

Results for the year ended 31 December 2009

A resilient performance and strong cash flows deliver a £72m reduction in net debt

FINANCIAL HIGHLIGHTS	Year ended 31 December		
	2009	2008	
REVENUE	£540.1m	£562.4m	-4%
OPERATING PROFIT	£61.0m	£59.8m	+2%
ADJUSTED OPERATING PROFIT ⁽¹⁾	£59.4m	£64.5m	-8%
ADJUSTED OPERATING MARGIN ⁽¹⁾	11.0%	11.5%	-
PROFIT BEFORE TAX	£49.6m	£51.3m	-3%
ADJUSTED PROFIT BEFORE TAX ⁽¹⁾	£48.0m	£56.0m	-14%
BASIC EARNINGS PER SHARE	9.79p	9.92p	-1%
ADJUSTED EARNINGS PER SHARE ⁽¹⁾	8.91p	10.63p	-16%
TOTAL DIVIDENDS (PAID AND PROPOSED) PER SHARE	2.60p	2.60p	Unchanged
FREE CASH FLOW ⁽²⁾	£60.1m	£52.4m	+15%
NET DEBT ⁽²⁾	£102.3m	£174.5m	£72m better

(1) Adjusted figures are stated before loss on disposal of fixed assets of £0.1m (2008 - £nil), a £4.6m charge for amortisation of intangible assets acquired on acquisitions (2008 - £4.7m) and an exceptional pension gain of £6.3m (2008 - £nil). Adjusted earnings per share takes account of the tax impact of these items.

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

The Group's principal exchange rates, for the US dollar and the Euro, applied in the translation of revenue, profit and cash flow items at average rates were \$1.56 (2008 - \$1.85) and €1.12 (2008 - €1.26), respectively. The US dollar and Euro rates applied to the balance sheet at 31 December 2009 were \$1.61 (2008 - \$1.44) and €1.13 (2008 - €1.03), respectively.

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

“Senior has delivered a resilient set of results for 2009, with the highlights being the strong cash generation and the £72m reduction in net debt. These results, which were achieved despite the adverse impact that the global economic crisis had on many of the Group's markets, demonstrate the operational and financial strength of the Group. The current year has started ahead of the Board's expectations and, consequently, prospects for 2010, which were previously forecast to be more difficult than in 2009, have improved and the Group's performance for 2010 is now anticipated to be broadly in line with the 2009 outcome.”

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This Release represents the Company's dissemination announcement in accordance with the requirements of Rule 6.3.5 of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. The full Annual Report & Accounts 2009, together with other information on Senior plc, may be found at: www.seniorplc.com

The information contained in this Release is an extract from the Annual Report & Accounts 2009, however, some references to Note and page numbers have been amended to reflect Note and page numbers appropriate to this Release.

The Directors' Responsibility Statement has been prepared in connection with the full Financial Statements, Operating and Financial Review and Directors' Report as included in the Annual Report & Accounts 2009. Therefore, certain Notes and parts of the Directors' Report reported on are not included within this Release.

Note to Editors:

Senior is an international manufacturing Group with operations in 11 countries. It is listed on the main market of the London Stock Exchange (symbol SNR). Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, defence, land vehicle and energy markets.

Cautionary Statement

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

CHAIRMAN'S STATEMENT

“Senior has delivered a resilient set of results for 2009, with the highlights being the strong cash generation and the £72m reduction in net debt. These results, which were achieved despite the adverse impact that the global economic crisis had on many of the Group's markets, demonstrate the operational and financial strength of the Group. The current year has started ahead of the Board's expectations and, consequently, prospects for 2010, which were previously forecast to be more difficult than in 2009, have improved and the Group's performance for 2010 is now anticipated to be broadly in line with the 2009 outcome.”

Financial Results

Group revenue decreased by 4% to £540.1m (2008 - £562.4m), whilst reported operating profit increased by 2% to £61.0m (2008 - £59.8m). On an underlying basis, excluding the effects of beneficial foreign exchange movements and the exceptional pension curtailment gain, revenue declined by 16% and operating profit fell by 22%. The pension gain of £6.3m arose from the introduction of a 2% cap on future annual increases in pensionable salaries for active members of the Group's UK defined benefit pension plan. The reductions in underlying revenue and operating profit arose mainly as a result of the severe declines experienced in the land vehicle and business jet markets during the year.

Adjusted profit before tax, the measure which the Board believes most accurately reflects the true underlying performance of the business, decreased by 14% to £48.0m (2008 - £56.0m). Adjusted profit before tax measures profit before the loss on disposal of fixed assets of £0.1m (2008 - £nil), the charge for amortisation of intangible assets arising on acquisitions of £4.6m (2008 - £4.7m) and the exceptional pension gain of £6.3m (2008 - £nil). Adjusted earnings per share decreased by 16% to 8.91 pence (2008 - 10.63 pence).

One of the highlights of 2009 was the level of cash generated by the Group. Free cash flow increased by 15% to £60.1m (2008 - £52.4m), even after discretionary pension payments of £13.2m (2008 - £nil) were made into the UK and USA defined benefit pension plans. The very strong cash flow, combined with beneficial currency movements, resulted in net debt reducing by £72.2m to £102.3m during the year (31 December 2008 - £174.5m). This level of net debt represents 1.3 times (31 December 2008 - 2.1 times) earnings before interest, tax, depreciation and amortisation (“EBITDA”), well within the Group's principal banking covenant requirement that net debt to EBITDA is less than 3.0 times.

