminium, titanium and a variety of stainless steels. Activities include machining parts for aircraft tyre pressure monitoring systems, flap and door movement sensor housings and laser guidance housings for both commercial applications and night vision defence industry equipment. The business had sales of \$14m in 2007 and continues to be managed by one of its former owners. It is located in Arlington, north of Seattle in Washington State, USA. The purchase consideration was funded through the utilisation of the Group's existing borrowing facilities.

Capo was acquired after the year-end, on 25 January 2008. Capo is located in Chino, close to Los Angeles, California, USA. In 2007 it had sales of \$36m. Capo specialises in the 5-axis machining of titanium and steel alloys primarily for auxiliary power units on large commercial aircraft and for propulsion engines on business jets. Capo was acquired for \$85m (£42.9m) plus costs, potential deferred consideration of \$5m (£2.5m), contingent upon the operating profit achieved in 2008, and the assumption of certain acquisition - related tax liabilities. The total amount payable in respect of the acquisition, estimated at a maximum of £47.1m, is to be funded through the utilisation of the Group's existing borrowing facilities. In order to maintain a satisfactory level of headroom, a short-term £20m loan facility was entered into during January 2008. The company continues to be run by the same management team that was in place prior to its acquisition by Senior.

The two aerospace businesses acquired in 2006, Sterling Machine and AMT, both had excellent performances in 2007.

Financial Review

Summary

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

	Revenue		Adjusted Op Profit ⁽¹⁾		Margin	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Aerospace	246.2	197.0	33.4	19.2	13.6	9.7
Flexonics	225.0	191.5	17.4	11.8	7.7	6.2
Inter-segment sales	(0.5)	(0.6)	-	-	-	-
Central costs	-	-	(5.8)	(4.8)	-	-
Group Total	470.7	387.9	45.0	26.2	9.6	6.8

⁽¹⁾ Adjusted operating profit is the profit before interest and tax and before the loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and the release of a provision set up on a previous acquisition.

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

	2007 £m	2006 £m
Operating profit per financial statements	41.5	24.5
Loss on sale of fixed assets	0.7	0.4
Release of provision set up on acquisition	(0.5)	-
Amortisation of acquisition intangible assets	3.3	1.3
Adjusted operating profit	45.0	26.2

With the commercial aerospace and energy markets particularly strong, Group revenue grew by 21%, aided by full year contributions from the two businesses acquired in 2006. 2007 revenue also benefited from the ramp up of the heavy duty diesel products which went into production at the end of 2006. Adjusted operating profit rose by 72% principally due to the gearing benefit of increased sales, strong performances from the newly acquired businesses and a significantly increased contribution from one of the Flexonics' operations, Pathway. Operating margins consequently increased significantly to 9.6%, nearly three percentage points higher than in the prior year (6.8%).

The Group's free cash flow and net debt for 2007 and the prior year were:

	2007 £m	2006 £m
Free cash flow	18.5	5.1
Net debt	94.8	96.7

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 may be derived from the figures contained in the Financial Statements as follows:

	2007	2006
	£m	£m
Net cash from operating activities	35.3	22.3
Interest received	0.8	1.3
Proceeds on disposal of tangible fixed assets	1.9	2.2
Purchases of tangible fixed assets	(19.0)	(20.1)
Purchases of intangible assets	(0.5)	(0.6)
Free cash flow	18.5	5.1

The reduction in net debt to £94.8m (£96.7m) was achieved after having funded the acquisition of Absolute (£7.0m).

Revenue

Group revenue increased by £82.8m (21%) to £470.7m (2006 - £387.9m) with the full year contribution from AMT, which was acquired on 27 October 2006, responsible for £33.1m of the increase. If the effect of acquisitions (an increase in reported revenue of £35.4m) and the adverse year-on-year exchange effect (£19.0m) are excluded then underlying revenue grew by 18% on a constant currency basis. In 2007, 60% of Group sales originated from North America, 19% from the rest of Europe, 12% from the United Kingdom and 9% from the rest of the world.

Operating profit

Group operating profit increased by 69% to £41.5m (2006 - £24.5m). Adjusted operating profit increased by £18.8m (72%) to £45.0m (2006 - £26.2m). Adjusted operating profit is that before loss on disposal of fixed assets of £0.7m (2006 - £0.4m), amortisation of intangible assets arising on acquisitions of £3.3m (2006 - £1.3m) and the release of a provision originally set up on a previous acquisition. If the effects of the acquisitions (an increase in reported operating profit of £8.2m) and foreign currency effects (£1.8m adverse) are excluded then underlying adjusted operating profit increased by 57% on a constant currency basis.

