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 strategies and the potential for those strategies 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 are made by the Directors in good faith based on the information available to them at the time of their approval of this report, and they should be treated with caution due to the inherent uncertainties underlying any such forward-looking information.

In preparing this OFR, the Directors have sought to comply with the guidance set out in the Accounting Standards Board's Reporting Statement: "Operating and Financial Review".

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

- Operations
- Long-term strategy and business objectives
- Key performance indicators
- Acquisitions
- Financial review
- Divisional review
- Outlook
- Risks and uncertainties
- Resources
- Corporate responsibility

Operations

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

Aerospace

Following the acquisition of two aerospace businesses in the year, Sterling Machine and AMT, the Aerospace Division is now the larger of the Group's two Divisions, consisting of 12 operating companies, seven of which are located in the USA, with the remainder in Europe. In 2006, the Division's main products were engine structures and mounting systems (30% of Divisional sales), metallic ducting systems (25%), composite ducting systems (14%), helicopter machined parts (7%), fluid control systems (6%) and airframe and other structural parts (3%). 15% of Divisional sales are to non-aerospace, but related technology, markets. In 2007, sales of airframe and other structural parts are expected to represent a much greater portion of Divisional sales, as AMT was owned by Senior for only the final two months of 2006.

Flexonics

The Flexonics Division has 11 operations and was formed at the beginning of 2006, by the consolidation of the Automotive (eight operations) and Industrial (three operations) Divisions, for managerial, technical and market-related reasons. The 11 operations are located in North America (three), Europe (five), South Africa, India and Brazil. In 2006, the Division's sales comprised of flexible mechanisms for vehicle exhaust systems (32% of Divisional sales), diesel fuel distribution pipework (13%), cooling and emission control components (12%), expansion joints and ducting for the heating and ventilation market (11%), expansion joints/control bellows/hoses for the power market (11%), for the oil and gas and chemical processing industries (7%) and for other industrial markets (14%). 2007 is anticipated to see an increasing percentage of sales coming from the diesel fuel distribution pipework, and the cooling and emission control component sectors, as production of the Group's new heavy duty diesel products ramp up.

Long-term Strategy and Business Objectives

Senior is a manufacturer of products used principally in the aerospace, diesel engine, exhaust system and energy markets.

There are four key elements to Senior's strategy for accelerating growth and creating real shareholder value. They are:

- targeted investment in new product development for markets having higher than average growth potential;
- exceeding customer expectation through advanced process engineering and excellent factory execution;
- focused acquisitions which meet strict financial and commercial criteria;
- creating an entrepreneurial culture, with strong controls, amongst its operating businesses.

The Group implements and monitors its performance against its strategy by having the following financial objectives:

- to have organic annual 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 follow a progressive dividend policy;
- to maintain an overall return on capital employed in excess of the Group's cost of capital and to target a return in excess of 15%.

These financial objectives have more recently been supported by two non-financial objectives which are:

- to reduce the Group's carbon dioxide emissions to revenue ratio by 15% by 2010; and
- to reduce the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees by 5% per annum.

During 2006, the Group made significant progress on a number of its strategic objectives. Two aerospace businesses were acquired, both of which made strong starts within the Group, the new heavy duty diesel engine products went into production in the final quarter of the year, and on-time delivery performance was maintained at acceptable levels despite the significant ramp up in the build rates of commercial aircraft.

The Group's progress against its strategic objectives can be assessed by considering the key performance indicators set out in the table below.

Key Performance Indicators

	2006	2005
Organic revenue growth[1]	**+9.7%**	+9.2%
Adjusted earnings per share[2]	**4.65p**	3.82p
– growth	**+21.7%**	+11.7%
Return on revenue margin[3]	**6.8%**	5.8%
Return on capital employed[4]	**13.8%**	13.7%
CO_2 emissions/£m revenue[5]	**114 tonnes**	n/a
Lost time injury frequency rate[6]	**2.77**	n/a

(1) Organic revenue growth is the rate of growth of Group revenue, at constant exchange rates, excluding the effect of acquisitions and disposals.
(2) Adjusted earnings per share is the profit after taxation, adjusted for the profit or loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions, divided by the average number of shares in issue in the period.
(3) Return on revenue margin is the Group's adjusted operating profit divided by its revenue.
(4) Return on capital employed is the Group's adjusted operating profit divided by the average of the capital employed at the start and end of the period. Capital employed being total assets less total liabilities, except for those of an interest bearing nature.
(5) CO_2 emissions/£m revenue is an estimate of the Group's carbon dioxide emissions in tonnes divided by the Group's revenue in £ millions.
(6) Lost time injury frequency rate is the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees.