Through its resilient 2009 results, Senior has demonstrated that it can react quickly, and cost-effectively, to very challenging market conditions. Furthermore, the Group is well financed, with year-end net debt being £105.0m below the level of its committed borrowing facilities. These strong fundamentals leave the Group well positioned to invest in the future growth of the business.

The Group's 2009 financial performance is discussed in greater detail in the Operating and Financial Review which follows this statement.

Dividend

The Board is recommending an unchanged final dividend of 1.70 pence per share (2008 - 1.70 pence), bringing the total dividend for the year to 2.60 pence (2008 - 2.60 pence). At the level recommended, the full-year dividend would be covered 3.4 times (2008 - 4.1 times) by adjusted underlying earnings per share. The final dividend, if approved, will be paid on 28 May 2010 to shareholders on the register at close of business on 30 April 2010.

Markets and Operations

Senior reports as two Divisions – Aerospace, consisting of 14 operations and representing 59% of 2009 Group revenue, and Flexonics, consisting of 11 operations and representing 41% of Group revenue. All of Senior's operations are focused on manufacturing components and systems for original equipment manufacturers. The Group's products are typically single sourced, highly engineered and involve advanced manufacturing processes.

Aerospace

The market for commercial aircraft (59% of Divisional sales) was mixed during 2009. Boeing and Airbus collectively delivered a record 979 wide-bodied commercial aircraft in the year, 14% higher than in 2008 (858 aircraft), although net order intake declined to 413 aircraft (2008 - 1,439). Their combined order book consequently reduced to 6,863 aircraft at the year-end (2008 - 7,429), still a healthy seven-year order book at current build rates. Of these orders, 851 are for the Boeing 787 aircraft, where Senior has between US\$600k and US\$1,100k of content per aircraft, depending on the engine configuration. The 787 flew for the first time on 15 December 2009; an important milestone for Senior. Boeing anticipates that deliveries of the 787 to customers will start in the final quarter of 2010, with production increasing steadily thereafter to a rate of 120 aircraft per annum by the end of 2013.

Bombardier and Embraer, the two largest regional jet manufacturers, experienced contrasting fortunes during 2009, with jet-aircraft deliveries up 7% at Bombardier but 25% down at Embraer. Net order intake for in-production aircraft was actually negative for both companies, as cancellations exceeded orders. Both companies are, therefore, expected to reduce their regional jet build rates in 2010. Bombardier officially launched its new CSeries aircraft during 2009, with Senior being awarded the low-pressure and high-pressure ducting systems at the Paris Air Show in July. Bombardier received orders for 50 CSeries aircraft in the year, with deliveries expected to commence in 2013.

The business jet sector was the hardest hit sector of the commercial aircraft market in 2009, with deliveries falling by 34% to 870 aircraft, from the record 1,315 aircraft delivered in 2008. Recently, however, there have been some signs of stabilisation in the business jet market with prices of second-hand aircraft no longer declining and manufacturers once again ordering parts from suppliers as inventory levels become more aligned with demand.

Senior experienced healthy sales growth in the military and defence sector during 2009; and this market now represents 26% of Aerospace Divisional sales. The Group's two largest defence programmes, the Lockheed Martin C-130 military air-transport aircraft and the Sikorsky Black Hawk helicopter, both experienced increases in build rates in 2009. The Group also increased the content that it has on each aircraft. Elsewhere, the Airbus A400M military air-transport aircraft flew for the first time in December 2009 and Lockheed Martin continued with its F35 Joint Strike Fighter flight-testing and development programme.

The effects of the contraction in the regional and business jet marketplaces were partially mitigated by the stronger defence market and beneficial currency movements; this resulted in reported sales for the Aerospace Division increasing slightly to £319.2m (2008 - £312.9m) but adjusted operating profit declining by 12% to £38.8m (2008 - £44.3m), with the Divisional operating margin at 12.2% (2008 - 14.1%).

Flexonics

Industrial markets, such as petrochemical, power generation, medical and heating and ventilation, accounted for 50% of the 2009 Divisional sales. Sales to land vehicle markets accounted for the remainder.

The land vehicle markets started the year extremely poorly, with year-on-year production volumes down by 35% to 55% in the first half of 2009 in North America and Western Europe. During the second half of the year, production of passenger cars improved slightly due to the combination of modestly improved vehicle sales, driven at least partially by various government incentive schemes, and the generally low levels of inventory of finished vehicles. As a result, production of light passenger vehicles ended the year down 32% and 20% in North America and Europe respectively. By way of contrast, sales and production of light vehicles were slightly ahead in Brazil and India, two increasingly important markets for Senior. Sales and production of medium and heavy duty trucks remained weak (typically down 40%) throughout 2009 in North America and Europe. However, sales of the Group's most significant land vehicle product in North America, an exhaust gas recycling cooler, were very strong in the final quarter, as truck engine manufacturers built more engines ahead of the implementation of tighter emission regulations from 1 January 2010.

