

Notes to the Financial Statements

1. General information

Senior plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 4 and in the Operating and Financial Review on pages 7 to 13.

2. Significant accounting policies

Basis of accounting

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union and they therefore comply with Article 4 of the EU IAS Regulation. They have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

At the time of preparation of the Group's annual Financial Statements for 2005 the EU had not endorsed an amendment to IAS 21 which required exchange differences that arise on re-translation of inter-company loans in a currency different to that of either counterparty to be taken to reserves and consequently a gain of £2.0m was recognised in the income statement in respect of such loans, under IAS 21 as then endorsed. In May 2006 the EU endorsed the amendment to IAS 21 and consequently these Financial Statements have been prepared in accordance with the revised Standard and the December 2005 comparatives have been adjusted to recognise the gain of £2.0m in the translation reserve.

At the date of authorisation of these Financial Statements, the following standards and interpretations which have not been applied in these financial statements were in issue and adopted by the EU but are not yet effective:

IFRS 7 Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures. Effective for periods commencing on or after 1 January 2007.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies. Effective for periods commencing on or after 1 March 2006.

IFRIC 8 Scope of IFRS 2. Effective for periods commencing on or after 1 May 2006.

IFRIC 9 Reassessment of embedded derivatives. Effective for periods commencing on or after 1 June 2006.

The Directors anticipate that the adoption of these standards in future periods will not have a material impact on these Financial Statements, except for additional disclosures, when the relevant standards come into effect. As none of the Group entities has a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations.

The separate Financial Statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act, the separate statements have been prepared in accordance with IFRS. They have been prepared on the historical cost basis except for the revaluation of certain financial instruments. The principal accounting policies adopted are the same as those set out below, except in respect of investments in subsidiaries, which are stated at cost less, where appropriate, provisions for impairment.

The principal accounting policies under IFRS are set out below.

Basis of consolidation

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

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the profit and loss account in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

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

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately through the income statement and is not subsequently reversed.

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

2. Significant accounting policies continued

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

Revenue recognition

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

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

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

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

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

Construction contracts

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

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

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

Leasing

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

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

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

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

Foreign currencies

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

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

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

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

Government grants

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

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

Operating profit

Operating profit is stated after charging restructuring costs, and before investment income and finance costs, as they relate to external borrowings and retirement benefit obligations.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. Significant accounting policies continued

Retirement benefit costs

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

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

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

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

Taxation

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their historic cost, or at modified historic cost, being a revaluation undertaken in 1988. Land and buildings were revalued to fair value at date of revaluation.

The Group does not intend to conduct annual revaluations.

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

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

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

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

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

Other intangible assets

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

Internally generated intangible assets – research and development expenditure

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

- (i) An asset is created that can be separately identified;
- (ii) It is probable that the asset created will generate future economic benefits; and
- (iii) The development cost of the asset can be measured reliably.

2. Significant accounting policies continued

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Financial instruments

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

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents

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

Non-derivative financial liabilities

Non-derivative financial liabilities are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs.

Equity instruments

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

Derivative financial instruments and hedging

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

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

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative are also recognised in profit or loss. If the hedge is effective, these entries will offset in the income statement.

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

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

Notes to the Financial Statements continued

3. Revenue

An analysis of the Group's revenue is as follows:

	Year ended 2006 £m	Year ended 2005 £m
Sale of goods	378.2	325.7
Revenue from construction contracts	9.7	12.9
Total	387.9	338.6

4. Business and geographical segments

Business segments

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

	Aerospace Year ended 2006 £m	Flexonics Year ended 2006 £m	Eliminations/ Central costs Year ended 2006 £m	Total Year ended 2006 £m	Aerospace Year ended 2005 £m	Flexonics Year ended 2005 £m	Eliminations/ Central costs Year ended 2005 £m	Total Year ended 2005 (restated) £m
External revenue	196.6	191.3	–	387.9	155.8	182.8	–	338.6
Inter segment revenue	0.4	0.2	(0.6)	–	0.4	0.2	(0.6)	–
Total revenue	197.0	191.5	(0.6)	387.9	156.2	183.0	(0.6)	338.6
Adjusted operating profit (see Note 9)	19.2	11.8	(4.8)	26.2	13.0	11.1	(4.3)	19.8
Profit/(loss) on sale of fixed assets	0.5	(0.9)	–	(0.4)	(0.2)	–	–	(0.2)
Amortisation of intangible assets from acquisitions	(1.3)	–	–	(1.3)	–	–	–	–
Operating profit	18.4	10.9	(4.8)	24.5	12.8	11.1	(4.3)	19.6
Investment income				0.9				1.3
Finance costs				(7.3)				(6.3)
Profit before tax				18.1				14.6
Tax				(2.9)				(2.5)
Profit after tax				15.2				12.1

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

	Assets Year ended 2006 £m	Liabilities Year ended 2006 £m	Additions to PPE and intangibles Year ended 2006 £m	Depreciation and amortisation Year ended 2006 £m	Assets Year ended 2005 £m	Liabilities Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m	Depreciation and amortisation Year ended 2005 £m
Aerospace	227.8	35.1	7.6	6.8	143.0	25.9	3.1	5.2
Flexonics	124.5	37.8	13.0	7.0	125.9	31.7	13.5	6.7
Sub total continuing operations	352.3	72.9	20.6	13.8	268.9	57.6	16.6	11.9
Unallocated corporate amounts	13.2	165.5	0.1	0.1	13.8	132.8	–	0.1
Total	365.5	238.4	20.7	13.9	282.7	190.4	16.6	12.0

4. Business and geographical segments continued

Geographical segments

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

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services. The carrying amount of segment assets and additions to property, plant and equipment and intangible assets, are analysed by the geographical area in which the assets are located.

	Sales revenue Year ended 2006 £m	Segment assets Year ended 2006 £m	Additions to PPE and intangibles Year ended 2006 £m	Sales revenue Year ended 2005 £m	Segment assets Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m
North America	210.7	219.7	15.2	178.5	137.9	10.6
UK	41.3	62.5	1.2	40.7	62.3	1.7
Rest of Europe	104.0	52.4	3.2	94.2	51.4	2.9
Rest of World	31.9	17.7	1.0	25.2	17.3	1.4
Sub total continuing operations	387.9	352.3	20.6	338.6	268.9	16.6
Unallocated corporate amounts	-	13.2	0.1	-	13.8	-
Total	387.9	365.5	20.7	338.6	282.7	16.6

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

5. Trading profit and profit for the period

Trading profit for continuing operations can be analysed as follows:

	Year ended 2006 £m	Year ended 2005 £m
Revenue	387.9	338.6
Cost of sales	(305.8)	(268.7)
Gross profit	82.1	69.9
Distribution costs	(4.4)	(3.7)
Administrative expenses	(52.8)	(46.4)
Trading profit	24.9	19.8

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

	Year ended 2006 £m	Year ended 2005 £m
Net foreign exchange gains	(0.5)	(0.3)
Research and development costs	8.5	8.3
Depreciation of property, plant and equipment	12.1	11.5
Amortisation of intangible assets included in administration expenses	1.8	0.5
Cost of inventories recognised as expense	305.8	268.7
Staff costs (see Note 6)	133.1	124.5
Auditors' remuneration for audit services (see below)	0.5	0.4

Amounts payable to Deloitte & Touche LLP and their associates by the Company and its subsidiary undertakings in respect of non-audit services were £0.7m (2005 – £0.2m).