Finance costs

Finance costs, net of investment income of £1.0m (2006 - £0.9m), increased to £7.2m (2006 - £6.4m) mainly due to the average level of the Group's debt increasing, principally as a result of the acquisition of AMT in October 2006.

Profit before tax

Adjusted profit before tax increased by 91% to £37.8m (2006 - £19.8m). Reported profit before tax increased to £34.3m (2006 - £18.1m).

Tax charge

The total tax charge increased to £6.4m (2006 - £2.9m) as the taxable profits of the Group increased. The net tax benefits, arising on the loss on sale of fixed assets, amortisation of intangible assets from acquisitions and release of the provision originally set up on a previous acquisition, totalled £1.4m (2006 - £0.6m). If these are added back then the underlying tax charge of £7.8m (2006 - £3.5m) represented an underlying rate of 20.6% (2006 - 17.7%) on the adjusted profit before tax of £37.8m (2006 - £19.8m). The increase in the underlying tax rate was mainly due to the increased proportion of the Group's profits being generated in the USA, where the Group's tax rate is approximately 38%. The Group's underlying tax rate is expected to increase further in 2008 as this trend continues.

Earnings per share

Largely due to the rights issue undertaken in the autumn of 2006, in connection with the acquisition of AMT, the weighted average number of shares, for the purposes of calculating diluted earnings per share, increased to 389.0 million (2006 - 349.8 million). Taking this into account, adjusted earnings per share increased by 66% to 7.71p (2006 - 4.65p). Basic earnings per share increased by 65% to 7.17p (2006 - 4.35p).

Dividends

A final dividend of 1.700p per share is proposed for 2007 (2006 final dividend – 1.381p) which would cost £6.6m (2006 final dividend cost £5.4m). This would bring the full year dividend to 2.400p per share, a 20% increase over the prior year's 2.000p per share. The cash outflow incurred in 2007, in respect of the final dividend for 2006 and the interim dividend for 2007, was £8.1m (2006 - £6.5m).

Research and development

Following the start of production of the heavy duty diesel products in late 2006, the Group's expenditure on research and development slightly reduced to £8.2m during 2007 (2006 - £8.5m). Expenditure is mainly incurred in designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production.

Capital expenditure

£19.5m was invested in capital expenditure in 2007 (2006 - £20.7m) to increase capacity and capability in both the Aerospace and Flexonics Divisions. £1.9m (2006 - £2.2m) was raised through the disposal of assets no longer required. A higher level of capital expenditure is anticipated for 2008 as the Group invests in additional capacity to meet the demands of the growing aerospace market.

Capital structure

The Group's Consolidated Balance Sheet at 31 December 2007 may be summarised as follows:

	Assets £m	Liabilities £m	Net Assets £m
Property, plant and equipment	93.6	-	93.6
Goodwill and intangible assets	126.2	-	126.2
Current assets and liabilities	160.5	(98.8)	61.7
Other non-current assets and liabilities	3.6	(4.1)	(0.5)
Post-retirement obligations	-	(36.3)	(36.3)
Total before net debt	383.9	(139.2)	244.7
Net debt	9.2	(104.0)	(94.8)
Total at 31 December 2007	393.1	(243.2)	149.9
Total at 31 December 2006	365.5	(238.4)	127.1

Net assets increased by 18% in the year to £149.9m (2006 - £127.1m) and net assets per share also increased by 18% to 38.4p (2006 – 32.6p). There were 390.8 million ordinary shares in issue at the end of 2007 (2006 – 389.9 million). Post-retirement obligations decreased to £36.3m (2006 - £37.5m) because of the net effect of the benefit of a higher rate of 5.9% being used to discount the UK Scheme liabilities (2006 - 5.3%) and the inclusion of an additional £7.0m of UK Scheme liabilities in respect of prior years. The additional liabilities, (which only came to light during 2007) relate to the equalisation of pension ages for men and women which took place in the early 1990's.

Cash flow

The Group's free cash flow, whose derivation is set out in the table below, increased by 263% to £18.5m (2006 - £5.1m) largely because of the increased operating profits. An investment of £9.6m (2006 - £4.5m) was made in working capital, as revenue increased, whilst net capital expenditure of £17.6m (2006 - £18.5m) remained ahead of the depreciation level of £14.6m (2006 - £12.6m), excluding £3.3m (2006 - £1.3m) of amortisation of intangible assets acquired on acquisition.