During 2009, many of the Group's industrial markets were adversely impacted by the global slowdown, with the effect of poorer end markets being compounded by the Group's customers de-stocking in order to generate cash. Encouragingly, these issues became less pronounced towards the end of the year. One important market which did remain strong throughout 2009 was that for large metal and fabric expansion joints for industrial piping systems. Senior Flexonics Pathway is one of the world's leading suppliers to this market and its strong financial performance made a healthy contribution to the Flexonics Division's results for 2009. In addition, Senior has a small, but growing, presence in the burgeoning alternative energy market, with product development for the combined heat and power ("CHP") and solar energy markets making encouraging progress during the year.

Despite the severe declines in the land vehicle markets in North America and Europe, improved performances in the Rest of the World, beneficial currency movements, the strong expansion joint market and the quick action taken to reduce costs resulted in reported adjusted operating profit for the Division increasing slightly to £26.2m (2008 - £25.9m). Whilst reported sales declined by 12% to £221.3m (2008 - £250.1m), the Divisional operating margin improved significantly to 11.8% (2008 - 10.4%). This was a satisfactory outcome to what was a challenging year for the Flexonics Division.

Employees and the Board

2009 was a difficult time for many of the Group's personnel with headcount reductions and short-time working having an adverse impact on employees at many operations. Whilst the Group's total headcount fell by 1,180 (20%) in nine months, to stand at 4,756 at the end of June 2009, employee numbers stabilised as anticipated, in the second half of the year, with the Group having 4,764 employees at the year-end. Given the significant uncertainty seen during the past year, I would especially like to thank all of Senior's employees for their continued hard work on behalf of the Group and for maintaining such a positive attitude during the challenging trading environment witnessed during 2009.

As previously announced, there was one change to the Board during 2009 with Mike Sheppard, Chief Executive for the Flexonics Division, stepping down at the end of July in order to focus all of his time on the Flexonics operations. On behalf of the Board, I would like to thank Mike for his contribution, past and continuing, to the Group.

Outlook

Senior is financially and operationally strong and well positioned to take advantage of the significant opportunities being seen across the Group. The growing emphasis on better understanding customer needs, and providing solutions for them, is generating increased quotation activity and new business. Market share is also being won as a result of the difficulties some of the Group's competitors are experiencing in the current economic environment.

In Aerospace, the most recent announcements from Boeing and Airbus indicate that their 2010 production volumes will be at, or slightly below, 2009 levels. Boeing and Airbus each have order books representing nearly seven years of production at current build rates. The regional jet manufacturers' order books are generally weaker and build rates are anticipated to fall further in 2010. Business jet production levels, which typically react more quickly to changes in economic conditions, have recently shown some signs of stabilisation. Looking forward, it is expected that the Boeing 787, on which Senior has more content than on any previous commercial aircraft, will start to be delivered to customers in late 2010. Two other potentially important new programmes for the Group, the Airbus 350 and Bombardier CSeries aircraft, are scheduled for delivery to customers beginning in 2013. Build rates of the Group's three main military programmes, the Joint Strike Fighter, the C-130 air-transporter and the Black Hawk helicopter, are each expected to increase further during 2010, with the Joint Strike Fighter seeing a steadily increasing build rate over subsequent years.

In the land vehicle markets, which represent around half of the Flexonics Division's revenue, industry commentators are forecasting production of passenger vehicles to be slightly higher in most of the Group's geographical markets in 2010 than in 2009, except in Western Europe, particularly Germany, where more challenging markets are expected as government-funded incentive schemes come to an end. Sales of medium and heavy duty trucks have been at low levels for some time now, with the average age of commercial fleets increasing. Whilst there are currently few signs of improvement in this marketplace, volumes can be expected to increase when fleet owners become more confident about future economic conditions. On the industrial side of the Flexonics Division, the market for large expansion joints has been very strong for the past two years and there must be the possibility that the capital-project element of the market may weaken at some point during 2010. On the other hand, growing activity is being seen in the development of products for the CHP and solar energy markets. The Group's other industrial markets are broadly stable.

Although Senior's end markets may remain challenging for some time to come, the number and extent of opportunities being seen by the Group mean the medium- and long-term prospects for Senior remain highly encouraging. The current year has started ahead of the Board's expectations and consequently, prospects for 2010, which were previously forecast to be more difficult than in 2009, have improved and the Group's performance for 2010 is now anticipated to be broadly in line with the 2009 outcome.

Martin Clark
Chairman

OPERATING AND FINANCIAL REVIEW

To the members of Senior plc

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

The OFR contains certain forward-looking statements. Such statements have been made by the Directors in good faith based on the information available to them at the time of their approval of this Report, and 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” and its recently published “Rising to the Challenge”, a review of narrative reporting by UK Listed Companies.

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

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

Operations and Business Model

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

The principal underlying market demand drivers for the Group are global passenger air miles, air freight demand, large commercial and regional and business jet build rates, military aerospace programme spending (in particular by the US Government), passenger vehicle sales in North America, Europe and Brazil, heavy duty diesel truck sales in North America and capital project spending in the global petrochemical and power generation industries. Many of the Group’s products are used to satisfy the growing need for emission control and environmental solutions in its principal end markets.

The Group aims to be a market-leading engineering solutions provider for its customers, delivering quality products on time, utilising its design and manufacturing engineering capabilities to optimise customer value and working responsively to fulfil customer needs.

The Group has a flat organisational structure, with only two layers of management between the Group CEO and local operational management, in order to enhance flexibility and promote quick decision making. The Group’s culture is based around empowerment of its autonomous operations within a well-defined control framework (including strong financial controls), whilst also promoting collaboration to support sharing of best practice and provide more complete customer programme solutions where appropriate.