Auditors' remuneration for audit services to the Company was £0.1m (2005 – £0.1m).

Notes to the Financial Statements continued

5. Trading profit and profit for the period continued

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	£m	2006 %	£m	2005 %
Audit services				
– statutory audit	0.5	42	0.4	67
	0.5	42	0.4	67
Non-audit services				
– tax compliance services	0.1	8	0.1	16
– tax advisory services	0.1	8	0.1	17
– other services	0.5	42	–	–
	0.7	58	0.2	33
	1.2	100	0.6	100

The other services relate to corporate finance services on the acquisitions and the rights issue, and have been treated as acquisition and rights issue costs and not charged to the income statement.

A description of the work of the Audit Committee is set out on pages 16 and 17 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

6. Staff costs

The average monthly number of employees (including executive Directors) was:

	Group Year ended 2006 Number	Group Year ended 2005 Number	Company Year ended 2006 Number	Company Year ended 2005 Number
Production	4,444	4,175	–	–
Distribution	53	55	–	–
Sales	291	303	–	–
Administration	414	385	18	17
	5,202	4,918	18	17
	Year ended 2006 £m	Year ended 2005 £m	Year ended 2006 £m	Year ended 2005 £m
Their aggregate remuneration comprised:				
Wages and salaries	114.0	107.0	1.8	1.5
Social security costs	14.1	13.3	0.2	0.2
Other pension costs – defined contribution (see Note 37a)	2.4	2.2	–	–
Other pension costs – defined benefit (see Note 37e)	2.0	1.8	0.1	0.1
Share-based payments	0.6	0.2	–	0.2
	133.1	124.5	2.1	2.0

7. Investment income

	Year ended 2006 £m	Year ended 2005 £m
Interest on bank deposits	0.2	0.2
Foreign currency derivatives	0.5	1.0
Others	0.2	0.1
Total income	0.9	1.3

8. Finance costs

	Year ended 2006 £m	Year ended 2005 £m
Interest on bank overdrafts and loans	2.1	0.7
Interest on other loans	4.3	4.3
Interest on obligations under finance leases	0.1	0.1
Cost on interest rate swaps	-	0.1
Net finance cost of retirement benefit obligations (Note 37e)	0.8	1.1
Total finance costs	7.3	6.3

9. Adjusted operating profit and adjusted profit before tax

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

	Year ended 2006 £m	Year ended 2005 (restated) £m
Operating profit	24.5	19.6
Loss on sale of fixed assets	0.4	0.2
Amortisation of intangible assets from acquisitions	1.3	-
Adjustments to operating profit	1.7	0.2
Adjusted operating profit	26.2	19.8
Profit before tax	18.1	14.6
Adjustments to profit as above before tax	1.7	0.2
Adjusted profit before tax	19.8	14.8

Notes to the Financial Statements continued

10. Tax charge

	Year ended 2006 £m	Year ended 2005 £m
Current tax:		
UK corporation tax	–	–
Foreign tax	3.6	2.3
Adjustments in respect of prior periods	(0.7)	(0.2)
	2.9	2.1
Deferred tax (Note 22):		
Current year	0.8	0.7
Adjustments in respect of prior periods	(0.8)	(0.3)
	–	0.4
	2.9	2.5
Attributable to:		
Continuing operations	2.9	2.5

UK corporation tax is calculated at 30% (2005 – 30%) of the estimated assessable profit for the year.

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

The charge for the year on profit from continuing operations can be reconciled to the profit per the income statement as follows:

	Year ended 2006 £m	Year ended 2006 %	Year ended 2005 £m	Year ended 2005 (restated) %
Profit before tax from continuing operations	18.1		14.6	
Tax at the UK corporation tax rate of 30% (2005 – 30%)	5.4		4.4	
Tax effect of income/expenses that are non taxable/deductible in determining taxable profit	0.4		(0.2)	
Tax effect of unrelieved tax losses	1.3		1.8	
Tax effect of movements in temporary differences not previously recognised	(1.2)		(1.1)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1.4)		(1.9)	
Adjustments to tax charge in respect of prior periods	(1.6)		(0.5)	
Tax expense and effective tax rate for the year	2.9	16.0	2.5	17.1

In addition to the amount charged to the income statement, tax relating to unrealised foreign exchange gains/losses amounting to £0.9m (2005 – £0.7m) has been charged directly to equity via hedging and translation reserves (see Note 30), and tax relating to deductible temporary differences amounting to £0.2m (2005 – £nil) has been credited directly to equity via retained earnings (see Note 31).

11. Dividends

	Year ended 2006	Year ended 2005
	£m	£m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2005 of 1.286p (2004 – 1.286p) per share	4.4	4.1
Interim dividend for the year ended 31 December 2006 of 0.619p (2005 – 0.619p) per share	2.1	2.0
	6.5	6.1
Proposed final dividend for the year ended 31 December 2006 of 1.381p (2005 – 1.286p) per share	5.4	4.2

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

The dividend per share figures for dividends already paid have been adjusted to take account of the bonus element of the 2006 rights issue.

The final dividend paid for the year ended 31 December 2005 of £4.4m included dividends paid on the 15 million ordinary shares issued in January 2006.

12. Earnings per share

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

	Year ended 2006	Year ended 2005
	m	m
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	349.8	322.2
Effect of dilutive potential shares:		
Share options	7.9	5.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share	357.7	328.1

The weighted average number of shares for 2005 has been adjusted to take account of the bonus element of the 2006 rights issue.

	Year ended 2006		Year ended 2005 (restated)	
	Earnings	EPS	Earnings	EPS
Earnings and earnings per share	£m	pence	£m	pence
Profit for the period	15.2	4.35	12.1	3.75
Adjust:				
Loss on sale of fixed assets net of tax of £0.1m (2005 – £nil)	0.3	0.07	0.2	0.07
Amortisation of intangible assets from acquisitions net of tax of £0.5m (2005 – £nil)	0.8	0.23	–	–
Adjusted earnings after tax	16.3	4.65	12.3	3.82
Earnings per share				
– basic		4.35p		3.75p
– diluted		4.25p		3.69p
– adjusted		4.65p		3.82p
– adjusted and diluted		4.56p		3.75p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2005 – £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

Notes to the Financial Statements continued

13. Goodwill

	Group Year ended 2006 £m	Group Year ended 2005 £m
Cost		
At 1 January	77.1	73.1
Exchange differences	(6.7)	4.2
Recognised on acquisition of subsidiaries	40.6	–
Other changes	–	(0.2)
At 31 December	111.0	77.1
Accumulated impairment losses		
At 1 January and at 31 December	–	–
Carrying amount at 31 December	111.0	77.1

The amount shown for other changes represents a reduction in the deferred consideration payable in respect of QSI Technologies, upon expiry of the time period for contingent consideration to be payable from the acquisition of the business in June 1998.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	Group Year ended 2006 £m	Group Year ended 2005 £m
Aerospace		
– Senior UK Limited	36.4	36.4
– Jet Products	13.2	15.0
– Aerospace Manufacturing Technologies	27.5	–
– Sterling Machine	11.0	–
– Other	1.3	1.3
	89.4	52.7
Flexonics		
– Pathway	13.7	15.6
– Other	7.9	8.8
	21.6	24.4
Total	111.0	77.1

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for these calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and extrapolates cash flows thereafter based on an estimated growth rate of 2% per annum. This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 8.6%.