	2007 £m	2006 £m
Operating profit	41.5	24.5
Depreciation and amortisation	17.9	13.9
Working capital movement	(9.6)	(4.5)
Pension payments above service cost	(3.0)	(3.4)
Other items	1.7	1.0
Operating cash flow	48.5	31.5
Interest paid (net)	(6.2)	(5.3)
Tax paid	(6.2)	(2.6)
Capital expenditure	(19.5)	(20.7)
Sale of fixed assets	1.9	2.2
Free cash flow	18.5	5.1
Dividends	(8.1)	(6.5)
Acquisitions and disposals	(8.1)	(79.7)
Share issues	0.2	34.8
Foreign exchange variations	(0.8)	11.7
Non-cash movements	0.2	0.3
Opening net debt	(96.7)	(62.4)
Closing net debt	(94.8)	(96.7)

Net debt

Net debt decreased by £1.9m in the year to £94.8m (2006 - £96.7m). The decrease was achieved after having paid a net £8.1m in respect of acquisitions and disposals, with the acquisition of Absolute at £7.0m being the main element. At the year end, around 75% of the Group's gross borrowings (31 December 2006 - 95%) were in US\$. Unlike 2006, when the US\$ weakened significantly against the £ causing an £11.7m reduction in net debt, the US\$ ended the year close to the level it started at, such that the effect of all exchange rate movements on net debt in 2007 was minimal.

Liquidity

As at 31 December 2007, the Group's gross borrowings, excluding finance leases, were £99.8m (2006 - £103.3m). 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	41.5	37.7
In the second year	-	-
In years three to five	25.0	91.5
After five years	33.3	32.7
	<u>99.8</u>	<u>161.9</u>

⁽¹⁾ Gross borrowings include the use of bank overdrafts, other loans and committed facilities.

Upon the acquisition of Capo in January 2008, the Group entered into a new £20m 364-day bilateral facility, with one year term out, in order to provide additional headroom under its borrowing facilities. \$75m (£37.7m) of loan notes mature in October 2008 and it is anticipated that these will be partially refinanced at their maturity.

Going concern basis

After making enquiries the Directors have formed the judgement, at the time of approving the Financial Statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors have continued to adopt the going concern basis in preparing the Financial Statements.

Changes in accounting policies

There have been no changes in accounting policies in the current year.

Divisional Review

The Group consists of two divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that, in order to make appropriate comparisons, the results for 2006 have been translated at constant currency using 2007 average exchange rates.

Aerospace Division

	2007	2006	Change
	£m	£m	
Revenue	246.2	185.8 ⁽¹⁾	+33%
Adjusted operating profit	33.4	18.1 ⁽¹⁾	+85%
Operating margin	13.6%	9.7%	-

(1) 2006 results translated using 2007 average exchange rates.

The revenue of the Aerospace Division grew by £60.4m (33%) to £246.2m (2006 - £185.8m at constant currency). The year-on-year effect of acquisitions was £36.9m at constant currency, with Sterling Machine acquired January 2006, AMT acquired October 2006 and Absolute acquired December 2007. Elsewhere, the continuing aerospace businesses increased revenue by 14% over 2006.

63% of the Division's sales are to the commercial aerospace markets, with 43% to the wide-bodied sector (namely Boeing, Airbus and the associated engine builders). The results for 2007 consequently benefited from the ongoing strong growth in the build rates of aircraft for these markets. Boeing and Airbus together delivered 7% more aircraft in 2007 (894) than in 2006 (832). More importantly, in 2007 their order intakes were at record levels (2,754 aircraft combined), such that the combined order book increased by 37% to 6,848 aircraft (31 December 2006 - 4,988) during the year. The seven-and-a-half year order book, at current delivery rates, represents a very healthy picture for the future with both Airbus and Boeing forecasting to increase build rates further in the coming years.

In the regional jet market, Embraer had higher deliveries for the first time in three years (169 aircraft against 130 in 2006) whilst Bombardier received orders (a net 250 aircraft) at twice the level of deliveries (125 aircraft). Elsewhere, the business jet market was very strong at 1,138 deliveries, some 29% higher than in 2006 (885 deliveries) whilst, overall, the military market was stable with increased volumes of helicopter parts to Sikorsky being largely offset by reduced demand for aircraft spares from the US Government.

Adjusted operating profit (that before profit/loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions) increased by £15.3m (85%) to £33.4m (2006 - £18.1m at constant currency) with acquisitions accounting for £8.5m of the increase (at constant currency). Excluding acquisitions, divisional adjusted operating profit improved by 47% compared to 2006. The divisional operating margin increased by nearly four full percentage points to 13.6% (2006 - 9.7%). This was mainly due to wide spread operational improvements, the gearing benefit of having increased production in existing facilities and the fact that the acquired businesses had a higher than average operating margin.

In 2007, capital expenditure for the Aerospace Division increased to £10.9m (2006 - £7.6m), as production capacity and capability was added to meet the demands of the growing industry. This represented 1.6x (2006 - 1.4x) the depreciation level.

