

## Results for the year ended 31 December 2011

**Record results, with adjusted profit before tax up 19% to £78.0m. Group outlook remains encouraging.**

FINANCIAL HIGHLIGHTS	Year ended 31 December		
	2011	2010	
REVENUE	£640.7m	£566.9m	+13%
OPERATING PROFIT	£83.0m	£62.2m	+33%
ADJUSTED OPERATING PROFIT <sup>(1)</sup>	£88.3m	£75.4m	+17%
ADJUSTED OPERATING MARGIN <sup>(1)</sup>	13.8%	13.3%	+0.5ppts
PROFIT BEFORE TAX	£72.7m	£52.1m	+40%
ADJUSTED PROFIT BEFORE TAX <sup>(1)</sup>	£78.0m	£65.3m	+19%
BASIC EARNINGS PER SHARE	13.68p	10.11p	+35%
ADJUSTED EARNINGS PER SHARE <sup>(1)</sup>	14.55p	12.01p	+21%
TOTAL DIVIDENDS (PAID AND PROPOSED) PER SHARE	3.80p	3.12p	+22%
FREE CASH FLOW <sup>(2)</sup>	£55.6m	£58.8m	-5%
NET DEBT <sup>(2)</sup>	£93.0m	£63.7m	£29m increase

(1) 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.

(2) See Notes 11(b) and 11(c) for derivation of free cash flow and of net debt, respectively.

The Group's principal exchange rates for the US dollar and the Euro, applied in the translation of revenue, profit and cash flow items at average rates were \$1.60 (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 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 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

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

“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 a net debt to EBITDA ratio of only 0.8 times after significant investment in capacity expansion and two commercial aerospace 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.”

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This Release represents the Company's dissemination announcement in accordance with the requirements of Rule 6.3.5 of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. The full Annual Report & Accounts 2011, together with other information on Senior plc, may be found at: [www.seniorplc.com](http://www.seniorplc.com)

The information contained in this Release is an extract from the Annual Report & Accounts 2011, however, some references to Note and page numbers have been amended to reflect Note and page numbers appropriate to this Release.

The Directors' Responsibility Statement has been prepared in connection with the full Financial Statements, Operating and Financial Review and Directors' Report as included in the Annual Report & Accounts 2011. Therefore, certain Notes and parts of the Directors' Report reported on are not included within this Release.

## Note to Editors

Senior is an international manufacturing Group with operations in 12 countries. It is listed on the main market of the London Stock Exchange (symbol SNR). Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, defence, land vehicle and energy markets.

## Cautionary Statement

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

## **CHAIRMAN'S STATEMENT**

Senior 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 a net debt to EBITDA ratio of only 0.8 times after significant investment in capacity expansion and two commercial aerospace 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.

### **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 major 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% as production of certain newer and larger aircraft on which Senior has healthy content, such as Gulfstream's 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 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.

### ***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%), whilst those to the passenger vehicle markets declined to 30% (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 car 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 Hammett (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 being particularly important to Senior. Nevertheless, against this backdrop, Senior's future prospects remain 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 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. Bombardier 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

## OPERATING AND FINANCIAL REVIEW

### To the members of Senior plc

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

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

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

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

### **Business Model and Operations**

Senior is an international, market-leading, engineering solutions provider with operations in 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:

<b>Sectors</b>	<b>Division</b>	<b>Description</b>
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.

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 the overall asset portfolio.

The Group acknowledges that its objectives cannot be achieved without assuming some degree of risk, and that profit is in part the reward for risk taking. Risk, therefore, 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%).