The Group fully embraces the concepts and principles of the Lean Manufacturing methodology, striving at all times for continuous improvement and the elimination of non-value-added activities and processes.

All Group operations are required to maintain a strong focus on cash generation, in particular concentrating on tight controls over discretionary expenditure and improved efficiencies in working capital management. This requires a clear understanding that the working capital cycle begins when a customer places an order and only ends when cash is collected at the end of the process. The Group has made excellent progress with this initiative in recent years, which has been a principal driver of its consistently strong free cash flow generation.

The Group initially aims to utilise its available funding capacity to invest in organic growth and operational improvement opportunities, aligning its improvement initiatives with the key value drivers within the business. Once net debt has been reduced to an appropriate level, the Group also plans to target a small number of acquisitions to accelerate growth and enhance the overall asset portfolio.

The Group aims to be consistent in its approach to all stakeholders. This means meeting every commitment that is made, at all times acting with integrity and in an ethical manner, complying with all legal and regulatory requirements and being a responsible member of each community within which it operates.

The Group is split into two Divisions, Aerospace and Flexonics.

Aerospace

The Aerospace Division consists of 14 operations. These are located in the USA (nine), the United Kingdom (two), and continental Europe (three). In 2009, this Division accounted for 59% of total Group revenue. Its main products were engine structures and mounting systems (27% of Divisional sales), metallic ducting systems (23%), airframe and other structural parts (19%), composite ducting systems (7%), helicopter machined parts (7%) and fluid control systems (5%). The remaining 12% of Divisional sales were to non-aerospace, but related, technology markets. The Division's largest customers include Boeing, representing 13% of 2009 Divisional sales, United Technologies (10% of Divisional sales), Spirit AeroSystems, Goodrich, Bombardier, Airbus, Rolls-Royce, GKN and GE.

Flexonics

The Flexonics Division has 11 operations. These are located in North America (three), the United Kingdom (two), continental Europe (three), South Africa, India and Brazil. In 2009, the Flexonics Division accounted for 41% of total Group revenue. This Division's sales comprised flexible mechanisms for vehicle exhaust systems (19% of Divisional sales), cooling and emission control components (17%), diesel fuel distribution pipework (14%), and sales of industrial components, principally expansion joints, control bellows and hoses (50%). The industrial components were supplied to power and boiler markets (17% of Divisional sales), oil and gas and chemical processing industries (12%), HVAC and solar markets (11%) and other industrial markets (10%). The Division's largest individual end users are land vehicle customers, including Cummins (representing 12% of Divisional sales), PSA and Ford (each representing 8%) and General Motors (5%). The percentage of Divisional sales coming from the automotive market fell again in 2009 to 32% (2008 – 37%) with sales to the heavy duty diesel engine market (e.g. Cummins and Caterpillar) growing to 18% (2008 – 16%).

Long-term Strategy, Business Objectives and Key Performance Indicators

There are four key elements to Senior's strategy for accelerating growth and creating long-term, sustainable shareholder value, which are:

- targeted investment in new product development and new geographies, for markets having higher than average growth potential;
- exceeding customer expectation through advanced process engineering and excellent factory and logistics execution;
- portfolio enhancement, through focused acquisitions and disposal of non-core assets; both are subject to strict financial and commercial criteria, their long-term outlook and the Group's anticipated funding position; and
- creating an entrepreneurial culture within a strong control framework, continuously striving for improvements amongst its operating businesses whilst operating in a safe and socially responsible manner.

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

- to have organic sales growth in excess of the rate of inflation;
- to increase adjusted earnings per share on an annual basis by more than the rate of inflation;
- to increase the Group's return on revenue margin each year;
- to generate sufficient cash to enable the Group to fund future growth and to follow a progressive dividend policy; and
- to maintain an overall return on capital employed in excess of the Group's cost of capital and to target a pre-tax return in excess of 15%.

These financial objectives are supported by two non-financial objectives which are:

- to reduce the Group's carbon dioxide emissions to revenue ratio by 15% from 113.7 tonnes per £m revenue in 2006 to below 96.6 tonnes by 2010; and
- to reduce the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work by 5% per annum.

In spite of very challenging market conditions in 2009, two of the Group's financial objectives were met: i) the Group generated a record level of free cash flow of £60.1m to support future growth and its dividend policy, and; ii) achieved a return on capital employed of 18.6%. Three of the Group's financial performance objectives were not met in 2009, as above inflation increases in organic sales and adjusted earnings per share were not achieved, due to the underlying market demand reductions experienced in the period. Consequently, the Group's return on revenue margin did not increase. However, over the five-year period to 2009 the Group has achieved above inflation increases in sales and adjusted earnings per share as well as increasing its return on revenue margin to 11.0%, from 5.2% in 2004.

The Group exceeded its improvement target for recordable injury and illness cases, recording a lost time injury frequency rate of 1.61 days per 100 employees (2008 – 1.94 days). In addition, further improvements were made in the level of carbon dioxide emissions, with an emission level of 99m tonnes per £1m of sales (a 13% reduction since 2006) achieved in the year. The Group remains on track to meet its four-year target to reduce emissions by 15%.