Flexonics Division

	2007 £m	2006 £m	Change
Revenue	225.0	183.7 ⁽¹⁾	+22%
Adjusted operating profit	17.4	11.1 ⁽¹⁾	+57%
Operating margin	7.7%	6.0%	-

(1) 2006 results translated using 2007 average exchange rates.

Revenue for the Flexonics Division grew by £41.3m (22%) to £225.0m (2006 - £183.7m at constant currency) mainly due to the ramping up of the heavy duty diesel products in North America, that had gone into production in late 2006, the strong global energy and power markets and a growing presence in the truck exhaust market in Europe. Light vehicle markets in North America and Europe were subdued, being down 2.5% and up 0.5% respectively. Whilst sales of heavy/medium trucks in North America were very weak (371,000 against 545,000 in 2006), this market was new for Senior and hence sales of the new heavy duty diesel products were mostly incremental to the Group. Senior should benefit in the future when volumes in the heavy/medium truck markets get closer to historic levels.

The additional volumes, an improving contribution from the heavy duty diesel products, improved factory performances and capacity versus demand constraints in a number of markets resulted in adjusted operating profit for the Division increasing by 57% to £17.4m (2006 - £11.1m at constant currency). All the growth was organic, as no acquisitions have been undertaken in this Division in recent years. As a result, the operating margin of the Flexonics Division for 2007 increased by 1.7 percentage points to 7.7% (2006 - 6.0%).

2005 and 2006 had seen significant levels of capital expenditure being incurred to put the heavy duty diesel products into production. With the start of production occurring in late 2006, capital expenditure for the Division decreased to £8.5m or 1.1x depreciation in 2007 (2006 - £13.0m or 1.9x depreciation).

Outlook

The commercial aerospace market (63% of the Aerospace Division's sales) goes from strength to strength. Boeing and Airbus both received record orders in 2007 and, with their order books now representing over seven times current deliveries, they are each seeking to increase the rate of production of a number of their aircraft in future years. In addition, the Airbus A380, on which the Group has a sales value of around £170k per plane, started to be delivered to customers during 2007 after a period of delay. Production is now ramping up and the Group's sales to this programme are expected to recommence in earnest around the middle of 2008. Whilst the first flight of the Boeing 787 (the "Dreamliner") has been delayed for a few months, and is now scheduled for the middle of 2008, the programme represents substantial future revenue growth for Senior. The Group has an average of £410k of revenue on each aircraft, a record for Senior, and with 817 orders already having been booked by Boeing by the end of 2007 the programme can be expected to ramp up to over 100 aircraft per year in a few years time.

Prospects for the remaining aerospace sectors are generally healthy. Production of business jets is expected to continue at least at current levels for the immediate future, the combined order book for the regional jet manufacturers is strengthening and the military market is anticipated to remain stable in the near future, with production of a number of programmes such as the Airbus A400M and Lockheed's Joint Strike Fighter (Senior has around £125k per aircraft) starting up. These are all expected to boost growth in the coming years. In addition, the Aerospace Division will benefit from the inclusion of the results of Absolute (acquired December 2007) and Capo (acquired January 2008).

The industrial markets of the Flexonics Division, such as power generation, oil and gas, chemical processing, steel processing plants, and alternative energy (such as nuclear, solar and wind) have each remained strong going into 2008 and prospects are good for another excellent year. The markets for light vehicles are generally stable, albeit well below historic highs. Whilst sales of heavy/medium trucks in North America were at low levels during 2007, this was the first full year of production of the Group's new heavy duty diesel products which consequently all represented incremental business for the Division. Our customers are expecting volumes to increase towards the later part of 2008. Increasing vehicle volumes combined with ever tighter vehicle emission legislation offer significant opportunity for the Group. In addition, a small but increasing market is developing for the Group's products in alternative energy where the Flexonics Division already supplies to the nuclear industry in North America and Europe and to the solar and wind generation industries in Europe.

The Group has many growth opportunities ahead of it, the more immediate of which are the contributions from Absolute and Capo, the general strength of the commercial aerospace market, the production ramp up of the A380 and B787 programmes, a continual improvement in the contribution from the heavy duty diesel products and the continuing strength of the general global industrial markets.

Trading in the first two months of 2008 has been ahead of the Board's expectations and the Board expects 2008 to deliver further meaningful growth. Prospects remain encouraging for subsequent periods.