## **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%).

### **Strategy, Business Objectives and Key Performance Indicators**

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

	<b>Principle</b>
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.
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. 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:

KPI	Growth	Progress	Principle
<b>Organic revenue</b>			
<b>£618.4m</b> (2010 - £553.5m)	<b>+12%</b>	The main drivers of organic revenue growth were: increased build rates on large commercial aircraft platforms; build rate increases on the Group's 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.	1,2
<b>Adjusted earnings per share</b>			
<b>14.55 pence</b> (2010 – 12.01 pence)	<b>+21%</b>	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.	1,2
<b>Return on revenue margin</b>			
<b>13.8%</b> (2010 – 13.3%)	<b>+0.5 PPTS</b>	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.	1,2,4
<b>Net cash from operating activities</b>			
<b>£77.1m</b> (2010 – £70.2m)	<b>+10%</b>	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.	1
<b>Return on capital employed</b>			
<b>26.8%</b> (2010 – 26.1%)	<b>+0.7 PPTS</b>	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.	1,2,3,4
<b>Carbon dioxide emissions</b>			
<b>94 tonnes / £m revenue</b> (2010 – 97 tonnes/£m revenue)	<b>-3%</b>	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 that Senior has reduced its environmental impact.	4
<b>Lost time injury frequency rate</b>			
<b>0.98 incidents per 100 employees p.a.</b> (2010 – 1.6 incidents per 100 employees p.a.)	<b>Reduced by 0.62 incidents per 100 employees p.a.</b>	The Group takes a proactive approach to the health and safety of all employees, as described more fully in the Corporate Social Responsibility Report in the Annual Report & Accounts 2011. A reduction of 39% in the number of recordable injuries which incurred lost time was achieved in 2011.	4

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 is set out in the table below:

	<b>Five-year average annual movement - 2006 to 2011 <sup>(7)</sup></b>
Organic revenue growth <sup>(1)</sup>	<b>+5% p.a.</b>
Adjusted earnings per share growth <sup>(2)</sup>	<b>+29% p.a.</b>
Return on revenue margin increase <sup>(3)</sup>	<b>+1.4 ppts p.a.</b>
Net cash from operating activities	<b>+24% p.a.</b>
Return on capital employed increase <sup>(4)</sup>	<b>+2.6 ppts p.a.</b>
CO <sub>2</sub> emissions / £m revenue <sup>(5)</sup>	<b>-4% p.a.</b>
Lost time injury frequency rate <sup>(6)</sup>	<b>0.4 fewer incidents p.a.</b>

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

<sup>(2)</sup> 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.

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

<sup>(4)</sup> 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.

<sup>(5)</sup> CO<sub>2</sub> emissions / £m revenue is an estimate of the Group's carbon dioxide emissions in tonnes divided by the Group's revenue in £m.

<sup>(6)</sup> 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.

<sup>(7)</sup> Calculated as the simple average of year-on-year movements in these KPIs over the five years, as published.

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:

<b>What is the strategy?</b>	<b>Progress</b>
<b>Structures</b>	
<ul style="list-style-type: none"> <li>▪ Growth in higher value kitting and assemblies to deliver market share gains</li> <li>▪ Develop hard metal machining capabilities</li> <li>▪ Diversify customer base via increased collaboration between operations</li> <li>▪ Invest in well-funded military programmes</li> <li>▪ Continue focus on operational excellence to drive customer value and market share</li> <li>▪ Selective acquisitions to complement growth strategy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weston acquisition brings increased exposure to Airbus, hard metal machining capabilities and facilities in Europe and south-east Asia</li> <li>▪ New programme wins with key customers in Mexico</li> <li>▪ Improvements in operational execution is a key driver of margin progression</li> <li>▪ Increased market share on large commercial aircraft platforms via acquisitions of Damar and Weston</li> <li>▪ Robust performance on key military programmes</li> <li>▪ Prospect of continued growth via build rate increases and new platforms coming through in medium-term</li> </ul>
<b>Fluid conveyance systems</b>	
<ul style="list-style-type: none"> <li>▪ Further develop strategic customer relationships</li> <li>▪ Increase customer value-add through more complete product offering, including increased collaboration between operations</li> <li>▪ Market share growth through increased content on new platforms (e.g. A320neo, B737 MAX, KC390, A350)</li> <li>▪ Seek proprietary acquisitions and expand engineered product portfolio</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strengthening of key customer relationships in both large commercial and regional/business jet sectors</li> <li>▪ New business being secured as a result of intra-Group cooperation (e.g. on Joint Strike Fighter)</li> <li>▪ Developing opportunities in engineered products, particularly in area of engine build up on A320neo and B737 MAX, potentially positions Group well for increased market share on a number of key future generation platforms</li> <li>▪ Focus on proprietary acquisitions increasing</li> </ul>