14. Other intangible assets

	Group Year ended 2006 Customer relationships £m	Group Year ended 2006 Computer software £m	Group Year ended 2006 Total £m	Group Year ended 2005 Computer software £m	Company Year ended 2006 Computer software £m	Company Year ended 2005 Computer software £m
Cost						
At 1 January	-	4.8	4.8	4.1	0.1	0.1
Additions	-	0.6	0.6	0.3	-	-
Acquired on acquisition of subsidiaries	15.9	-	15.9	-	-	-
Disposals	-	-	-	(0.1)	-	-
Exchange differences	(0.7)	(0.5)	(1.2)	0.5	-	-
At 31 December	15.2	4.9	20.1	4.8	0.1	0.1
Amortisation						
At 1 January	-	3.7	3.7	2.9	0.1	0.1
Charge for the year	1.3	0.5	1.8	0.5	-	-
Disposals	-	-	-	(0.1)	-	-
Exchange differences	(0.1)	(0.4)	(0.5)	0.4	-	-
At 31 December	1.2	3.8	5.0	3.7	0.1	0.1
Carrying amount at 31 December	14.0	1.1	15.1	1.1	-	-

15. Property, plant and equipment

a) Group

	Year ended 2006 Freehold land and buildings £m	Year ended 2006 Leasehold land and buildings £m	Year ended 2006 Plant and equipment £m	Year ended 2006 Total £m	Year ended 2005 Freehold land and buildings £m	Year ended 2005 Leasehold land and buildings £m	Year ended 2005 Plant and equipment £m	Year ended 2005 Total £m
Cost or valuation								
At 1 January	40.8	1.4	176.4	218.6	39.9	1.2	155.4	196.5
Additions	2.3	0.1	17.7	20.1	0.9	-	15.4	16.3
Acquired on acquisition	3.4	-	9.5	12.9	-	-	-	-
Exchange differences	(3.0)	(0.1)	(15.7)	(18.8)	1.9	0.2	9.3	11.4
Disposals	(0.3)	-	(8.0)	(8.3)	(1.9)	-	(3.7)	(5.6)
At 31 December	43.2	1.4	179.9	224.5	40.8	1.4	176.4	218.6
Accumulated depreciation and impairment								
At 1 January	9.2	0.9	132.4	142.5	8.8	0.7	118.2	127.7
Charge for the year	1.0	-	11.1	12.1	0.9	0.1	10.5	11.5
Exchange differences	(0.7)	-	(11.3)	(12.0)	0.4	0.1	7.4	7.9
Eliminated on disposals	(0.1)	-	(5.6)	(5.7)	(0.9)	-	(3.7)	(4.6)
At 31 December	9.4	0.9	126.6	136.9	9.2	0.9	132.4	142.5
Carrying amount at 31 December	33.8	0.5	53.3	87.6	31.6	0.5	44.0	76.1

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £1.9m (2005 – £2.9m) in respect of assets held under finance leases.

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

At 31 December 2006, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £6.0m (2005 – £7.3m).

Notes to the Financial Statements continued

15. Property, plant and equipment continued

b) Company

	Year ended 2006 Plant and equipment £m	Year ended 2005 Plant and equipment £m
Cost		
At 1 January	0.4	0.4
Additions	0.1	–
At 31 December	0.5	0.4
Accumulated depreciation		
At 1 January	0.3	0.3
Charge for the year	–	–
At 31 December	0.3	0.3
Carrying amount at 31 December	0.2	0.1

16. Investments in subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given on page 63.

	Company Year ended 2006 £m	Company Year ended 2005 £m
At 1 January	92.0	30.3
Additional investment in subsidiaries	19.8	61.7
At 31 December	111.8	92.0

Additional investment in subsidiaries includes £19.4m (2005 – £nil) from transfer of shares from a subsidiary, £nil (2005 – £61.7m) re-capitalisation of subsidiaries by means of the capitalisation of part of an interest bearing loan due from the subsidiaries, and £0.4m (2005 – £nil) in relation to equity-settled share-based payments to employees of subsidiaries.

17. Inventories

	Group Year ended 2006 £m	Group Year ended 2005 £m
Raw materials	26.8	18.8
Work-in-progress	30.7	21.4
Finished goods	12.3	7.5
	69.8	47.7

An amount of £2.4m (2005 – £1.0m) has been charged in respect of inventory write-downs.

18. Construction contracts

	Group Year ended 2006 £m	Group Year ended 2005 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in current assets	3.5	3.4
Amounts due to contract customers included in trade and other payables	-	(0.1)
	3.5	3.3
Current costs incurred plus recognised profits less recognised losses to date	9.7	10.7
Less: progress billings	(6.2)	(7.4)
	3.5	3.3

At 31 December 2006, retentions held by customers for contract work amounted to £0.5m (2005 – £0.6m). Advances received from customers for contract work amounted to £nil (2005 – £nil).

At 31 December 2006, amounts of £0.2m (2005 – £0.2m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

19. Other financial assets

Trade and other receivables at the balance sheet date comprise the following:

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Non-current assets				
Deferred consideration on disposal of Hose operations	2.6	2.8	-	-
Trade receivables	0.2	0.2	-	-
Other receivables	0.9	0.8	-	-
Due from subsidiaries	-	-	166.5	134.4
	3.7	3.8	166.5	134.4
Current assets				
Trade receivables	60.1	56.9	-	-
Current tax recoverable	0.2	0.4	1.5	1.6
Value added tax	1.0	0.6	0.1	0.1
Currency derivatives	1.9	1.4	-	0.2
Prepayments and accrued income	3.7	5.0	0.8	0.4
Other receivables	0.5	0.6	0.5	0.7
Deferred consideration on disposal of Hose operations	0.1	-	-	-
Due from subsidiaries	-	-	0.9	0.1
	67.5	64.9	3.8	3.1
Total trade and other receivables	71.2	68.7	170.3	137.5

The average credit period taken on sales of goods is 64 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £2.1m (2005 – £1.5m). This allowance has been determined in accordance with Group policy.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Notes to the Financial Statements continued

19. Other financial assets continued

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter-parties and customers.