A summary of the year-on-year movements in these Key Performance Indicators ("KPIs") is set out in the table below:

	2009	2008
Organic revenue growth ⁽¹⁾	-16%	+5%
Adjusted earnings per share ⁽²⁾	8.91p	10.63p
– growth	-16%	+38%
Return on revenue margin ⁽³⁾	11.0%	11.5%
Return on capital employed ⁽⁴⁾	18.6%	21.7%
CO ₂ emissions/£m revenue ⁽⁵⁾	99 tonnes	104 tonnes
Lost time injury frequency rate ⁽⁶⁾	1.61	1.94

(1) Organic revenue growth is the rate of growth in 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, amortisation of intangible assets arising on acquisitions and exceptional pension gains) 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 is total assets less total liabilities, except for those of an interest bearing nature.

(5) CO₂ 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.

Financial Review

Summary

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

	Revenue		Adjusted Operating Profit ⁽¹⁾		Margin	
	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	%	%
Aerospace	319.2	312.9	38.8	44.3	12.2	14.1
Flexonics	221.3	250.1	26.2	25.9	11.8	10.4
Inter-segment sales	(0.4)	(0.6)	-	-	-	-
Central costs	-	-	(5.6)	(5.7)	-	-
Group total	540.1	562.4	59.4	64.5	11.0	11.5

(1) Adjusted operating profit is the profit before interest and tax and before the loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and an exceptional pension gain.

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

	2009	2008
	£m	£m
Operating profit per Financial Statements	61.0	59.8
Loss on sale of fixed assets	0.1	-
Exceptional pension gain	(6.3)	-
Amortisation of intangible assets from acquisitions	4.6	4.7
Adjusted operating profit	59.4	64.5

Including the positive impact of foreign exchange movements, Group revenue decreased by 4% in 2009 (16% excluding the impact of foreign exchange), as the Group experienced a significant contraction in volumes in a number of its end markets during the year. Military aerospace and the industrial petrochemical and power generation markets showed resilience but the consequences of the global credit crisis had a significant negative impact on demand in many other markets. Volume reductions of between 40% and 50% were experienced in land vehicle and regional and business jet markets in the first half of the year and, whilst build rates of large commercial aircraft remained stable, many of the Group's major aerospace customers implemented de-stocking measures that had a negative effect on demand. Demand in other industrial markets, including HVAC, semi-conductor and medical markets also declined significantly in the period. Demand patterns generally stabilised in the second half of the year and some growth was experienced, in particular in land vehicle markets, in the fourth quarter.

The Group acted quickly, in the first quarter, to implement a series of cost reduction plans aimed at mitigating the operational impact of the decreases in market demand, including a necessary reduction in headcount of 700 people. This, together with the headcount reductions already implemented in the fourth quarter of 2008, brought the total headcount reduction to 1,180 people (20%) in the nine month period from 1 October 2008 to 30 June 2009. Despite the cost reduction and rationalisation measures implemented, adjusted operating profit decreased by 8% (22% excluding the impact of foreign exchange) in 2009. Operating margins achieved were a healthy 11.0% (2008 – 11.5%).

The Group's free cash flow and net debt for 2009 and the prior year were:

	2009	2008
	£m	£m
Free cash flow	60.1	52.4
Net debt	102.3	174.5

Free cash flow is the total net cash flow generated by the Group prior to corporate activity such as acquisitions, disposals, financing and transactions with shareholders; it is calculated as follows:

	2009	2008
	£m	£m
Net cash from operating activities	69.8	74.6
Interest received	2.6	1.7
Proceeds on disposal of tangible fixed assets	0.3	0.6
Purchases of tangible fixed assets	(12.3)	(23.8)
Purchases of intangible assets	(0.3)	(0.7)
Free cash flow	60.1	52.4

The Group generated significant free cash flow of £60.1m in 2009 (2008 – £52.4m), an excellent increase of 15% over the prior year. The principal drivers of this strong performance were the quick and decisive actions taken to implement cost reduction measures early in the year in response to deteriorating market conditions, sustained tight controls over discretionary expenditure (including capital expenditure) and continued good progress with the Group's Lean Manufacturing initiatives that resulted in exceptionally strong working capital inflows from reduced inventory.

As a result of its strong free cash flow performance, the Group was able to contribute £19.6m in excess of service costs into its defined benefit pension plans in the UK and the US, £13.2m of which was voluntary, and still achieve a significant reduction in net debt of £72.2m during the year (including foreign exchange gains of £21.9m). Net debt at the year-end was £102.3m (2008 – £174.5m).

Revenue

Group revenue decreased by £22.3m (4%) to £540.1m (2008 – £562.4m). There were no acquisitions in the period. If the effect of a year-on-year beneficial exchange impact of £82.5m is excluded, then underlying revenue fell by 16% on a constant currency basis. In 2009, 66% of Group sales originated from North America, 10% from the United Kingdom, 17% from the Rest of Europe and 7% from the Rest of the World.

Operating profit

Group operating profit increased by 2% to £61.0m (2008 – £59.8m), including the positive impact of a £6.3m exceptional pension curtailment gain which arose following the implementation of a cap on future pensionable salary increases in the Group's UK defined benefit pension plan. Excluding this exceptional gain Group operating profit declined by 9%, principally due to the underlying market demand reductions experienced in the year.