<p><b>Gas turbine engines</b></p> <ul style="list-style-type: none"> <li>▪ Target higher value-add engineered or flight-critical parts (e.g. rotating)</li> <li>▪ Increase focus on fluid systems applications (e.g. engine ducting and bellows)</li> <li>▪ Continue to develop customer outsourcing opportunities and strengthen multi-site customer relationships</li> <li>▪ Develop low-cost country footprint</li> <li>▪ Seek value-enhancing acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weston acquisition brings Senior's first major exposure to critical rotating gas turbine engine parts (i.e. airfoil blades)</li> <li>▪ Secured first content on A320neo engine ducting and working on other opportunities for a number of OEM gas turbine engine manufacturers</li> <li>▪ Acquisition of Weston brings first manufacturing capability in south-east Asia, with significant capacity for growth</li> <li>▪ A number of Senior's businesses securing new contracts through collaboration and leverage of existing customer relationships</li> </ul>
<p><b>Land vehicles</b></p> <ul style="list-style-type: none"> <li>▪ Increase capability in heat exchanger technology, including fuel cells</li> <li>▪ Continue to develop product portfolio in line with increasing emission regulations</li> <li>▪ Develop lower value-add component manufacture to low-cost countries</li> <li>▪ Increase emerging market footprint, concentrating on markets that exhibit attractive growth characteristics</li> <li>▪ Continue to develop customer base in both on-road truck and off-highway applications</li> <li>▪ Increased focus on engineered product</li> </ul>	<ul style="list-style-type: none"> <li>▪ Significant increase in exhaust gas recycler products supplied in North America</li> <li>▪ New European and Brazilian truck programmes secured and first shipments made in 2011</li> <li>▪ Increased activity in low-cost countries, notably India and Czech Republic, on new passenger vehicle programmes for Europe, the USA and domestic consumption</li> <li>▪ Increased collaboration between North American and European management teams on development of next generation of heat exchanger products</li> <li>▪ First heavy-duty diesel engine programmes secured for manufacture in France</li> </ul>
<p><b>Industrial process control</b></p> <ul style="list-style-type: none"> <li>▪ Capitalise on sector requirements to comply with reduced emission standards</li> <li>▪ Target wider global presence and establish offshore partners for large projects</li> <li>▪ Seek proprietary adjacent products</li> <li>▪ Participate selectively in developments in key new technology applications (e.g. combined heat and power, concentrated solar power)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improved collaboration between Group operations in the USA, Canada and Brazil leads to increased contract wins</li> <li>▪ Delay in passing of emission legislation in the USA dampens short-term performance, but Group remains well positioned for growth once legislation is enacted</li> <li>▪ Increased sales of fuel cell components in the USA</li> <li>▪ Focus on additional proprietary adjacent products in existing and emerging markets</li> <li>▪ Additional concentrated solar power contracts awarded</li> </ul>

## **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 13.

## Financial Review

### Summary

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

	Revenue		Adjusted Operating Profit <sup>(1)</sup>		Margin	
	2011	2010	2011	2010	2011	2010
	£m	£m	£m	£m	%	%
Aerospace	<b>382.6</b>	333.8	<b>59.6</b>	50.0	<b>15.6</b>	15.0
Flexonics	<b>258.5</b>	233.5	<b>36.0</b>	31.6	<b>13.9</b>	13.5
Inter-segment sales	<b>(0.4)</b>	(0.4)	-	-	-	-
Central costs	-	-	<b>(7.3)</b>	(6.2)	-	-
Group total	<b>640.7</b>	566.9	<b>88.3</b>	75.4	<b>13.8</b>	13.3