20. Bank overdrafts and loans

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Bank overdrafts	0.2	–	1.3	–
Bank loans	51.3	7.2	51.3	7.2
Other loans	51.8	59.3	51.2	58.7
	103.3	66.5	103.8	65.9

The borrowings are repayable as follows:

On demand or within one year	13.1	0.2	14.1	0.2
In the second year	38.4	21.7	38.4	21.7
In the third to fifth years inclusive	51.3	44.0	51.3	44.0
After five years	0.5	0.6	–	–
	103.3	66.5	103.8	65.9

Less: amount due for settlement within 12 months (shown under current liabilities)	(13.1)	(0.2)	(14.1)	(0.2)
Amount due for settlement after 12 months	90.2	66.3	89.7	65.7

Analysis of borrowings by currency:

31 December 2006

	Total £m	Sterling £m	Euros £m	US dollars £m
Bank overdrafts	0.2	–	0.2	–
Bank loans	51.3	–	1.3	50.0
Other loans	51.8	–	0.6	51.2
	103.3	–	2.1	101.2

An analysis of the Company's borrowings is as follows: Bank overdrafts Sterling £1.3m, Bank loans Euros £1.3m and US dollars £50.0m and Other loans US dollars £51.2m.

31 December 2005

	Total £m	Sterling £m	Euros £m	US dollars £m
Bank overdrafts	–	–	–	–
Bank loans	7.2	–	4.3	2.9
Other loans	59.3	–	0.6	58.7
	66.5	–	4.9	61.6

An analysis of the Company's borrowings is as follows: Bank overdrafts £nil, Bank loans Euros £4.3m and US dollars £2.9m and Other loans US dollars £58.7m.

20. Bank overdrafts and loans continued

The weighted average interest rates paid were as follows:

	Year ended 2006	Year ended 2005
	%	%
Bank overdrafts	5.55	3.55
Bank loans	5.31	3.20
Other loans	7.28	7.47

Bank loans and overdrafts of £51.5m (2005 – £72m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk. Interest rate swaps of £10.2m (2005 – £nil) had been taken out at the year-end to convert interest from floating rates to fixed rates with an effective start date of April 2007. In 2005 fair value hedges of £5.8m had been taken out at the year-end.

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

	Group Year ended 2006	Group Year ended 2005	Company Year ended 2006	Company Year ended 2005
	£m	£m	£m	£m
Bank overdrafts	0.2	–	1.3	–
Bank loans	51.3	7.2	51.3	7.2
Other loans	52.2	60.6	51.6	60.0
	103.7	67.8	104.2	67.2

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

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

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

- a) Loan notes of \$75m, 2006 £38.2m (2005 – £43.6m) were taken out in October 1998 and are due for repayment in October 2008. The loan notes carry interest at the rate of 6.52% per annum.
- b) Loan notes of \$25m, 2006 £12.8m (2005 – £14.5m) were taken out in October 1992 and are due for repayment in June 2007. The loan notes carry interest at the rate of 8.75% per annum.

The Group also has two revolving credit facilities: a committed £80m syndicated multi-currency facility maturing in September 2011 and a committed single bank \$23m (£11.7m) facility maturing in August 2008. As at 31 December 2006, £51.3m was drawn by the Company under the first facility, comprising \$98m (£50m) and €2m (£1.3m). There were no amounts drawn under the second facility. The £80m facility replaced the £46m facility which existed at 31 December 2005 and was refinanced in September 2006 and was also used to partly finance the acquisition of Aerospace Manufacturing Technologies, Inc. At 31 December 2005, £7.2m was drawn by the Company under this facility, comprising \$5m (£2.9m) and €6.3m (£4.3m).

The \$23m (£11.7m) facility is an amendment to the \$25m (£14.5m) facility which existed at 31 December 2005, and the maturity has been extended from May 2007 to August 2008. There were no amounts drawn under this facility as at 31 December 2005. The Company is not a guarantor under this facility.

On 31 January 2007 new loan notes of \$30m (£15.3m) were issued with a maturity of 10 years, carrying interest at the rate of 5.85%, to refinance the \$25m (£12.8m) loan notes which are due to mature in June 2007.

As at 31 December 2006, the Group had available £40.4m (2005 – £53.3m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the Financial Statements continued

21. Derivative financial instruments

Currency derivatives

The Group utilises currency derivatives to hedge significant fair values, cash flows and net investments denominated in foreign currencies. The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the Balance Sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group and the Company have committed are below.

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Forward foreign exchange contracts	87.6	98.5	-	8.3

At 31 December 2006, the fair value of the Group's currency derivatives is estimated to be approximately £1.1m asset (2005 – £1.4m liability). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £1.9m (2005 – £1.2m) assets included in trade and other receivables and £0.8m (2005 – £2.6m) liabilities included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £nil (2005 – £0.7m) has been deferred in equity.

An amount of £nil (2005 – £0.3m gain) has been transferred to the income statement in respect of contracts which matured during the period.

Interest rate swaps

The Group and Company use interest rate swaps to manage their exposure to interest rate movements on their bank borrowings. A contract with a nominal value of \$10.0m (£5.4m) (2005 – average \$27.4m (£15.0m)) had receipts of fixed interest at a rate of 2.83% (2005 – average 2.28%) per annum and floating interest payments at Libor. This contract expired as of 30 May 2006.

The Group and Company have entered into another contract with a nominal value of \$20m with fixed interest payments of 4.8775% and receipts of floating interest rates at Libor until 20 July 2009.

The fair value of swaps entered into at 31 December 2006 is estimated at £nil (2005 – £0.1m liability). These amounts are based on market values of equivalent instruments at the balance sheet date. All of these interest rate swaps are designated and effective as cash flow hedges. An amount of £nil has been charged (2005 – £0.1m charged) against hedged interest payments made in the period.

22. Deferred tax liabilities and assets

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

	Accelerated tax depreciation £m	Unrealised FX gains £m	Goodwill amortisation £m	Retirement benefit obligations £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 January 2005	7.0	1.1	1.4	(0.5)	(3.8)	(4.4)	0.8
Charge/(credit) to income	–	0.2	0.8	(0.1)	(0.4)	(0.1)	0.4
Credit to equity	–	0.7	–	–	–	–	0.7
Exchange differences	0.4	–	0.2	–	(0.5)	–	0.1
At 1 January 2006	7.4	2.0	2.4	(0.6)	(4.7)	(4.5)	2.0
Charge/(credit) to income	(0.6)	–	0.6	0.1	(1.2)	1.1	–
Charge/(credit) to equity	–	0.6	–	–	(0.2)	–	0.4
Acquisition of subsidiaries	0.8	–	–	–	–	–	0.8
Exchange differences	(0.6)	–	(0.3)	–	0.7	0.2	–
As 31 December 2006	7.0	2.6	2.7	(0.5)	(5.4)	(3.2)	3.2

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

	Group Year ended 2006 £m	Group Year ended 2005 £m
Deferred tax liabilities	3.3	2.1
Deferred tax assets	(0.1)	(0.1)
	3.2	2.0

At the Balance Sheet date, the Group has unused tax losses of £35.0m (2005 – £36.6m) available for offset against future profits. A deferred tax asset has been recognised in respect of £10.2m (2005 – £12.5m) of such losses. No deferred tax asset has been recognised in respect of the remaining £24.8m (2005 – £24.1m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £1.4m (2005 – £5.2m) that will expire within 7 years (2005 – 20 years). Other losses may be carried forward indefinitely.