The table of Key Performance Indicators ("KPIs") above shows that the Group exceeded three of its four financial goals during the year and is on track to achieve its 15% return on capital employed target in the near future. The two non-financial KPIs were introduced during the year and hence no prior year comparative figures are included in the table.

Acquisitions

The Group completed two acquisitions in the year, the first for over six years. The acquired businesses are both leading suppliers to the aerospace industry.

Sterling Machine Co., Inc. was acquired on 27 January 2006 for $38.0m (£21.5m) including costs and assumed net debt. Sterling Machine is a pre-eminent manufacturer of transmission and rotor-head helicopter components for military platforms, principally to Sikorsky Aircraft Corporation. The business is located in Enfield, Connecticut, USA. The purchase consideration was funded through the combination of a placing of 15 million new Senior plc shares at 60.0 pence each, raising £8.8m net of costs, and utilisation of the Group's existing borrowing facilities. Sterling Machine performed strongly during its first 11 months with the Group.

A second aerospace business, AMT, located north of Seattle in Washington State, USA, was acquired on 27 October 2006. It manufactures aluminium structural parts (mainly for Boeing commercial aircraft) utilising state-of-the-art four-axis, five-axis and long-bed machining centres. AMT's key programmes are the Boeing 737 and 777, both of which have large order books and increasing build rates. AMT is also well positioned on the new Boeing 787 ("Dreamliner") which is scheduled for delivery to its first customer during 2008 and which already has around 450 customer orders. AMT was acquired for a total consideration, including assumed debt, the net asset purchase price adjustment and acquisition costs, of $113.9m (£60.0m). The purchase consideration was funded through a 1 for 5 rights issue at 42.0 pence per share, which raised £25.9m net of expenses, together with the partial utilisation of the Group's new five year £80.0m revolving credit facility. AMT performed strongly during its first two months of ownership by Senior and, with its significant involvement on the B787, its prospects are excellent.

Financial Review

Summary

A summary of the Group's operating results are set out in the table below. A more detailed review of each Division is included in the section entitled "Divisional Review".

	Revenue		Adjusted op profit[1]		Margin	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 %**	2005 %
Aerospace	**197.0**	156.2	**19.2**	13.0	**9.7**	8.3
Flexonics	**191.5**	183.0	**11.8**	11.1	**6.2**	6.1
Inter-segment sales	**(0.6)**	(0.6)	**–**	–	**–**	–
Central costs	**–**	–	**(4.8)**	(4.3)	**–**	–
Group total	**387.9**	338.6	**26.2**	19.8	**6.8**	5.8

Adjusted operating profit[1] is the profit before loss on sale of fixed assets, amortisation of intangible assets arising on acquisitions, interest and tax. It may be reconciled to the operating profit shown in the Consolidated Income Statement as follows:

	2006 £m	2005 £m
Operating profit per financial statements	**24.5**	19.6
Loss on sale of fixed assets	**0.4**	0.2
Amortisation of acquisition intangible assets	**1.3**	–
Adjusted operating profit	**26.2**	19.8

Group revenue grew by 14.6%, aided in part by the two acquisitions, with the commercial aerospace, oil and gas and chemical processing markets all particularly strong. Adjusted operating profit rose by 32.3% principally due to the gearing benefit of increased sales and the strong performances from the newly acquired businesses. Operating margins consequently increased to 6.8%, a full percentage point higher than in the prior year.