<sup>(1)</sup> 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	2010
	£m	£m
Operating profit per Financial Statements	<b>83.0</b>	62.2
Loss / (profit) on sale of fixed assets	<b>0.3</b>	(0.2)
Amortisation of intangible assets from acquisitions	<b>4.4</b>	4.6
Impairment of goodwill	-	8.7
Acquisition costs	<b>0.6</b>	0.1
Adjusted operating profit	<b>88.3</b>	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:

	<b>2011</b>	2010
	<b>£m</b>	£m
Free cash flow	<b>55.6</b>	58.8
Net debt	<b>93.0</b>	63.7
Net debt : EBITDA ratio	<b>0.8x</b>	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:

	<b>2011</b>	2010
	<b>£m</b>	£m
Net cash from operating activities	<b>77.1</b>	70.2
Interest received	<b>0.3</b>	0.7
Proceeds on disposal of tangible fixed assets	<b>0.3</b>	2.1
Purchases of tangible fixed assets	<b>(21.1)</b>	(13.5)
Purchases of intangible assets	<b>(1.0)</b>	(0.7)
Free cash flow	<b>55.6</b>	58.8

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 4.

## **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 7 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.

## **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:

	<b>Assets</b>	<b>Liabilities</b>	<b>Net Assets</b>
	£m	£m	£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	<u>560.0</u>	<u>(190.7)</u>	<u>369.3</u>
Net debt	29.3	(122.3)	(93.0)
<b>Total at 31 December 2011</b>	<b><u>589.3</u></b>	<b><u>(313.0)</u></b>	<b><u>276.3</u></b>
Total at 31 December 2010	<u>504.0</u>	<u>(278.1)</u>	<u>225.9</u>

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).

	<b>2011</b>	2010
	<b>£m</b>	£m
Operating profit	<b>83.0</b>	62.2
Depreciation and amortisation	<b>23.0</b>	24.6
Working capital movement	<b>(4.6)</b>	2.5
Pension payments above service cost	<b>(7.8)</b>	(5.8)
Additional discretionary pension payments	-	(6.0)
Goodwill impairment	-	8.7
Other items	<b>2.7</b>	0.9
Cash generated from operations	<b>96.3</b>	87.1
Interest paid (net)	<b>(8.2)</b>	(7.6)
Tax paid	<b>(10.7)</b>	(8.6)
Capital expenditure	<b>(22.1)</b>	(14.2)
Sale of fixed assets	<b>0.3</b>	2.1
Free cash flow	<b>55.6</b>	58.8
Dividends	<b>(13.1)</b>	(10.8)
Acquisitions	<b>(68.6)</b>	(8.3)
Share issues	-	0.3
Sale of shares held by employee benefit trust	-	1.4
Finance lease assumed on acquisition and entered into	<b>(0.9)</b>	-
Foreign exchange variations	<b>(2.3)</b>	(2.8)
Opening net debt	<b>(63.7)</b>	(102.3)
Closing net debt	<b>(93.0)</b>	(63.7)

### 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 <sup>(1)</sup>	Committed Facilities
	£m	£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
	<u>120.7</u>	<u>187.0</u>

<sup>(1)</sup> 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 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 below. A summary of the Group's policies and processes in respect of capital and financial risk management, including foreign exchange and liquidity risks, is included in Note 21 of the Annual Report & Accounts 2011.

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 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.

## 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**

	<b>2011</b>	2010 <sup>(1)</sup>	Change
	<b>£m</b>	£m	
Revenue	<b>382.6</b>	325.7	+17%
Adjusted operating profit	<b>59.6</b>	48.7	+22%
Operating margin	<b>15.6%</b>	15.0%	+0.6pppts

<sup>(1)</sup> 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.

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

	<b>2011</b>	2010 <sup>(1)</sup>	Change
	<b>£m</b>	£m	
Revenue	<b>258.5</b>	230.9	+12%
Adjusted operating profit	<b>36.0</b>	31.1	+16%
Operating margin	<b>13.9%</b>	13.5%	+0.4ppts

<sup>(1)</sup> 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 car 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 car 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.