At the Balance Sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £214.1m (2005 – £107.6m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

In addition, at the Balance Sheet date, the Group has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £34.4m (2005 – £36.7m), share-based payments of £1.7m (2005 – £1.5m), accelerated book depreciation of £2.4m (2005 – £6.2m) and other temporary differences of £nil (2005 – £2.3m). The Company has deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £30.8m (2005 – £31.3m), share-based payments of £0.5m (2005 – £0.3m), accelerated book depreciation of £0.5m (2005 – £0.3m) and other temporary differences of £0.5m (2005 – £0.5m). Deferred tax assets have not been recognised in respect of these differences due to the unpredictability of both the timing of the reversal of these temporary differences and of the future profit streams in the entities concerned.

At the Balance Sheet date, the Group and Company have £5.0m (2005 – £5.0m) of surplus ACT previously written off, for which no deferred tax asset has been recognised as it is unlikely to be recovered in the foreseeable future due to the anticipated ongoing level of dividend payments and UK earnings. The Group also has £14.4m (2005 – £16.3m) of unused capital losses available for offset against future capital gains for which no deferred tax asset has been recognised as no such capital gains are anticipated to arise in the foreseeable future. The Company has £15.6m (2005 – £17.4m) of such unused capital losses.

Notes to the Financial Statements continued

23. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2006 £m	Group Year ended 2005 £m	Group Year ended 2006 £m	Group Year ended 2005 £m
Amounts payable under finance leases:				
Within one year	0.3	0.3	0.2	0.2
In the second to fifth years inclusive	1.0	1.0	0.7	0.7
After five years	0.7	1.1	0.7	0.9
	2.0	2.4	1.6	1.8
Less: future finance charges	(0.4)	(0.6)	-	-
Present value of lease obligations	1.6	1.8	1.6	1.8
Less: amount due for settlement within 12 months (shown under current liabilities)			(0.2)	(0.2)
Amount due for settlement after 12 months			1.4	1.6

It is the Group's policy to lease certain of its buildings and fixtures and equipment under finance leases. The most significant lease, representing approximately 77% (2005 – 73%) of the Group's obligations, expires in 2014. For the year ended 31 December 2006, the average effective borrowing rate was 6.2% (2005 – 6.2%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

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

24. Other financial liabilities

Trade and other payables at the balance sheet date comprise the following:

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Non-current liabilities				
Due to subsidiaries	-	-	21.5	29.1
	-	-	21.5	29.1
Current liabilities				
Trade payables	45.3	36.5	0.3	0.4
Social security and PAYE	4.6	4.7	0.1	0.1
Value added tax	0.4	0.3	-	-
Foreign currency derivatives	0.8	3.3	-	-
Other payables and accruals	31.0	24.9	2.0	1.8
	82.1	69.7	2.4	2.3
	82.1	69.7	23.9	31.4

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

The average credit period taken for trade purchases is 59 days.

25. Issued share capital

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Authorised: 500 million ordinary shares of 10p each	50.0	50.0
Issued and fully paid 389.9 million ordinary shares of 10p each	39.0	30.9

At 31 December 2005, the issued and fully paid up share capital was 309.3 million ordinary shares of 10p each.

In January 2006, the Company issued 15,000,000 ordinary shares of 10p each at 60.0p per share through a placing which raised £9.0m before expenses of £0.2m.

In October 2006 the Company issued 64,960,962 ordinary shares of 10p each at 42.0p per share through a 1 for 5 rights issue which raised £27.3m before expenses of £1.4m. A further 692,880 shares were issued during 2006 at an average price of 29.33p per share under share option plans raising £0.2m.

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

26. Share premium account

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Balance at 1 January	3.8	3.5
Movement in year	7.4	0.3
Balance at 31 December	11.2	3.8

27. Equity reserve

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Balance at 1 January	0.4	0.2
Movement in year	0.4	0.2
Balance at 31 December	0.8	0.4

This reserve represents the provision being established in respect of the value of equity-settled share options and share awards.

28. Distributable reserve

	Group and Company Year ended 2006 £m	Year ended 2005 £m
Balance at 1 January	–	–
Movement in year	19.4	–
Balance at 31 December	19.4	–

This reserve represents additional distributable reserves. The movement in 2006 relates to the creation of additional distributable reserves approximately equal to the net proceeds of the rights issue less the nominal value of the ordinary shares.

Notes to the Financial Statements continued

29. Other reserve

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Balances at 1 January	-	17.0	-	83.8
Transfer to retained earnings	-	(17.0)	-	(83.8)
Balance at 31 December	-	-	-	-

In 1997, the Company effected a reduction of its share premium account and the simultaneous creation of a special reserve for the purpose of setting-off goodwill arising on the consolidated balance sheet of the Group as a result of acquisitions. The reduction of capital was confirmed by the Court in accordance with Section 135 of the Companies Act.

The special reserve was initially established with a value of £87.0m and, at Group level, in 1997 an amount of £70.0m of goodwill was set off against this. The acquisitions giving rise to this goodwill were made by subsidiaries of the Company, not the Company itself. Hence, in the Company there was no equivalent offset to the special reserve.

Under the terms of the undertakings given to the Court, the Company was permitted to transfer amounts equivalent to the net proceeds of subsequent capital issues from the special reserve to the profit and loss account. This has resulted in a transfer of £3.2m over the period from July 1997 to December 2004, thereby reducing the value of the special reserve to £83.8m in the Company.

The special reserve was considered undistributable without either the settlement, or consent, of creditors existing at the time of the reorganisations in 1997. To the extent that such creditors have not been settled, consent has been obtained.

As goodwill arising on acquisitions was no longer written off directly to reserves, the original purpose of the account had been fulfilled and, as the undertakings to the Court had also been fulfilled, it was considered that the reserve represented realised profits of the Company. For presentation purposes it was therefore merged with retained earnings in 2005.

30. Hedging and translation reserves

a) Group

	Hedging reserve Year ended 2006 £m	Translation reserve Year ended 2006 £m	Total Year ended 2006 £m	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 (restated) £m	Total Year ended 2005 (restated) £m
Balance at 1 January	(1.8)	4.2	2.4	-	0.7	0.7
Initial recognition of financial instruments	-	-	-	(0.2)	-	(0.2)
Exchange differences on translation of overseas operations	-	(10.5)	(10.5)	-	4.2	4.2
Change in fair value of hedging derivatives	3.1	-	3.1	(1.6)	-	(1.6)
Tax on items taken directly to equity	-	(0.9)	(0.9)	-	(0.7)	(0.7)
Balance at 31 December	1.3	(7.2)	(5.9)	(1.8)	4.2	2.4

b) Company

	Hedging reserve Year ended 2006 £m	Translation reserve Year ended 2006 £m	Total Year ended 2006 £m	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 £m	Total Year ended 2005 £m
Balance at 1 January	(0.5)	(0.4)	(0.9)	-	(0.3)	(0.3)
Initial recognition of financial instruments	-	-	-	(0.7)	-	(0.7)
Exchange differences on translation	-	-	-	-	(0.1)	(0.1)
Increase in fair value of hedging derivatives	0.3	-	0.3	0.2	-	0.2
Balance at 31 December	(0.2)	(0.4)	(0.6)	(0.5)	(0.4)	(0.9)

31. Retained earnings

	Group Year ended 2006	Group Year ended 2005 (restated)	Company Year ended 2006	Company Year ended 2005
	£m	£m	£m	£m
Balance at 1 January	56.1	32.9	75.3	(18.1)
Dividends paid	(6.5)	(6.1)	(6.5)	(6.1)
Net profit/(loss) for the year	15.2	12.1	(1.7)	14.8
Pension actuarial (loss)/gain	(1.0)	0.2	(1.7)	0.9
Transfer from other reserves of special reserve	-	17.0	-	83.8
Tax credit on deductible temporary differences	0.2	-	-	-
Balance at 31 December	64.0	56.1	65.4	75.3

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own income statement.