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Consolidated Income Statement

For the year ended 31 December 2007

	Notes	Year ended 2007 £m	Year ended 2006 £m
Continuing operations			
Revenue	3	<u>470.7</u>	<u>387.9</u>
Trading profit		42.2	24.9
Loss on sale of fixed assets		<u>(0.7)</u>	<u>(0.4)</u>
Operating profit ⁽¹⁾	3	41.5	24.5
Investment income		1.0	0.9
Finance costs		<u>(8.2)</u>	<u>(7.3)</u>
Profit before tax ⁽²⁾		34.3	18.1
Tax	5	<u>(6.4)</u>	<u>(2.9)</u>
Profit for the period		<u>27.9</u>	<u>15.2</u>
Attributable to:			
Equity holders of the parent		<u>27.9</u>	<u>15.2</u>
Earnings per share			
Basic	7	<u>7.17p</u>	<u>4.35p</u>
Diluted	7	<u>7.00p</u>	<u>4.25p</u>
⁽¹⁾ Adjusted operating profit	4	45.0	26.2
⁽²⁾ Adjusted profit before tax	4	37.8	19.8

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Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Year ended 2007 £m	Year ended 2006 £m
Gains/(losses) on cash flow hedges	0.5	(0.4)
(Losses)/gains on revaluation of financial instruments	(2.6)	3.5
Exchange differences on translation of foreign operations	3.2	(10.5)
Actuarial losses on defined benefit pension schemes	(0.8)	(1.0)
Tax on items taken directly to equity	2.1	(0.7)
Net income/(loss) recognised directly in equity	2.4	(9.1)
Amounts transferred to profit or loss on cash flow hedges	(0.4)	-
Profit for the period	27.9	15.2
Total recognised income and expense for the period	29.9	6.1
Attributable to:		
Equity holders of the parent	<u>29.9</u>	<u>6.1</u>

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Consolidated Balance Sheet

As at 31 December 2007

	Notes	Year ended 2007 £m	Year ended 2006 £m
Non-current assets			
Goodwill		114.3	111.0
Other intangible assets		11.9	15.1
Property, plant and equipment		93.6	87.6
Deferred tax assets		0.1	0.1
Trade and other receivables		3.5	3.7
Total non-current assets		<u>223.4</u>	<u>217.5</u>
Current assets			
Inventories		79.4	69.8
Construction contracts		2.9	3.5
Trade and other receivables		78.7	67.5
Cash and cash equivalents		8.7	7.2
Total current assets		<u>169.7</u>	<u>148.0</u>
Total assets		<u>393.1</u>	<u>365.5</u>
Current liabilities			
Trade and other payables		92.5	82.1
Tax liabilities		9.0	10.2
Obligations under finance leases		0.2	0.2
Bank overdrafts and loans		41.5	13.1
Total current liabilities		<u>143.2</u>	<u>105.6</u>
Non-current liabilities			
Bank and other loans		58.3	90.2
Retirement benefit obligations	10	36.3	37.5
Deferred tax liabilities		3.3	3.3
Obligations under finance leases		1.3	1.4
Others		0.8	0.4
Total non-current liabilities		<u>100.0</u>	<u>132.8</u>
Total liabilities		<u>243.2</u>	<u>238.4</u>
Net assets		<u>149.9</u>	<u>127.1</u>
Equity			
Issued share capital		39.1	39.0
Share premium account		11.3	11.2
Equity reserve		1.6	0.8
Distributable reserve		19.4	19.4
Hedging and translation reserve		(4.4)	(5.9)
Retained earnings		84.3	64.0
Own shares		(1.4)	(1.4)
Equity attributable to equity holders of the parent		<u>149.9</u>	<u>127.1</u>
Total equity		<u>149.9</u>	<u>127.1</u>

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Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	Year ended 2007 £m	Year ended 2006 £m
Net cash from operating activities	9a)	<u>35.3</u>	<u>22.3</u>
Investing activities			
Interest received		0.8	1.3
Disposal of subsidiary		0.1	0.1
Proceeds on disposal of property, plant and equipment		1.9	2.2
Purchases of property, plant and equipment		(19.0)	(20.1)
Purchases of intangible assets		(0.5)	(0.6)
Acquisition of Sterling Machine		-	(21.5)
Acquisition of AMT, net of cash acquired		(1.2)	(58.3)
Acquisition of Absolute	8	<u>(7.0)</u>	<u>-</u>
Net cash used in investing activities		<u>(24.9)</u>	<u>(96.9)</u>
Financing activities			
Dividends paid		(8.1)	(6.5)
Repayment of borrowings		(61.0)	(7.1)
Repayments of obligations under finance leases		(0.2)	(0.2)
Share issues		0.2	34.8
New loans raised		55.9	53.1
Net cash inflow/(outflow) on forward contracts		<u>0.4</u>	<u>(0.2)</u>
Net cash (used in) / from financing activities		<u>(12.8)</u>	<u>73.9</u>
Net decrease in cash and cash equivalents		(2.4)	(0.7)
Cash and cash equivalents at beginning of period		7.0	8.5
Effect of foreign exchange rate changes		<u>0.3</u>	<u>(0.8)</u>
Cash and cash equivalents at end of period	9c)	<u>4.9</u>	<u>7.0</u>

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Notes to the Preliminary Financial Statements

For the year ended 31 December 2007

1. General Information

The Preliminary Announcement of results for the year ended 31 December 2007 is an excerpt from the forthcoming 2007 Annual Report and does not constitute the Group's statutory accounts for 2007 or 2006. Statutory accounts for 2006 have been delivered to the Registrar of Companies, and those for 2007 will be delivered following the Company's Annual General Meeting. The Auditors have reported on both those accounts; their reports were unqualified and did not contain statements under Sections 237(2) or (3) of the Companies Act 1985.