The Group's free cash flow and net debt for 2006 and the prior year were:

	2006 £m	2005 £m
Free cash flow	**5.1**	2.2
Net debt	**96.7**	62.4

Free cash flow is the total net cash flow generated by the Group prior to corporate activity such as acquisitions, disposals, financing and transactions with shareholders. It may be derived from the figures contained in the Financial Statements as follows:

	2006 £m	2005 £m
Net cash from operating activities	**22.3**	16.5
Interest received	**1.3**	1.4
Proceeds on disposal of tangible fixed assets	**2.2**	0.9
Purchases of tangible fixed assets	**(20.1)**	(16.3)
Purchases of intangible assets	**(0.6)**	(0.3)
Free cash flow	**5.1**	2.2

Net debt increased from £62.4m to £96.7m largely due to the purchase of the two aerospace businesses.

Revenue
Group revenue increased by £49.3m (14.6%) to £387.9m (2005 – £338.6m) with the two aerospace acquisitions responsible for £18.8m of the increase. If the effect of the acquisitions and the small adverse year-on-year exchange effect (£2.0m) are excluded, then underlying revenue grew by 9.7% on a constant currency basis. In 2006, 57% of Group sales originated from North America, 14% from the United Kingdom, 20% from the rest of Europe and 9% from the rest of the World.

Operating profit
Group operating profit increased by 25.0% to £24.5m (2005 – £19.6m). Adjusted operating profit, that before loss on sale of fixed assets of £0.4m (2005 – £0.2m) and amortisation of intangible assets arising on acquisition of £1.3m (2005 – £nil), increased by £6.4m (32.3%) to £26.2m (2005 – £19.8m). If the effects of the acquisitions (£3.8m profit) and foreign currency (£0.3m adverse impact) are excluded then underlying adjusted operating profit increased by 14.9% on a constant currency basis.

Finance costs
Finance costs, net of investment income of £0.9m (2005 – £1.3m), increased to £6.4m (2005 – £5.0m) as global interest rates rose, particularly in North America and the UK, and the Group's debt level increased as a result of the two acquisitions undertaken in the year.

Profit before tax
Adjusted profit before tax increased by 33.8% to £19.8m (2005 – £14.8m). Reported profit before tax increased to £18.1m (2005 – £14.6m).

Tax charge
The total tax charge increased to £2.9m (2005 – £2.5m) as the Group's taxable profits increased. If the tax benefits arising from the loss on sale of fixed assets and amortisation of intangible assets from acquisitions totalling £0.6m (2005 – £nil) are added back, then the underlying tax charge of £3.5m (2005 – £2.5m) represents an underlying rate of 17.7% (2005 – 16.9%) on the adjusted profit before tax of £19.8m (2005 – £14.8m).

Earnings per share
15 million ordinary shares were issued in January 2006, by way of a share placing, to help fund the acquisition of Sterling Machine, and nearly 65 million ordinary shares were issued in October 2006, through a 1 for 5 rights issue, to help fund the acquisition of AMT. As a consequence, the weighted average number of shares for the purposes of calculating undiluted earnings per share in 2006 was 349.8 million (2005 – 322.2 million restated to reflect the bonus element of the rights issue). Having taken this into account, adjusted earnings per share increased by 21.7% to 4.65p (2005 – 3.82p restated for the bonus element of the rights issue). Basic earnings per share increased to 4.35p (2005 – 3.75p restated).

Dividends
A final dividend of 1.381p per share is proposed for 2006. This would bring the full year dividend to 2.000p per share, which would represent a 5.0% increase over the prior year's 1.905p per share as restated for the bonus element of the rights issue.

For ease of reference, the reported and restated dividends for 2006 and 2005, together with their costs, are set out in the table below.