## 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.

## **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 of the Annual Report & Accounts 2011.

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 that any individually significant event that:

- i) has or may result in the potential to compromise its ability to achieve its objectives; or
- ii) could lead to a material breach of policies and procedures; or
- iii) could impact the delivery of earnings materially at a local operational level

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

### **Risk assessment and risk reporting procedures**

The Group has a well-established and ongoing annual process for identifying, evaluating and managing its significant risks. This process starts in April each year with a risk review and assessment conducted at each of the Group's 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 in nature. Management is required to record details of controls that are in place to mitigate each risk, make an assessment of the residual likelihood and impact of each risk having a material impact on the operation's ability to achieve its objectives, and to record any improvement measures that are targeted to strengthen the operation's internal control environment around each risk. The results of these reviews are consolidated at divisional level with an accompanying divisional overlay, and divisional Principal Risk lists are then submitted for review 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 below.

Risk	Management actions to mitigate risk
<b>Strategy</b>	
<p>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.</p>	<p>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.</p>
<b>Global cyclical downturn</b>	
<p>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.</p>	<p>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 cyclicalities. The Group was recently able to demonstrate its ability to manage cyclicalities, 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.</p>
<b>Programme participation</b>	
<p>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.</p>	<p>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.</p>
<b>Acquisitions</b>	
<p>Failure to execute an effective acquisition programme would have a significant impact on the Group's ability to generate long-term value for shareholders.</p>	<p>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.</p>

<b>Employee retention</b>	
<p>An inability to attract, develop and retain high-quality individuals in key management positions could severely affect the long-term success of the Group.</p>	<p>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.</p>
<b>New aircraft platform delays</b>	
<p>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.</p>	<p>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.</p>
<b>Raw material costs</b>	
<p>A significant increase in the cost of raw material inputs could have a damaging impact on the Group's profitability.</p>	<p>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.</p>
<b>Importance of emerging markets</b>	
<p>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 customers require global programme support as they respond to increasing domestic demand in a number of these emerging markets.</p>	<p>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 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.</p>

<b>Pension deficit</b>	
<p>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.</p>	<p>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.</p>
<b>Financing and liquidity</b>	
<p>The Group could have insufficient financial resources to fund its growth strategy or meet its financial obligations as they fall due.</p>	<p>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 Annual Report and Accounts 2011.</p>

<p><b>Corporate Governance Breach</b></p>	
<p>Corporate governance legislation, (such as the UK Bribery Act and the US 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.</p>	<p>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.</p>

## **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 UK, 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.

## **Corporate Social Responsibility**

The policy of the Board is to seek to enhance shareholder value in an ethical and socially responsible manner, taking into account the wishes of all stakeholders, and with a particular focus on health and safety and preserving the environment. Two of the Group's six KPIs, namely reductions in carbon dioxide emissions and lost time injuries, are targeted at this area. Details of the Group's corporate and social responsibility principles and performance indices are set out in the Corporate Social Responsibility Report in the Annual Report & Accounts 2011.

## **Directors' Responsibility Statement**

We confirm that to the best of our knowledge:

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

By Order of the Board

Mark Rollins  
Group Chief Executive

Simon Nicholls  
Group Finance Director

24 February 2012

24 February 2012

# Senior plc

## Consolidated Income Statement

For the year ended 31 December 2011

	Notes	Year ended 2011 £m	Year ended 2010 £m
<b>Continuing operations</b>			
<b>Revenue</b>	3	<u>640.7</u>	<u>566.9</u>
Trading profit		83.3	62.0
(Loss) / profit on sale of fixed assets		(0.3)	0.2
Operating profit <sup>(1)</sup>	3	<u>83.0</u>	<u>62.2</u>
Investment income		0.3	0.5
Finance costs		(10.6)	(10.6)
Profit before tax <sup>(2)</sup>		<u>72.7</u>	<u>52.1</u>
Tax	5	(17.7)	(11.7)
<b>Profit for the period</b>		<u>55.0</u>	<u>40.4</u>
Attributable to:			
Equity holders of the parent		<u>55.0</u>	<u>40.4</u>
Earnings per share			
Basic <sup>(3)</sup>	7	<u>13.68p</u>	<u>10.11p</u>
Diluted	7	<u>13.21p</u>	<u>9.77p</u>
<sup>(1)</sup> Adjusted operating profit	4	88.3	75.4
<sup>(2)</sup> Adjusted profit before tax	4	78.0	65.3
<sup>(3)</sup> Adjusted earnings per share	7	14.55p	12.01p