2. Accounting policies

Whilst the financial information included in this Preliminary Announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full Financial Statements that comply with IFRS on 14 March 2008.

The accounting policies adopted are consistent with those followed in the preparation of the Group's 2007 Annual Report which are unchanged from those adopted in the Group's 2006 Annual Report.

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3. Segmental analysis

Under IFRS, segmental detail is presented according to a primary segment and a secondary segment. The Group's primary segmental analysis is based on the industries that it serves, Aerospace and Flexonics. The secondary analysis is presented according to geographic markets comprising North America, Europe (split between the UK and Rest of Europe) and the Rest of the World. This is consistent with the way the Group manages itself and with the format of the Group's internal financial reporting.

a) Business segments

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

	Aerospace Year ended 2007 £m	Flexonics Year ended 2007 £m	Eliminations/ Central costs Year ended 2007 £m	Total Year ended 2007 £m	Aerospace Year ended 2006 £m	Flexonics Year ended 2006 £m	Eliminations/ Central costs Year ended 2006 £m	Total Year ended 2006 £m
External revenue	245.9	224.8	-	470.7	196.6	191.3	-	387.9
Inter-segment revenue	0.3	0.2	(0.5)	-	0.4	0.2	(0.6)	-
Total revenue	246.2	225.0	(0.5)	470.7	197.0	191.5	(0.6)	387.9
Adjusted operating profit (see note 4)	33.4	17.4	(5.8)	45.0	19.2	11.8	(4.8)	26.2
(Loss)/profit on sale of fixed assets	(0.3)	(0.4)	-	(0.7)	0.5	(0.9)	-	(0.4)
Release of provision from previous acquisition	-	0.5	-	0.5	-	-	-	-
Amortisation of intangible assets from acquisitions	(3.3)	-	-	(3.3)	(1.3)	-	-	(1.3)
Operating profit	29.8	17.5	(5.8)	41.5	18.4	10.9	(4.8)	24.5
Investment income				1.0				0.9
Finance costs				(8.2)				(7.3)
Profit before tax				34.3				18.1
Tax				(6.4)				(2.9)
Profit after tax				27.9				15.2

3. Segmental analysis (continued)

Segment information for assets, liabilities, additions to property, plant and equipment and intangible assets and depreciation and amortisation is presented below.

	Assets Year ended 2007 £m	Liabilities Year ended 2007 £m	Additions to PPE & intangibles Year ended 2007 £m	Depn and amort Year ended 2007 £m	Assets Year ended 2006 £m	Liabilities Year ended 2006 £m	Additions to PPE & intangibles Year ended 2006 £m	Depn and amort Year ended 2006 £m
Aerospace	237.4	35.4	10.9	10.1	227.8	35.1	7.6	6.8
Flexonics	140.5	47.7	8.5	7.7	124.5	37.8	13.0	7.0
Sub total continuing operations	377.9	83.1	19.4	17.8	352.3	72.9	20.6	13.8
Unallocated corporate amounts	15.2	160.1	0.1	0.1	13.2	165.5	0.1	0.1
Total	393.1	243.2	19.5	17.9	365.5	238.4	20.7	13.9

b) Geographical segments

The Group's operations are principally located 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 amount of segment assets, and additions to property, plant and equipment and intangible assets, are analysed by the geographical area in which the assets are located.

	Sales revenue Year ended 2007 £m	Segment assets Year ended 2007 £m	Additions to PPE and intangibles Year ended 2007 £m	Sales revenue Year ended 2006 £m	Segment assets Year ended 2006 £m	Additions to PPE and intangibles Year ended 2006 £m
North America	267.3	235.8	13.1	210.7	219.7	15.2
UK	50.3	61.4	1.7	41.3	62.5	1.2
Rest of Europe	115.5	58.7	3.4	104.0	52.4	3.2
Rest of World	37.6	22.0	1.2	31.9	17.7	1.0
Sub total continuing operations	470.7	377.9	19.4	387.9	352.3	20.6
Unallocated corporate amounts	-	15.2	0.1	-	13.2	0.1
Total	470.7	393.1	19.5	387.9	365.5	20.7

The carrying values of segment assets all relate to continuing operations.