Adjusted operating profit decreased by £5.1m (8%) to £59.4m (2008 – £64.5m). Adjusted operating profit is that before finance costs, loss on disposal of fixed assets of £0.1m (2008 – £nil), amortisation of intangible assets arising on acquisitions of £4.6m (2008 – £4.7m) and the exceptional pension gain of £6.3m (2008 – £nil). The Group benefited from favourable foreign currency movements of £11.2m, and, if these are excluded, then underlying adjusted operating profit decreased by 22% on a constant currency basis.

Finance costs

Finance costs, net of investment income of £1.2m (2008 – £2.7m), increased to £11.4m (2008 – £8.5m). Net interest costs on borrowings increased to £7.2m (2008 – £6.8m) mainly due to foreign exchange movements in the year. Pension related charges also increased, to £4.2m in 2009 (2008 – £1.7m), principally as a result of higher interest costs relating to the unwinding of discounted liabilities and the reduced level of assets in the Group's pension plans at the start of the year.

Profit before tax

Adjusted profit before tax decreased by 14% to £48.0m (2008 – £56.0m). Reported profit before tax decreased to £49.6m (2008 – £51.3m).

Tax charge

The total tax charge decreased to £10.6m (2008 – £12.1m), due to the decrease in the Group's taxable profits. Net tax benefits, arising on the loss on sale of fixed assets and amortisation of intangible assets from acquisitions totalled £1.9m (2008 – £1.9m). If these are added back, then the resultant tax charge of £12.5m (2008 – £14.0m) represented an underlying rate of 26.0% (2008 – 25.0%) on the adjusted profit before tax of £48.0m (2008 – £56.0m). The increase in the underlying tax rate was mainly due to the increased proportion of the Group's profits being generated in both the USA and South Africa (where the Group's effective tax rate is approximately 35%).

Earnings per share

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 398.3 million (2008 – 395.0 million). Adjusted earnings per share decreased by 16% to 8.91 pence (2008 – 10.63 pence). Basic earnings per share decreased by 1% to 9.79 pence (2008 – 9.92 pence).

Dividends

A final dividend of 1.70 pence per share is proposed for 2009, unchanged from last year, which would cost £6.8m (2008 final dividend - £6.8m). This would bring the full-year dividend to 2.60 pence per share, the same level as the prior year. The cash outflow incurred during 2009 in respect of the final dividend for 2008 and the interim dividend for 2009, was £10.4m (2008 – £10.3m).

Research and development

The Group's expenditure on research and development increased to £9.7m during 2009 (2008 – £8.6m). Expenditure was mainly incurred on designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production.

Capital expenditure

Capital expenditure decreased by 49% in 2009 to £12.6m (2008 – £24.5m), principally in response to the significant demand reductions experienced by the Group's operations. The Group's operations remain well capitalised. Disposal of assets no longer required raised £0.3m (2008 – £0.6m). A higher level of capital expenditure is anticipated for 2010, although this will be dependent on the Group securing the expected new programme wins in both Divisions.

Capital structure

The Group's Consolidated Balance Sheet at 31 December 2009 may be summarised as follows:

	Assets	Liabilities	Net Assets
	£m	£m	£m
Property, plant and equipment	118.0	-	118.0
Goodwill and intangible assets	180.3	-	180.3
Current assets and liabilities	144.6	(100.2)	44.4
Other non-current assets and liabilities	0.8	(8.3)	(7.5)
Post-retirement obligations	-	(48.1)	(48.1)
Total before net debt	443.7	(156.6)	287.1
Net debt	20.4	(122.7)	(102.3)
Total at 31 December 2009	464.1	(279.3)	184.8
Total at 31 December 2008	549.4	(373.2)	176.2

Net assets increased by 5% in the year to £184.8m (2008 – £176.2m), in the main as a result of retained profits of £39.0m offset by adverse total foreign exchange movements of £5.8m. Net assets per share increased by 5% to 46.2p (2008 – 44.2p). There were 399.7 million ordinary shares in issue at the end of 2009 (2008 – 398.3 million). Post-retirement obligations decreased to £48.1m (2008 – £51.2m), with the decrease in deficit arising principally due to an increase in returns on invested assets, increased voluntary cash contributions in excess of service cost of £19.6m and a curtailment gain arising as a result of a cap on future pensionable salary increases in the UK, which were largely offset by the adverse impact of a lower rate of 5.70% being used to discount the UK pension plan liabilities (2008 – 6.40%) and an increase in the inflation assumption from 2.8% to 3.5%.

Cash flow

The Group's free cash flow, whose derivation is set out in the table below, increased by 15% to £60.1m (2008 – £52.4m). The main drivers of this improvement were a significant inflow from working capital of £29.9m (2008 - £12.2m) and a reduction in capital expenditure to £12.6m (2008 - £24.5m). These were offset by additional discretionary pension payments of £13.2m (2008 - £nil) and an increase in tax payments of £2.4m to £11.2m in the year. In addition, included within operating profit in 2009 is a non-cash exceptional pension gain of £6.3m (2008 - £nil) relating to the implementation of a cap on future pensionable salary increases in the UK pension plan from 2010.