## Senior plc

### 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
<b>Total comprehensive income for the period</b>	<b>58.6</b>	<b>47.1</b>
Attributable to:		
Equity holders of the parent	58.6	47.1

# Senior plc

## Consolidated Balance Sheet

As at 31 December 2011

	Notes	Year ended 2011 £m	Year ended 2010 £m
<b>Non-current assets</b>			
Goodwill	8	209.9	169.7
Other intangible assets		16.9	6.9
Property, plant and equipment	9	126.4	114.0
Deferred tax assets		9.0	1.0
Trade and other receivables		0.7	0.6
Total non-current assets		<u>362.9</u>	<u>292.2</u>
<b>Current assets</b>			
Inventories		90.3	75.1
Construction contracts		1.0	1.4
Trade and other receivables		105.8	79.3
Cash and cash equivalents	11c)	<u>29.3</u>	<u>56.0</u>
Total current assets		<u>226.4</u>	<u>211.8</u>
<b>Total assets</b>		<u><u>589.3</u></u>	<u><u>504.0</u></u>
<b>Current liabilities</b>			
Trade and other payables		135.1	110.5
Current tax liabilities		9.2	7.4
Obligations under finance leases		0.6	0.3
Bank overdrafts and loans		1.0	0.3
Provisions		5.5	-
Total current liabilities		<u>151.4</u>	<u>118.5</u>
<b>Non-current liabilities</b>			
Bank and other loans	11c)	119.7	118.3
Retirement benefit obligations	12	34.5	38.2
Deferred tax liabilities		6.0	1.9
Obligations under finance leases		1.0	0.8
Others		0.4	0.4
Total non-current liabilities		<u>161.6</u>	<u>159.6</u>
<b>Total liabilities</b>		<u>313.0</u>	<u>278.1</u>
<b>Net assets</b>		<u><u>276.3</u></u>	<u><u>225.9</u></u>
<b>Equity</b>			
Issued share capital	10	40.2	40.1
Share premium account		12.3	12.3
Equity reserve		2.7	2.2
Distributable reserve		-	-
Hedging and translation reserve		4.5	6.2
Retained earnings		216.6	165.1
Own shares		-	-
Equity attributable to equity holders of the parent		<u>276.3</u>	<u>225.9</u>
<b>Total equity</b>		<u><u>276.3</u></u>	<u><u>225.9</u></u>

# Senior plc

## Statement of Changes in Equity

For the year ended 31 December 2011

All equity is attributable to equity holders of the parent

	Issued share capital	Share premium account	Equity reserve	Distrib- utable reserve	Hedging and translation reserve	Retained earnings	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 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

# Senior plc

## Cash Flow Statement

For the year ended 31 December 2011

	Notes	Year ended 2011 £m	Year ended 2010 £m
<b>Net cash from operating activities</b>	11a)	77.1	70.2
<b>Investing activities</b>			
Interest received		0.3	0.7
Proceeds on disposal of property, plant and equipment		0.3	2.1
Purchases of property, plant and equipment		(21.1)	(13.5)
Purchases of intangible assets		(1.0)	(0.7)
Acquisition of Damar	13	(15.6)	-
Acquisition of Weston	13	(53.0)	-
Acquisition of WahlcoMetroflex		-	(8.3)
<b>Net cash used in investing activities</b>		(90.1)	(19.7)
<b>Financing activities</b>			
Dividends paid		(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
Sale of shares held by employee benefit trust		-	1.4
Net cash inflow on forward contracts		0.2	-
<b>Net cash used in financing activities</b>		(13.5)	(13.9)
<b>Net (decrease) / increase in cash and cash equivalents</b>		(26.5)	36.6
<b>Cash and cash equivalents at beginning of period</b>		55.9	19.3
Effect of foreign exchange rate changes		(0.9)	-
<b>Cash and cash equivalents at end of period</b>	11c)	28.5	55.9