4. Adjusted operating profit and adjusted profit before tax

The provision of adjusted operating profit and adjusted profit before tax, derived in accordance with the table below, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of gains or losses arising from the sale of fixed assets, release of a provision from a previous acquisition and amortisation of intangible assets acquired on acquisitions.

	Year ended 2007 £m	Year ended 2006 £m
Operating profit	41.5	24.5
Loss on sale of fixed assets	0.7	0.4
Release of provision from previous acquisition	(0.5)	-
Amortisation of intangible assets from acquisitions	3.3	1.3
Adjustments to operating profit	3.5	1.7
Adjusted operating profit	45.0	26.2
Profit before tax	34.3	18.1
Adjustments to profit as above before tax	3.5	1.7
Adjusted profit before tax	37.8	19.8

5. Tax charge

	Year ended 2007 £m	Year ended 2006 £m
Current tax:		
Foreign tax	5.6	3.6
Adjustments in respect of prior periods	(0.1)	(0.7)
	5.5	2.9
Deferred tax:		
Current year	1.9	0.8
Adjustments in respect of prior periods	(1.0)	(0.8)
	0.9	-
	6.4	2.9

UK Corporation tax is calculated at 30% (2006 - 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. Dividends

	Year ended 2007 £m	Year ended 2006 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2006 of 1.381p (2005 - 1.286p) per share	5.4	4.4
Interim dividend for the year ended 31 December 2007 of 0.700p (2006 - 0.619p) per share	2.7	2.1
	8.1	6.5
Proposed final dividend for the year ended 31 December 2007 of 1.700p (2006 - 1.381p) per share	6.6	5.4

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

7. Earnings per share

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

	Year ended 2007	Year ended 2006
	m	m
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	389.0	349.8
Effect of dilutive potential ordinary shares: Share options	9.5	7.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>398.5</u>	<u>357.7</u>

	Year ended 2007		Year ended 2006	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Earnings and earnings per share				
Profit for the period	27.9	7.17	15.2	4.35
Adjust:				
Loss on sale of fixed assets net of tax of £0.3m (2006 - £0.1m)	0.4	0.10	0.3	0.07
Release of provision from acquisition net of tax of £0.2m (2006 - £nil)	(0.3)	(0.08)	-	-
Amortisation of intangible assets from acquisitions net of tax of £1.3m (2006 - £0.5m)	<u>2.0</u>	<u>0.52</u>	<u>0.8</u>	<u>0.23</u>
Adjusted earnings after tax	<u>30.0</u>	<u>7.71</u>	<u>16.3</u>	<u>4.65</u>
Earnings per share				
- basic		7.17p		4.35p
- diluted		7.00p		4.25p
- adjusted		7.71p		4.65p
- adjusted and diluted		7.53p		4.56p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2006 - £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
- release of provision from previous acquisition
- amortisation of intangible assets acquired on acquisitions

8. Acquisitions

Absolute Manufacturing, Inc.

On 10 December 2007, the Group acquired 100% of the issued share capital of Absolute Manufacturing, Inc. ("Absolute"), a manufacturer of precision machined parts principally for the aerospace industry, based in Arlington, Washington State, USA. The cash consideration was £7.0m, including costs. The acquisition was funded by the Group's existing debt facilities.

Set out below is a summary of the net assets acquired and details of the fair value adjustments:

	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible assets	0.6	0.2
Property, plant and equipment	1.4	2.0
Inventories	0.9	1.0
Trade and other receivables	0.3	0.3
Trade and other payables	(0.2)	(0.6)
Net assets acquired	<u>3.0</u>	2.9
Goodwill		<u>4.1</u>
Total consideration		<u>7.0</u>
Consideration satisfied by:		
Cash paid		6.9
Directly attributable costs		<u>0.1</u>
Net cash outflow arising on acquisition		<u>7.0</u>

The fair value adjustments contain some provisional amounts which will be finalised in the Financial Statements for the year ending 31 December 2008.

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. Goodwill represents the value of the assembled workforce and its contribution to anticipated future profitability arising from additional capital investment.

Absolute contributed £0.3m revenue and £0.1m to the Group's operating profit from the date of acquisition to 31 December 2007.

If the above acquisition had been completed on 1 January 2007, Group revenue for the year ended 2007 would have been £476.9m and Group operating profit would have been £42.7m.

8. Acquisitions(continued)

Capo Industries, Inc.