	2006 Restated	2006 Reported	2005 Restated	2005 Reported
Pence per share				
Interim	**0.619p**	**0.650p**	0.619p	0.650p
Final (2006 proposed)	**1.381p**	**n/a**	1.286p	1.350p
Total	**2.000p**		1.905p	
	+5.0%			
Cost				
Interim	**£2.1m**		£2.0m	
Final (2006 proposed)	**£5.4m**		£4.4m	
Total	**£7.5m**		£6.4m	
	+17.2%			

Research and development and capital expenditure
The Group spent £8.5m on research and development during 2006 (2005 – £8.3m). In addition, £20.7m (2005 – £16.6m) was invested in capital expenditure mainly to bring the new heavy duty diesel engine products into production in North America and, as build rates for civil aircraft continued to rise, to increase machining capacity and capability at a number of the Group's aerospace operations.

Capital structure
The Group's consolidated balance sheet at 31 December 2006 may be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	87.6	–	87.6
Goodwill and intangible assets	126.1	–	126.1
Current assets and liabilities	139.8	(92.3)	47.5
Other non-current assets and liabilities	3.8	(3.7)	0.1
Post-retirement obligations	–	(37.5)	(37.5)
Total before net debt	357.3	(133.5)	223.8
Net debt	8.2	(104.9)	(96.7)
Total at 31 December 2006	**365.5**	**(238.4)**	**127.1**
Total at 31 December 2005	282.5	(190.2)	92.3

Net assets increased by 37.7% in the year to £127.1m (2005 – £92.3m) and net assets per share by 9.4% to 32.6p (2005 – 29.8p). There were 389.9 million ordinary shares in issue at the end of 2006 (2005 – 309.3 million)

Cash flow

The Group's free cash flow, whose derivation is set out in the table below, increased to £5.1m (2005 – £2.2m) on the back of increased operating profits and despite the £4.3m investment in working capital (as revenue increased) and net capital expenditure of £18.5m being nearly 1.5x the depreciation level of £12.6m (excluding £1.3m of amortisation of intangible assets acquired on acquisition).

	2006 £m	2005 £m
Operating profit	**24.5**	19.6
Depreciation and amortisation	**13.9**	12.0
Working capital movement	**(4.3)**	(6.9)
Pension payments above service cost	**(3.4)**	(2.8)
Other items	**0.8**	0.4
Operating cash flow	**31.5**	22.3
Interest paid (net)	**(5.3)**	(3.5)
Tax paid	**(2.6)**	(0.9)
Capital expenditure	**(20.7)**	(16.6)
Sale of fixed assets	**2.2**	0.9
Free cash flow	**5.1**	2.2
Dividends	**(6.5)**	(6.1)
Acquisitions and disposals	**(79.7)**	(0.1)
Share issues	**34.8**	0.5
Foreign exchange variations	**11.7**	(7.8)
Non-cash movements	**0.3**	(0.5)
Opening net debt	**(62.4)**	(50.6)
Closing net debt	**(96.7)**	(62.4)

Acquisitions, and the related share issues, played a major part in the Group's 2006 cash flow with the respective amounts shown in the table above being analysed as follows:

	Acquisitions and disposals £m	Share issues £m	
Sterling Machine	(21.5)	8.8	Share placing
AMT	(60.0)	25.9	Rights issue
less – cash acquired	0.5	–	
– deferred consideration	1.2	–	
Other	0.1	0.1	
	(79.7)	34.8	

Net debt

Net debt rose by £34.3m in the year to £96.7m (2005 – £62.4m). The increase was mainly due to the utilisation of additional borrowings to help fund the two acquisitions (£45.1m) being partly offset by an exchange benefit of £11.7m. Around 95% of the Group's gross borrowings are denominated in US $. The US $ weakened in 2006 from US$1.72 : £1 at the beginning of the year to US$1.96 : £1 at the year-end, causing the reported sterling net debt amount to reduce significantly.

Liquidity

As at 31 December 2006, the Group's gross borrowings, excluding finance leases, were £103.3m (2005 – £66.5m). The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows:

	Gross borrowings £m	Committed facilities £m
Within one year	13.1	12.8
In the second year	38.4	50.1
In years three to five	51.3	80.0
After five years	0.5	–
	103.3	142.9

In anticipation of $25m (£12.8m) of loan notes maturing in June 2007, the Group issued $30m (£15.3m) of new loan notes on 31 January 2007, with a maturity of 10 years and carrying a fixed interest rate of 5.85%.