# Senior plc

## Notes to the above Financial Statements

For the year ended 31 December 2011

### 1. General information

These results for the year ended 31 December 2011 are an excerpt from the Annual Report & Accounts 2011 and do not constitute the Group's statutory accounts for 2011 or 2010. Statutory accounts for 2010 have been delivered to the Registrar of Companies, and those for 2011 will be delivered following the Company's Annual General Meeting. The Auditors have reported on both those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

### 2. Significant accounting policies

Whilst the financial information included in this Annual Results Release has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the Annual Report & Accounts 2011 which is available at [www.seniorplc.com](http://www.seniorplc.com), hard copies of which will be distributed on or soon after 9 March 2012.

The accounting policies adopted are consistent with those followed in the preparation of the Group's Annual Report & Accounts 2011 which are unchanged from those adopted in the Group's Annual Report & Accounts 2010, except as described below.

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.

## Senior plc

### 3. 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.

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

	Aerospace	Flexonics	Elimination / Central costs	Total	Aerospace	Flexonics	Elimination / Central costs	Total
	Year ended 2011 £m	Year ended 2011 £m	Year ended 2011 £m	Year ended 2011 £m	Year ended 2010 £m	Year ended 2010 £m	Year ended 2010 £m	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)	-
<b>Total revenue</b>	<b>382.6</b>	<b>258.5</b>	<b>(0.4)</b>	<b>640.7</b>	<b>333.8</b>	<b>233.5</b>	<b>(0.4)</b>	<b>566.9</b>
Adjusted operating profit (see note 4)	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)
<b>Operating profit</b>	<b>54.6</b>	<b>35.7</b>	<b>(7.3)</b>	<b>83.0</b>	<b>36.6</b>	<b>31.8</b>	<b>(6.2)</b>	<b>62.2</b>
Investment income				0.3				0.5
Finance costs				(10.6)				(10.6)
Profit before tax				72.7				52.1
Tax				(17.7)				(11.7)
<b>Profit after tax</b>				<b>55.0</b>				<b>40.4</b>

# Senior plc

## 3. Segment information continued

Segment information for assets and liabilities 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	<u>325.4</u>	<u>270.1</u>
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	<u><u>589.3</u></u>	<u><u>504.0</u></u>
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	<u>139.0</u>	<u>107.7</u>
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	<u><u>313.0</u></u>	<u><u>278.1</u></u>

## Senior plc

### 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, 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.

	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

## Senior plc

### 5. 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
	<u>13.5</u>	<u>15.5</u>
Deferred tax:		
Current year	4.7	(0.8)
Adjustments in respect of prior periods	(0.5)	(3.0)
	<u>4.2</u>	<u>(3.8)</u>
	<u>17.7</u>	<u>11.7</u>

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.

### 6. 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
	<u>13.1</u>	<u>10.8</u>
Proposed final dividend for the year ended 31 December 2011 of 2.65p (2010 – 2.12p) per share	<u>10.7</u>	<u>8.5</u>

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.

## Senior plc

### 7. Earnings per share

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

Number of shares	Year ended 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

Earnings and earnings per share	Year ended 2011 Earnings £m	Year ended 2011 EPS pence	Year ended 2010 Earnings £m	Year ended 2010 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

# Senior plc

## 8. Goodwill

Goodwill increased by £40.2m during the year to £209.9m (2010 - £169.7m) due to goodwill arising on the acquisition of Damar and Weston of £11.1m and £27.5m respectively (see Note 13), and exchange translation differences of £1.6m. An impairment charge of £8.7m relating to the goodwill arising upon the acquisition of Capo Industries, Inc. was recognised in 2010.