	2009	2008
	£m	£m
Operating profit	61.0	59.8
Depreciation and amortisation	25.4	23.4
Working capital movement	29.9	12.2
Pension payments above service cost	(6.4)	(5.2)
Additional discretionary pension payments	(13.2)	-
Exceptional pension gain	(6.3)	-
Other items	(0.7)	1.7
Cash generated from operations	89.7	91.9
Interest paid (net)	(6.1)	(6.8)
Tax paid	(11.2)	(8.8)
Capital expenditure	(12.6)	(24.5)
Sale of fixed assets	0.3	0.6
Free cash flow	60.1	52.4
Dividends	(10.4)	(10.3)
Acquisitions and deferred consideration received	0.5	(43.6)
Share issues	0.1	1.3
Foreign exchange variations	21.9	(79.5)
Opening net debt	(174.5)	(94.8)
Closing net debt	(102.3)	(174.5)

Net debt

Net debt decreased by £72.2m in the year to £102.3m (2008 – £174.5m). The principal reasons for the decrease were: tight controls over discretionary expenditure imposed across the Group early in the year, which helped to preserve cash profits; a reduction in the level of capital expenditure in the year to 61% of depreciation (2008 – 131% of depreciation); exceptionally strong cash inflows from working capital during the year of £29.9m; and favourable foreign exchange rate movements of £21.9m, most notably due to an appreciation in the value of the Pound Sterling against the US dollar from £1:US\$1.44 at 31 December 2008 to £1:US\$1.61 at 31 December 2009. At the year-end, net debt comprised gross borrowings of £122.7m, with 94% of the Group's gross borrowings in US dollars (31 December 2008 – 85%), and cash and cash equivalents of £20.4m.

The Group's committed borrowing facilities contain a requirement that the ratio of EBITDA (adjusted profit before interest, tax, depreciation and amortisation) to net interest costs must exceed 3.5x, and that the ratio of net debt to EBITDA must not exceed 3.0x. At 31 December 2009 the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 10.6x (31 December 2008 – 12.0x) and the ratio of net debt to EBITDA was 1.3x (31 December 2008 – 2.1x).

Liquidity

As at 31 December 2009, the Group's gross borrowings were £121.4m (2008 – £150.8m). The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows:

	Gross Borrowings ⁽¹⁾	Committed Facilities
	£m	£m
Within one year	1.1	-
In the second year	0.9	12.4
In years three to five	26.2	101.7
After five years	93.2	93.2
	<hr/> <hr/>	<hr/> <hr/>
	121.4	207.3

⁽¹⁾ Gross borrowings include the use of bank overdrafts, other loans and committed facilities, but exclude finance leases and unrealised losses on forward foreign exchange contracts. Unrealised forward foreign exchange contract losses of £nil (2008 - £33.9m) are included in the calculation of net debt.

At the year-end the Group had committed facilities of £207.3m, with a weighted average maturity of 5.4 years. The Group is in a strong funding position with the next material refinancing not due until July 2012.

Going concern basis

The Group's business activities, performance and position are set out in the Operations Review above and the Divisional Review below. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described within this Operating and Financial Review. In addition, a review of the principal risks and uncertainties that are likely to affect the Group's future development is set out below, together with a summary of the Group's policies and processes in respect of capital and financial risk management including foreign exchange, credit and liquidity risks.

The Group meets its day-to-day working capital and other funding requirements through a combination of long-term funding, in the form of revolving credit and private placement facilities, and short-term overdraft borrowing. At 31 December 2009, 97% of the Group's gross debt was financed via revolving credit and private placement facilities, with an average maturity of 5.4 years. The Group is well funded and now has no major borrowing facility renewal before 2012.

However, current economic conditions create uncertainty particularly over the level of demand for the Group's products and the exchange rate between the Pound Sterling and the US dollar. This is important to the Group's financial performance given that around 80% of the Group's profits in 2009 were earned in the US and 94% of its gross borrowings at 31 December 2009 were denominated in US dollars. For these reasons, a sensitivity analysis has been performed on the Group's forecasts and projections, to take account of reasonably possible changes in trading performance together with foreign exchange fluctuations under the hedging policies that are in place. This analysis shows that the Group will be able to operate well within the level of its current committed borrowing facilities and banking covenants under all reasonably foreseeable scenarios. As a consequence, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Board has continued to adopt the going concern basis in preparing the Group's Annual Report & Accounts 2009.

Changes in accounting policies

The accounting policies adopted in the Financial Statements are consistent with those followed in the preparation of the Group's Annual Report & Accounts 2008, except for the adoption of Standards and Interpretations that are effective for the current financial year; these are highlighted in Note 2 of the Financial Statements, and do not have a material impact on the presentation of the Group's results.

Related party transactions

The Group's related party transactions are between the Company and its subsidiaries, and have been eliminated on consolidation.

Divisional Review

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that the results for 2008 have been translated using 2009 average exchange rates in order to make appropriate comparisons at constant currency.

Aerospace Division

	2009	2008	Change
	£m	£m	
Revenue	319.2	361.5 ⁽¹⁾	-12%
Adjusted operating profit	38.8	51.4 ⁽¹⁾	-25%
Operating margin	12.2%	14.2%	-

⁽¹⁾ 2008 results translated using 2009 average exchange rates.