32. Own shares

	Group and Company Year ended 2006	Year ended 2005
	£m	£m
Balance at 1 January	1.3	1.3
Movement in the year	0.1	-
Balance at 31 December	1.4	1.3

The own shares reserve represents the cost of shares purchased in the market and held by the Senior plc Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 36).

33. Acquisitions

Sterling Machine Co., Inc.

On 27 January 2006, the Group acquired 100% of the issued share capital of Sterling Machine Co., Inc. ("Sterling Machine"), a manufacturer of precision machined parts for the aerospace industry, based in Enfield, Connecticut, USA. The cash consideration was £21.5m, including costs, of which £1.2m related to the purchase of property. The acquisition was funded in part by the placing of 15 million ordinary shares generating net proceeds of £8.8m, the balance being funded by the Group's existing revolving credit facilities.

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

	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	-	2.7
Property, plant and equipment	2.1	2.1
Inventories	3.8	3.4
Trade and other receivables	2.4	2.1
Trade and other payables	(1.1)	(1.1)
Net assets acquired	7.2	9.2
Goodwill		12.3
Total consideration		21.5
Consideration satisfied by:		
Cash paid		21.3
Directly attributable costs		0.2
Net cash outflow arising on acquisition		21.5

Notes to the Financial Statements continued

33. Acquisitions continued

The intangible assets acquired as part of the acquisition relate to customer contracts, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows. Goodwill represents the value of the assembled workforce and its contribution to anticipated future profitability arising from additional capital investment.

Sterling Machine contributed £12.7m revenue and £2.4m to the Group's operating profit from the date of acquisition to 31 December 2006.

Aerospace Manufacturing Technologies, Inc.

On 27 October 2006, the Group acquired 100% of the issued share capital of Aerospace Manufacturing Technologies, Inc. ("AMT"), a manufacturer of structural aluminium parts for the commercial aerospace industry, based in Arlington, Washington State, USA.

The cash consideration was £60.0m, including costs, of which £1.2m was paid in February 2007. The acquisition was funded in part through a rights issue generating net proceeds of £25.9m, the balance being funded by the Group's new revolving credit facility.

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

	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible assets	–	13.2
Property, plant and equipment	8.8	10.8
Inventories	7.2	7.2
Trade and other receivables	4.5	4.5
Cash and cash equivalents	0.5	0.5
Trade and other payables	(3.7)	(3.7)
Deferred tax liability	–	(0.8)
Net assets acquired	17.3	31.7
Goodwill		28.3
Total consideration		60.0
Consideration satisfied by:		
Cash (including £1.2m deferred consideration)		59.1
Directly attributable costs		0.9
Total consideration		60.0
Less deferred consideration		(1.2)
Less cash acquired		(0.5)
Net cash outflow arising on acquisition		58.3

The fair value adjustments contain some provisional amounts which will be finalised in the Financial Statements for the year ending 31 December 2007.

The intangible assets acquired as part of the acquisition relate to customer contracts, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows. Goodwill represents the value of the assembled workforce and its contribution to anticipated future profitability arising from additional capital investment.

AMT contributed £6.1m revenue and £1.4m to the Group's operating profit from the date of acquisition to 31 December 2006.

If both the above acquisitions had been completed on 1 January 2006, Group revenue for the year ended 2006 would have been £415.7m and Group operating profit would have been £30.4m.

The amounts shown in the Group Cash Flow Statement for acquisition of subsidiaries include £nil (2005 – £0.1m) relating to deferred consideration payable in respect of previous acquisitions.

34. Notes to the cash flow statement

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

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Operating profit/(loss) from continuing operations	24.5	19.6	(3.3)	(3.0)
Adjustments for:				
Depreciation of property, plant and equipment	12.1	11.5	-	-
Amortisation of intangible assets	1.8	0.5	-	-
Share options	0.4	0.2	-	0.2
Loss on disposal of property, plant and equipment	0.4	0.2	-	-
Pension payments in excess of service cost	(3.4)	(2.8)	(2.9)	(2.5)
Operating cash flows before movements in working capital	35.8	29.2	(6.2)	(5.3)
Increase in inventories	(11.5)	(9.3)	-	-
Decrease/(increase) in receivables	3.6	(8.1)	(0.2)	-
Increase/(decrease) in payables	9.0	7.9	0.1	(0.1)
Working capital currency movements	(5.4)	2.6	-	-
Cash generated by operations	31.5	22.3	(6.3)	(5.4)
Income taxes(paid)/received	(2.6)	(0.9)	1.6	-
Interest paid	(6.6)	(4.9)	(5.8)	(5.4)
Net cash from/(used in) operating activities	22.3	16.5	(10.5)	(10.8)
Cash and cash equivalents comprise:				
Cash	7.2	8.5	10.0	7.4
Bank overdrafts	(0.2)	-	(1.3)	-
Total	7.0	8.5	8.7	7.4

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

b) Free cash flow

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

	Group Year ended 2006 £m	Group Year ended 2005 £m
Net cash from operating activities	22.3	16.5
Interest received	1.3	1.4
Proceeds on disposal of property, plant and equipment	2.2	0.9
Purchases of property, plant and equipment – cash	(20.1)	(16.3)
Purchase of intangible assets	(0.6)	(0.3)
Free cash flow	5.1	2.2

Notes to the Financial Statements continued

34. Notes to the cash flow statement continued

c) Analysis of net debt

Group

	At 1 January 2006 £m	Cash flow £m	Non-cash items £m	Exchange movement £m	31 December 2006 £m
Cash	8.5	(0.5)	-	(0.8)	7.2
Overdrafts	-	(0.2)	-	-	(0.2)
Cash and cash equivalents	8.5	(0.7)	-	(0.8)	7.0
Debt due within one year	(0.2)	-	(12.7)	-	(12.9)
Debt due after one year	(66.3)	(46.0)	13.0	9.1	(90.2)
Finance leases	(1.8)	0.2	-	-	(1.6)
Forward exchange contract losses	(2.6)	0.2	-	3.4	1.0
Total	(62.4)	(46.3)	0.3	11.7	(96.7)

The forward exchange contract losses shown above are reported as £nil (2005 – £2.8m) in current liabilities within trade and other payables and £1.0m (2005 – £0.2m) in current assets within trade and other receivables.

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

35. Operating lease arrangements

The Group and the Company as lessee

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	4.3	3.9	0.2	0.2

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

	Group Year ended 2006 £m	Group Year ended 2005 £m	Company Year ended 2006 £m	Company Year ended 2005 £m
Within one year	3.5	3.6	0.2	0.2
In the second to fifth years inclusive	10.8	10.9	0.6	0.6
After five years	11.6	15.7	0.2	0.3
	25.9	30.2	1.0	1.1

Operating lease payments principally represent rentals payable by the Group for certain of its manufacturing properties. The leases with the two largest outstanding commitments, representing 56% (2005 – 59%) of the Group's commitment, respectively expire in 2018 (with rentals fixed for 1.5 years) and in 2026 (with rentals currently under review).