## 9. Property, plant and equipment

During the period, the Group spent £21.1m (2010 - £13.5m) on the acquisition of property, plant and equipment, and acquired £0.2m of assets under finance leases. The Group also disposed of property, plant and equipment with a carrying value of £0.6m (2010 - £1.9m) for proceeds of £0.3m (2010 - £2.1m).

## 10. Share capital

Share capital as at 31 December 2011 amounted to £40.2m. During 2011, the Group issued 86,311 shares at an average price of 25.00p per share under share option plans raising £0.02m. 1,256,703 shares were also issued during 2011 under the 2005 Long Term Incentive Plan.

## 11. Notes to the cash flow statement

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

	Year ended 2011 £m	Year ended 2010 £m
Operating profit from continuing operations	83.0	62.2
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
Loss / (profit) on disposal of property, plant and equipment	0.3	(0.2)
Pension payments in excess of service cost	(7.8)	(11.8)
Impairment of goodwill	-	8.7
Operating cash flows before movements in working capital	101.0	84.9
Increase in inventories	(7.3)	(8.1)
Increase in receivables	(13.8)	(0.4)
Increase in payables	16.5	11.0
Working capital currency movements	(0.1)	(0.3)
Cash generated by operations	96.3	87.1
Income taxes paid	(10.7)	(8.6)
Interest paid	(8.5)	(8.3)
Net cash from operating activities	77.1	70.2

# Senior plc

## 11. Notes to the cash flow statement continued

### b) Free cash flow

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

	Year ended 2011 £m	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	<u>55.6</u>	<u>58.8</u>

### c) Analysis of net debt

	At 1 Jan 2011 £m	Cash flow £m	Non-cash items £m	New finance leases £m	Assumed on acquisition £m	Exchange movement £m	At 31 Dec 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	<u>(63.7)</u>	<u>(26.1)</u>	<u>-</u>	<u>(0.2)</u>	<u>(0.7)</u>	<u>(2.3)</u>	<u>(93.0)</u>

	Year ended 2011 £m	Year ended 2010 £m
Cash and cash equivalents comprise:		
Cash	29.3	56.0
Bank overdrafts	(0.8)	(0.1)
Total	<u>28.5</u>	<u>55.9</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. The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

# Senior plc

## 12. Retirement benefit schemes

### Defined Benefit Schemes

Aggregate retirement benefit liabilities are £34.5m (2010 - £38.2m). The primary components of this liability are the Group's UK and US defined benefit pension schemes, with deficits of £25.3m (2010 - £29.8m) and £4.2m (2010 - £3.3m) respectively, and a liability on unfunded schemes of £5.0m (2010 - £5.1m). These values have been assessed by independent actuaries using current market values and discount rates. The decrease in the liability from £38.2m at 31 December 2010 to £34.5m at 31 December 2011 reflects the positive effect of plan asset returns of £23.3m, and increased total cash contributions in excess of service cost of £7.8m, offset by an increase in the present value of benefit obligations, due to decreases in the UK and US plan discount rate assumptions to 4.8% and 4.6%, respectively (2010 – 5.4% and 5.3%). These changes in discount rate assumptions since 31 December 2010 are in line with movements in market yields of high-quality corporate bonds which are used to determine the rate for discounting future scheme liabilities.

## 13. 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 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:

	£m
Recognised amounts of identifiable assets acquired and liabilities assumed:	
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

## Senior plc

### 13. 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 (included in administrative expenses within trading profit in the Group's Consolidated Income Statement for the year ended 31 December 2011) amounted to £0.1m.

Damar contributed £11.5m 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 year ended 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 summary of the net assets acquired:

	£m
Recognised amounts of identifiable assets acquired and liabilities assumed:	
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	<u>29.6</u>
Goodwill	<u>27.5</u>
Total consideration	<u>57.1</u>
Consideration satisfied by:	
Cash paid	<u>57.1</u>
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	<u><u>53.0</u></u>

## Senior plc

### 13. Acquisitions continued

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.

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 assets and liabilities is provisional pending finalisation of the fair value exercise.

Weston contributed £4.1m 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 year ended 31 December 2011 would have been £691.1m and Group operating profit would have been £86.1m.