Changes in accounting policies

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

Going concern basis

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

Divisional Review

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that, in order to make appropriate comparisons, the results for 2005 have been translated at constant currency using 2006 average exchange rates.

Aerospace Division

	2006 £m	2005 £m	Change
Revenue	**197.0**	155.0[1]	+27.1%
Adjusted operating profit	**19.2**	12.9[1]	+48.8%
Operating margin	**9.7%**	8.3%	–

(1) 2005 results translated using 2006 average exchange rates.

In the Aerospace Division (12 operations following the acquisition of Sterling Machine and AMT), revenue grew by £42.0m (27.1%) to £197.0m (2005 – £155.0m at constant currency) with the acquisitions contributing £18.8m.

Adjusted operating profit (that before profit/loss on sale of fixed assets and amortisation of intangible assets arising on acquisition) increased by £6.3m (48.8%) to £19.2m (2005 – £12.9m at constant currency) with the two acquisitions accounting for £3.8m of the increase.

The Division's results benefited from the continuing strong growth in the build rate of civil aircraft, with the combined large commercial, regional and business jet markets accounting for 57% of 2006 Divisional sales. The market for large commercial aircraft was particularly strong, with Boeing and Airbus together delivering 25% more aircraft in 2006 (832) than in 2005 (668). Their order intakes were also extremely strong, at 2.2x delivery levels. Their combined order book of 4,988 aircraft at the year-end is 25% above the level at the start of 2006 (3,986 aircraft). The six year order books, at current delivery rates, represent a very healthy picture for the future. Both Airbus and Boeing are forecasting to increase build rates further in the coming years. Elsewhere, the regional jet market was weak, but the business jet market very strong, and the military market (27% of Divisional sales) was stable.

Flexonics Division

	2006 £m	2005 £m	Change
Revenue	**191.5**	182.2[(1)]	+5.1%
Adjusted operating profit	**11.8**	10.9[(1)]	+8.3%
Operating margin	**6.2%**	6.0%	–

(1) 2005 results translated using 2006 average exchange rates.

In the Flexonics Division, the 11 operations saw combined revenue grow by £9.3m (5.1%) to £191.5m (2005 – £182.2m at constant currency), with strong energy markets but generally flat automotive markets. Whilst sales of the new heavy duty diesel engine products began in the final months of the year, the volumes were not significant.

Adjusted operating profit for the Division increased by 8.3% to £11.8m (2005 – £10.9m at constant currency) as strong energy markets and operational improvements more than offset the impact of flat automotive demand and the start up costs associated with the introduction of the diesel engine products in North America.

Automotive production levels in North America declined by 2.3% in 2006, to 16.00 million vehicles (2005 – 16.37 million), whereas Western Europe saw a 2.1% increase to 18.37 million vehicles (2005 – 18.00 million). The outlook for 2007 is for continuing flat demand, with further erosion of the sales of the "Big Three" (General Motors, Ford and Daimler Chrysler) in North America. In 2006, they had 56.5% of the market (2005 – 59.6%). The outlook in France remains challenging.

However, overall prospects for the Flexonics Division remain good given strong energy markets, the continued industrialisation of China and India, growing volumes in the European truck market and the fact that production of the new heavy duty diesel engine products in North America is now ramping up. The Group's North American plant is expected to have total sales in excess of £20m in 2008 for its diesel fuel lines, diesel common rail and diesel exhaust gas recycling cooler products. Completion of the troublesome Wembley ducting contract in January 2007 should also enhance year-on-year profitability.

Outlook

The commercial aerospace industry, representing 57% of the Aerospace Division's 2006 sales, continues to thrive. The most important sector within this category is the large commercial sector, principally Boeing, Airbus, and the engine manufacturers GE and Rolls-Royce, and their respective supplier bases. Boeing and Airbus have together received orders for 3,891 aircraft in the last two years, against the 1,500 aircraft delivered. This has resulted in their collective order book increasing from 2,597 aircraft at the beginning of 2005 to 4,988 at the end of 2006 (a six year order book at 2006 delivery rates). As a consequence, they have been increasing their build rates (2006 saw a 25% increase in deliveries) and are forecasting further increases of around 10% per annum over the next two years. The business jet sector is seeing similar buoyant market conditions to that of the large commercial sector, whilst the regional jet market (typically 30 to 90 seat aircraft) is now stabilising after a few years in decline. The military/defence sector, 27% of 2006 Aerospace Divisional sales, is healthy but stable.