The Company has guaranteed £1.4m (2005 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

36. Share-based payments

The Group recognised total expenses of £0.6m (2005 – £0.2m) related to share-based payments, of which £0.4m (2005 – £0.2m) related to equity-settled share-based payments, and £0.2m (2005 – £nil) related to social security costs on share-based payments. At 31 December 2006, the Group had a liability of £0.3m (2005 – £nil) arising from share-based payments of which £0.2m (2005 – £nil) related to social security costs. The Company recognised total expenses of £nil (2005 – £0.2m) related to equity-settled share-based payments.

The number of shares and exercise prices for all periods presented have been adjusted to take account of the bonus element of the 2006 rights issue. The disclosures below are in respect of both Group and Company.

(i) 1999 Executive Share Option Plan

Equity-settled share option plans

Under the 1999 Executive Share Option Plan, options will normally only become exercisable if the Group's Adjusted Earnings per Share grows by not less than 4% per annum compound above the growth in the UK Retail Price Index (RPI) over a period of three or more financial years commencing in January of the year of grant. They will lapse if not exercised within six years of the date of grant. Options are exercisable at a price equal to the average of the closing mid-market price of the Company's shares in the three days prior to the date of grant. No options were granted or exercised under the 1999 Executive Share Option Plan during the year. The following options were outstanding as at 31 December 2006 and 2005:

	Year ended 2006		Year ended 2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	9,817,929	32.49p	11,575,582	37.06p
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(218,962)	21.97p	(1,315,990)	34.22p
Expired	(3,020,854)	53.71p	(441,663)	146.98p
Outstanding at 31 December	6,578,113	23.10p	9,817,929	32.49p
Exercisable at 31 December	-	n/a	-	n/a

The options outstanding at 31 December 2006 had exercise prices ranging from 21.97p to 50.07p per share, and a weighted average remaining contractual life of 2.0 years. The options outstanding at 31 December 2005 had exercise prices ranging from 21.97p to 78.56p per share, and a weighted average remaining contractual life of 2.3 years.

Cash-settled share option plans

Under the 1999 Executive Share Option Plan, shadow options have been granted to certain employees. These are subject to the same general terms and conditions as the above equity-settled options, however, on exercise the holder is entitled to receive an amount equal to the difference between the exercise price and the then market value of the shares in relation to which the shadow option is exercised. No shadow options were granted or exercised under the 1999 Executive Share Option Plan during the year. Shadow share options over 307,620 shares were outstanding as at 31 December 2006 and 2005 with exercise prices ranging from 21.97p to 28.56p per share and a weighted average remaining contractual life of 1.9 years (2005 – 2.9 years).

(ii) 2005 Long Term Incentive Plan

1,323,820 shares were awarded under the 2005 Long Term Incentive Plan on 15 March 2006. Awards under this plan have a three year vesting period, subject to earnings per share (EPS) and total shareholder return (TSR) performance conditions being met. Half the awards have an attaching performance target for EPS growth over the three year performance period of at least 5% per annum above the RPI. The other half of the awards begin to vest if the Company's TSR falls in the top half of a comparator group at the end of the three year performance period. Vesting levels increase with higher performance. The awards are settled by delivering shares to the participants.

The estimated fair value for the awards granted in the year with EPS conditions is 59.33p per share, which is essentially the share price at the date of grant of 64.75p per share less an allowance for dividends foregone over the three year vesting period. The estimated fair value for the awards granted in the year with TSR conditions is 35.71p per share, reflecting an adjustment of 60% to the fair value of the awards with EPS conditions due to the stringent TSR condition.

Notes to the Financial Statements continued

36. Share-based payments continued

These fair values were calculated by applying a binomial option pricing model. This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition. The model inputs at the date of grant were the share price of 64.75p, a risk-free interest rate of 4.4% per annum, expected volatility of 34.0% per annum, net dividend yield of 2.9% per annum, and the performance conditions as noted above. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years.

The following share awards were outstanding as at 31 December 2006 and 2005:

	Year ended 2006	Year ended 2005
	Number of shares	Number of shares
Outstanding at 1 January	1,676,231	–
Granted	1,323,820	1,676,231
Exercised	–	–
Forfeited	(73,353)	–
Outstanding at 31 December	2,926,698	1,676,231

(iii) Long Term Share Incentive Plan

The award of 870,000 shares made under the Long Term Share Incentive Plan in October 2001 lapsed during the year ended 31 December 2005, as the EPS performance criteria of at least 3% per annum growth above RPI over the four year period had not been achieved.

(iv) Savings-Related Share Option Plan

The Company operates a Savings-Related Share Option Plan for eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the HM Revenue & Customs rules for such savings plans. No such options have been awarded since 6 September 2002. The following options were outstanding as at 31 December 2006 and 2005:

	Year ended 2006		Year ended 2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	2,005,797	26.95p	4,889,611	28.67p
Granted	–	–	–	–
Exercised	(718,891)	29.33p	(1,926,948)	25.12p
Forfeited	(75,099)	29.60p	(388,963)	29.95p
Expired	(60,323)	35.07p	(567,903)	45.90p
Outstanding at 31 December	1,151,484	24.87p	2,005,797	26.95p
Exercisable at 31 December	59,906	39.99p	596,498	26.89p

The number of share options exercised in 2006 was 692,880, however this has been adjusted to 718,891 to take account of the bonus element of the 2006 rights issue. The weighted average share price at the date of exercise for share options exercised during the period was 61.35p (2005 – 50.91p). The options outstanding at 31 December 2006 had exercise prices ranging from 24.04p to 39.99p per share, and a weighted average remaining contractual life of 1.3 years. The options outstanding at 31 December 2005 had exercise prices ranging from 24.04p to 41.42p per share, and a weighted average remaining contractual life of 1.7 years.

37. Retirement benefit schemes

The Group operates a number of pension plans in the UK, North America and Europe. These include both defined contribution arrangements and defined benefit arrangements. The largest defined benefit arrangement for the Group and Company, the Senior plc Pension Plan, is a funded scheme in the UK, providing benefits based on final pensionable emoluments for the employees of the Group and Company. The latest full actuarial valuation was carried out as at 6 April 2004 and, for the purposes of accounting under IAS 19, this valuation has been rolled forward to 31 December 2006.

In addition, the Group operates three defined benefit schemes in the USA. Separate disclosure is made for the funded UK and US defined benefit arrangements. In both the UK and the USA the assets of funded schemes are held in separate trustee administered funds managed by independent financial institutions and have pension costs assessed by consulting actuaries using the projected unit method.

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

37. Retirement benefit schemes *continued*

a) Defined Contribution Schemes

The Group has a number of different defined contribution and government sponsored arrangements in place in the countries in which it operates. None of these are individually material to the Group and the aggregate cost of such schemes for the period was £2.4m (2005 – £2.2m).

b) Defined Benefit Schemes

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes is set out below. The Company's defined benefit scheme obligations are set out in the "UK plans funded" column below.