On 25 January 2008, the Group acquired 100% of the issued share capital of Capo Industries, Inc. ("Capo"), a manufacturer of highly engineered, complex super-alloy components primarily for the aero-engine market, based in Chino near Los Angeles, California, USA. The cash consideration was £44.6m, including costs, of which £1.5m is payable later in 2008. The acquisition was funded by the Group's existing debt facilities and a new £20.0m short-term facility.

Set out below is a summary of the net assets acquired and details of the fair value adjustments:

	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible assets	-	5.1
Property, plant and equipment	5.4	6.2
Inventories	3.8	4.0
Trade and other receivables	1.9	1.9
Trade and other payables	(2.2)	(2.2)
Net assets acquired	<u>8.9</u>	15.0
Goodwill		<u>29.6</u>
Total consideration		<u>44.6</u>
Consideration satisfied by:		
Cash (including £1.5m deferred consideration)		44.4
Directly attributable costs		<u>0.2</u>
Total consideration		<u>44.6</u>

The fair value adjustments contain some provisional amounts which will be finalised in the Financial Statements for the year ending 31 December 2008.

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. Goodwill represents the value of the assembled workforce and its contribution to anticipated future profitability arising from additional capital investment.

In addition to the deferred consideration of £1.5m, a further £2.5m may be payable contingent upon Capo's 2008 performance. This amount has not been included in the above calculation as the targets are very stretching and their achievement is not thought probable.

9. Notes to the cash flow statement

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

	Year ended 2007 £m	Year ended 2006 £m
Operating profit from continuing operations	41.5	24.5
Adjustments for:		
Depreciation of property, plant and equipment	14.1	12.1
Amortisation of intangible assets	3.8	1.8
Share options	1.5	0.6
Loss on disposal of property, plant and equipment	0.7	0.4
Release of provision from previous acquisition	(0.5)	-
Pension payments in excess of service cost	(3.0)	(3.4)
Operating cash flows before movements in working capital	58.1	36.0
Increase in inventories	(8.7)	(11.5)
(Increase)/decrease in receivables	(10.0)	3.6
Increase in payables	8.4	8.8
Working capital currency movements	0.7	(5.4)
Cash generated by operations	48.5	31.5
Income taxes paid	(6.2)	(2.6)
Interest paid	(7.0)	(6.6)
Net cash from operating activities	<u>35.3</u>	<u>22.3</u>
Cash and cash equivalents comprise:		
Cash	8.7	7.2
Bank overdrafts	(3.8)	(0.2)
Total	<u>4.9</u>	<u>7.0</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the Balance Sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

b) Free cash flow

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

	Year ended 2007 £m	Year ended 2006 £m
Net cash from operating activities	35.3	22.3
Interest received	0.8	1.3
Proceeds on disposal of property, plant and equipment	1.9	2.2
Purchases of property, plant and equipment - cash	(19.0)	(20.1)
Purchase of intangible assets	(0.5)	(0.6)
Free cash flow	<u>18.5</u>	<u>5.1</u>

9. Notes to the cash flow statement (continued)

c) Analysis of net debt

	At 1 January 2007 £m	Cash flow £m	Non-cash items £m	Exchange movement £m	At 31 December 2007 £m
Cash	7.2	1.1	-	0.4	8.7
Overdrafts	(0.2)	(3.5)	-	(0.1)	(3.8)
Cash and cash equivalents	7.0	(2.4)	-	0.3	4.9
Debt due within one year	(12.9)	12.5	(37.6)	0.3	(37.7)
Debt due after one year	(90.2)	(7.4)	37.8	1.5	(58.3)
Finance leases	(1.6)	0.2	-	(0.1)	(1.5)
Forward exchange contract losses	1.0	(0.4)	-	(2.8)	(2.2)
Total	(96.7)	2.5	0.2	(0.8)	(94.8)

The forward exchange contract losses shown above are reported as £2.7m (2006 - £nil) in current liabilities within trade and other payables and £0.5m (2006 - £1.0m) in current assets within trade and other receivables.

Non-cash items shown above relate to the recognition of financial instruments under IAS 39, and the reclassification of debt which became due within one year.

In January 2008, a new £20m bilateral 364 day facility, with an option to extend by one year, was established with the Group's principal UK clearing bankers. This facility is to provide increased headroom following the acquisition of Capo Industries, Inc.

10. Retirement benefit schemes

Defined Benefit Schemes

Aggregate post-retirement benefit liabilities are £36.3m (2006 - £37.5m). The primary components of this liability are the Group's UK pension plan and US pension plans, with deficits of £30.5m (2006 - £30.8m) and £2.0m (2006 - £3.2m) respectively. These values have been assessed by an independent actuary using current market values and discount rates.

11. Events after the balance sheet date

On 25 January 2008, the Group acquired 100% of the issued share capital of Capo Industries, Inc. Further details of the acquisition are provided in Note 8.