In the Flexonics Division, the Group increased its sales of flexible exhaust connectors (32% of 2006 Divisional sales), largely because its Brazilian operation began production on a number of new programmes. The global market for this product is expected to stay competitive, not helped by increases in the price of stainless steel, with demand in North American and European markets remaining broadly unchanged. The industrial markets in which the Group operates, e.g. power, oil and gas, chemical processing and HVAC, are generally in a healthy condition with strong future growth anticipated for many of them. Industrial markets represented 43% of the Flexonics Division's 2006 sales.

It is anticipated that the strong commercial aerospace market, healthy industrial markets and stable automotive markets, will provide a strong foundation for the Group's future growth. Three other areas in particular further underpin the Board's confidence as to the positive future for the Group: the ramping up, through 2007, of the North American heavy duty diesel engine products (2008 is expected to see sales in excess of £20m); full year contributions from the two aerospace acquisitions (AMT was owned for only two months in 2006 and Sterling Machine for 11); and the highly successful Boeing 787 ("Dreamliner") going into production in late 2007 (the Group has significant content on this aircraft and its engines).

However, in addition to the impact of the weakened US $ and higher stainless steel prices, there are certain risks and uncertainties inherent in the Group's business that may affect future performance. These are discussed below.

Risks and Uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's future performance, and could cause actual results to differ materially from expected and historical results.

Competitors
The Group operates in competitive market sectors. The aerospace market is principally located in North America and Europe. This is where the Group's aerospace operations are all situated, so enabling engineering support to be readily given to its customers. Whilst the industry is consolidating, the supplier base remains fragmented and the actions of a single competitor are unlikely to have a material impact on the results of the Group.

In the Flexonics Division, the industrial markets in which the Group operates (43% of 2006 Divisional sales) are diverse both geographically and in nature with engineering skills, technical qualifications and service levels being the key to success for most of them. Again, the markets are competitive, but no single competitor represents a material threat to the Group. In the automotive markets, products like the new North American heavy duty diesel engine products are similar in nature to those of aerospace, in that engineering support and process engineering are very important to the customers' choice of supplier. However, there are other automotive products where competition is fiercer and price more the defining factor. Where this is the case, the Group is increasingly manufacturing these products in its lower cost operations in the Czech Republic, South Africa, Brazil and India, rather than in its North American and Western European operations.

Markets and customers
Over half of the Group's sales are derived from the aerospace market with the majority being attributed to the commercial aircraft sector. Whilst these markets are expected to remain buoyant for a number of years, should this not be the case the Group's financial performance would be adversely affected, as was the case in 2001 following the events of "9/11". The Group has a relatively balanced portfolio of aerospace customers, nearly all of whom are financially strong, with the largest representing some 5% of 2006 Group sales. The immediate and total loss of such a customer is considered to be highly improbable given that many parts are typically supplied from a number of Senior's operations to a range of customer locations, with many products on long-term agreements.

The industrial markets are diverse, fragmented and generally healthy, with the largest single customer representing less than one half of one percent of 2006 Group sales. However, the financial health of much of the North American automotive industry is currently fragile. In the event that one of the larger automotive manufacturers were to seek protection from its creditors (known as going into Chapter 11 in the USA) then the Group would be unlikely to recover all, if any, of the amounts owed to it. The largest manufacturer accounted for around 7% of 2006 Group sales, both to the manufacturer directly and/or to its supplier base. However, production of the vehicles, and hence sales of the Group's products, would probably continue, albeit at a lower level, so rendering the impact to be of a one-off rather than ongoing nature. The Group has a strong balance sheet and insurance coverage for many of its North American automotive customers as mitigation against the effects of such an event occurring.