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Present value of defined benefit obligations	(172.1)	(21.8)	(3.5)	(197.4)	(165.7)	(23.2)	(3.7)	(192.6)
Fair value of plan assets	141.3	18.6	-	159.9	134.4	18.3	-	152.7
Plan deficit per balance sheet	(30.8)	(3.2)	(3.5)	(37.5)	(31.3)	(4.9)	(3.7)	(39.9)

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

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	165.7	23.2	3.7	192.6	150.9	19.8	3.5	174.2
Current service costs	1.3	0.5	0.2	2.0	1.2	0.5	0.1	1.8
Interest cost	8.2	1.3	0.1	9.6	8.1	1.2	0.2	9.5
Contributions by plan participants	0.7	-	-	0.7	0.7	-	-	0.7
Actuarial losses/(gains)	2.4	0.8	(0.1)	3.1	10.2	0.2	0.4	10.8
Benefits paid	(6.2)	(1.0)	(0.3)	(7.5)	(5.4)	(0.9)	(0.4)	(6.7)
Exchange differences	-	(3.0)	(0.1)	(3.1)	-	2.4	(0.1)	2.3
At 31 December	172.1	21.8	3.5	197.4	165.7	23.2	3.7	192.6

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

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	134.4	18.3	-	152.7	117.2	15.6	-	132.8
Expected return on plan assets	7.5	1.3	-	8.8	7.1	1.3	-	8.4
Actuarial gains/(losses)	0.7	1.4	-	2.1	11.1	(0.1)	-	11.0
Contributions from employer	4.2	1.0	-	5.2	3.7	0.5	-	4.2
Contributions by plan participants	0.7	-	-	0.7	0.7	-	-	0.7
Benefits paid	(6.2)	(1.0)	-	(7.2)	(5.4)	(0.9)	-	(6.3)
Exchange differences	-	(2.4)	-	(2.4)	-	1.9	-	1.9
At 31 December	141.3	18.6	-	159.9	134.4	18.3	-	152.7

Notes to the Financial Statements continued

37. Retirement benefit schemes continued

e) Amounts recognised in income in respect of these defined benefit schemes are as follows:

	31 December 2006				31 December 2005			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost included within operating profit	1.3	0.5	0.2	2.0	1.2	0.5	0.1	1.8
Interest cost	8.2	1.3	0.1	9.6	8.1	1.2	0.2	9.5
Expected return on plan assets	(7.5)	(1.3)	-	(8.8)	(7.1)	(1.3)	-	(8.4)
Included within finance costs	0.7	-	0.1	0.8	1.0	(0.1)	0.2	1.1
	2.0	0.5	0.3	2.8	2.2	0.4	0.3	2.9

Of the current service cost for the year, £1.2m (2005 – £1.2m) has been included in cost of sales, and £0.8m (2005 – £0.6m) has been included in administrative expenses.

Actuarial losses of £1.0m (2005 – £0.2m gains) have been recognised in the Statement of Recognised Income and Expense. The cumulative amount of actuarial losses recognised in the statement of recognised income and expense as at 31 December 2006 is £1.1m (2005 – £0.1m).

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2006 £m	2005 £m	2006 £m	2005 £m
Fair value of plan assets				
Equities and active currency	79.9	78.0	12.3	12.6
Bonds	11.2	11.3	5.1	5.0
Gilts	49.7	44.8	-	-
Properties & other	0.5	0.3	1.2	0.7
Total	141.3	134.4	18.6	18.3
Actual return on plan assets	8.2	18.2	2.7	1.2
Major Assumptions (per annum %)				
Inflation	2.9%	2.6%	3.0%	2.5%
Increase in salaries	3.9%	3.6%	4.0%	4.0%
Increase in pensions	2.9%	2.6%	0.0%	0.0%
Increase in deferred pensions	2.9%	2.6%	0.0%	0.0%
Rate used to discount plan liabilities	5.3%	5.0%	5.9%	5.9%
Expected return on assets	5.8%	5.6%	8.0%	8.0%
Life expectancy of a male aged 65 in 2006	18.6	18.6	17.7	16.7

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

The estimated amounts of contributions expected to be paid during 2007 to the UK plan is £4.3m (£3.0m of which is additional to normal contributions to fund the past service deficit) and to the USA funded plans is £0.8m (all of which is discretionary).

g) Other post-retirement liabilities

This balance comprises an unfunded German pension plan £2.3m (2005 – £2.4m), unfunded closed pension and post-retirement healthcare plans in the USA £0.4m (2005 – £0.5m) and provision for post-retirement payments in France of £0.8m (2005 – £0.8m).

37. Retirement benefit schemes continued

The closed pension and post-retirement healthcare plans in the US have been valued on a projected unit method with the following assumptions: discount rate 5.9%, and annual healthcare cost trend rate of 8.0%, reducing to 4.0% in 2014. The effect of a 1% increase or decrease in the healthcare cost trend rate is negligible to the Group's results. The German plan has been subject to formal actuarial valuation on a projected unit method with the following assumptions: discount rate 4.4%, salary growth 2.0% and inflation 1.5%. In France, the provision arises from a legal obligation to make payments to retirees in the first two years post-retirement. Hence, it is not subject to discounting to the same extent as the other longer term post-retirement liabilities.

h) History of experience gains and losses

	2006 £m	2005 £m	2004 £m
UK plan funded			
Present value of defined benefit obligations	(172.1)	(165.7)	(150.9)
Fair value of plan assets	141.3	134.4	117.2
Plan deficit	(30.8)	(31.3)	(33.7)
Experience (loss)/gain on plan liabilities	(2.2)	0.3	6.1
Experience gain on plan assets	0.7	11.1	1.8
	2006 £m	2005 £m	2004 £m
US plan funded			
Present value of defined benefit obligations	(21.8)	(23.2)	(19.8)
Fair value of plan assets	18.6	18.3	15.6
Plan deficit	(3.2)	(4.9)	(4.2)
Experience gain/(loss) on plan liabilities	0.1	(0.1)	(0.8)
Experience gain/(loss) on plan assets	1.4	(0.1)	(0.3)
	2006 £m	2005 £m	2004 £m
Unfunded plans			
Present value of defined benefit obligations	(3.5)	(3.7)	(3.5)
Fair value of plan assets	-	-	-
Plan deficit	(3.5)	(3.7)	(3.5)
Experience gain/(loss) on plan liabilities	-	-	-

The Group has applied the exemption under IFRS 1 to only disclose amounts as they are determined for each accounting period prospectively from the transition date.

38. Related party transactions

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

	Year ended 2006 £m	Year ended 2005 £m
Transactions in year		
Management charges	0.3	0.2
Dividends receivable	0.3	14.3
Interest receivable	6.1	8.3
Interest payable	(0.1)	(0.6)
Balances at year-end		
Investments in subsidiaries	111.8	92.0
Amounts due from subsidiaries	167.4	134.5
Amounts due to subsidiaries	21.5	29.1

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

The remuneration of the Directors, who are the key management personnel of the Group, is set out in the Remuneration Report on pages 18 to 23.