Manufacturing
The Group's manufacturing facilities could be disrupted for reasons beyond the Group's control, such as fire, workforce actions and other issues. As such, the Group prepares recovery plans for the most likely situations so that business continuity procedures are in place and staff are appropriately trained to implement them, should these situations occur.

Due to the rapid advancement in manufacturing technology, facilities may become outdated, affecting efficiency and product quality, which in turn may have a detrimental impact on revenue, cost of sales and profit margins. Consequently, the Group continues to invest in new manufacturing equipment and processes in order that it remains competitive in its chosen markets.

Environmental
The Group's operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials. As a result, the Group is subject to the requirements of environmental and occupational health and safety laws and regulations in a number of jurisdictions. These regulate such matters as waste water, storm water, solid and hazardous waste materials, and air quality. Under such laws and regulations, the Group may be liable for, amongst other things, the cost of investigating and remediating contamination (regardless of fault) and for fines and penalties for non-compliance. The Group's operations generally do not raise significant environmental risks, but the Group does use certain hazardous materials in its business.

Foreign exchange and interest rates
Although the Group reports in Pounds Sterling, in 2006 it derived approximately 86% of its revenue from businesses located outside the United Kingdom, of which 57% related to operations located in North America. Furthermore at the end of 2006, over 95% of the Group's gross borrowings were denominated in US Dollars. Fluctuations in the value of the US Dollar (and to a lesser extent other currencies) in relation to the Pound have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pounds Sterling. Although the Group seeks to match its foreign currency assets and liabilities, currency fluctuations could still have a significant impact on the Group's consolidated balance sheet, particularly total shareholders' funds, when the financial statements of its overseas subsidiaries are translated into Pounds Sterling. The Group also has a number of transaction-related foreign currency exposures, particularly the Euro to South African Rand. Although the Group seeks to hedge such exposures for 15 months forward, there is the risk that currency movements may have an adverse, or indeed positive, effect on the results of the Group's operations.

The majority of the Group's borrowings are subject to fixed interest rates. However, a significant element has variable rates, and consequently fluctuations in interest rates may have an effect on the results of the Group's operations.

These risks are managed by a centralised treasury department which reports to the Group Finance Director. It operates under the guidance of the Treasury Committee which meets quarterly and acts according to the laid-down objectives, policies and authority levels approved by the Board.

Defined benefit pension plan
The Group operates a number of defined benefit pension plans, with the largest being a UK plan, as well as a number of geographically based defined contribution and government sponsored arrangements.

The primary liability for funding the UK defined benefit pension plan rests with the participating employer. By virtue of the Pensions Act 2004, there may be risks for the Group in relation to this pension plan. These are largely generic risks associated with the operation of UK defined benefit pension plans (including the imposition of more onerous employer contribution/funding requirements by the Pensions Regulator, the requirement to fund the winding-up of pension plans by trustees on a "buy-out basis" and the provision of funding guarantees where required by the Pensions Regulator). Should the Pensions Regulator impose any of these requirements, they could have an adverse effect on the results of the Group's operations.

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 in the Group during 2006 was 5,202. Of these 4,444 were in production-related roles, 53 in distribution, 291 in sales and 414 in administration. Senior is a global group operating in 11 countries. At the end of 2006, the Group employed a total of 5,606 people, 357 in the two recently acquired businesses, with 49% located in North America, 16% in the United Kingdom, 21% in the rest of Europe and 14% in the rest of the World.

Manufacturing technology
A key strength of the Group is its manufacturing technology and production processes, which 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 2006, the Group spent £20.7m (2005 – £16.6m) on capital expenditure to add to the Group's manufacturing capability, as well as its production capacity.

Corporate Responsibility

The policy of the Board is to enhance shareholder value in an ethical and socially responsible manner which helps to preserve health, safety and the environment. Two of the Group's six KPIs, those relating to carbon dioxide emissions and lost time injuries, are applicable to this subject area. The Group's corporate and social responsibility principles, goals and performance indices are discussed in detail in the separate "Corporate Social Responsibility Report" contained within this Annual Report.