The revenue of the Aerospace Division fell by £42.3m (12%) to £319.2m (2008 – £361.5m at constant currency). The Division's sales in the large commercial aircraft market (41% of Divisional sales) were broadly stable during 2009. Although aircraft deliveries increased by 14% to 979 (2008 – 858), as there was no repeat of the 2008 machinists strike at Boeing, demand for the Group's products in this market was impacted by de-stocking initiatives implemented by most customers in response to deteriorating macroeconomic conditions. The 2009 Boeing and Airbus combined net order intake was 413 aircraft, which was 42% of the level of deliveries, a significant decline from recent years' order intakes, and a reflection of the impact of the global financial crisis. However, the combined order book still stood at 6,863 aircraft at the year-end (representing approximately seven years of deliveries at current build rates). This order book includes 851 orders for the Boeing 787 aircraft where Senior has between US\$600k and US\$1,100k of content per aircraft depending on engine configuration. This continues to represent a solid foundation for the Group's future.

Military markets remained robust overall, with increased volumes of helicopter parts delivered to Sikorsky and to the growing C130 transport aircraft programme. Stable demand was experienced in other US Government programmes. However, regional and business jet markets declined significantly in 2009. Combined deliveries of 185 aircraft by the principal regional jet manufacturers, Embraer (125 aircraft) and Bombardier (60 aircraft), were 17% lower than the combined total of 222 achieved in 2008. The business jet market was also very weak for the whole year, with 870 deliveries being some 34% lower than in 2008 (1,315 deliveries), although demand levels within this market stabilised in the second half of the year.

As a result of the volume declines experienced in the regional and business jet markets, the Aerospace Division's adjusted operating profit (before profit/loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions) decreased by £12.6m (25%) to £38.8m (2008 – £51.4m at constant currency). The Division's operating margin decreased by 2.0 percentage points to 12.2% (2008 – 14.2%).

Capital expenditure for the Aerospace Division decreased to £9.0m in 2009 (2008 – £17.1m), in response to the general market contraction. However, this also reflects the fact that the Aerospace Division is well capitalised, since the Group's rate of capital expenditure in this Division in recent years has been well above the rate of depreciation, as production capacity has been increased to meet the demands of both existing and future major programmes, such as the C130 military transport plane, the Boeing 787 and the Joint Strike Fighter. Total capital expenditure in this Division represented 0.8x depreciation (2008 – 1.9x).

Flexonics Division

	2009	2008	Change
	£m	£m	
Revenue	221.3	284.1 ⁽¹⁾	-22%
Adjusted operating profit	26.2	30.2 ⁽¹⁾	-13%
Operating margin	11.8%	10.6%	-

⁽¹⁾ 2008 results translated using 2009 average exchange rates.

Revenue for the Flexonics Division decreased by £62.8m (22%) to £221.3m (2008 – £284.1m at constant currency). The Division benefited from sustained strength in demand for large industrial expansion joints (oil refining, power generation and chemical processing) with the Group's Pathway operation based in Texas performing well, although other industrial market demand was weak. Industrial markets accounted for 50% of this Division's sales in 2009.

Demand in land vehicle markets, representing the remaining 50% of the Flexonics Division's sales, fell dramatically in the first half of the year, before recovering some ground in the second half. The recovery in passenger vehicle markets was largely driven by various government-backed incentive schemes. After an extremely weak first half, the Group enjoyed an increase in demand for its heavy duty diesel products in North America in the second half of the year, as a result of an engine pre-build in advance of new tighter emission regulations that came into force on 1 January 2010. Overall, sales of medium and heavy duty trucks in North America were 244,000 in 2009, a decline of 37% compared to the 386,000 sold in 2008. Light vehicle sales in North America fell by 3.2 million vehicles (20%) to 12.6 million and in Europe were down by 0.9 million vehicles (5%) to 15.9 million.

In response to the significant volume declines experienced in land vehicle markets late in 2008, profit preservation plans were implemented at all affected operations during the fourth quarter of 2008; this continued in the first half of 2009. In total, the Division's workforce was reduced by 680 people (24%) in this period. Despite these measures, the Flexonics Division's adjusted operating profit for 2009 decreased by 13% to £26.2m (2008 – £30.2m at constant currency). However, the Division's operating margin for 2009 increased by a very satisfactory 1.2 percentage points to 11.8% (2008 – 10.6%), due to an improved product mix in industrial operations, and the positive leverage effect on operating profit from the increase in volumes experienced in land vehicle markets late in the fourth quarter on the much reduced cost base.

Capital expenditure for the Division decreased to £3.5m or 0.4x depreciation in 2009 (2008 – £7.4m or 0.8x depreciation), reflecting the weak market conditions and the fact that capital expenditure levels in recent years, in particular in the land based vehicle operations, have been well above depreciation.

Outlook

A detailed outlook statement is included in the Chairman's Statement above.

Demand conditions in the Aerospace Division are strongest in the military and defence sector. Large commercial aircraft build rates are currently stable, but regional jet demand continues to decline. Demand for business jets now appears to have stabilised at a relatively low level, by historical standards, with little prospect of any significant recovery in the immediate future. Within Flexonics, order books in the Group's major industrial markets (petrochemical and power generation) remain relatively robust. In addition, positive momentum from the increased level of sales in passenger vehicle markets late in 2009 has been sustained to date, although it appears likely that there may be some slowdown in demand in 2010 in Europe when government incentive schemes end. The outlook for heavy duty diesel demand in North America is weak in the short term, although there is the prospect of a recovery once fleet owners become more confident of future economic conditions.

Against this backdrop the Group remains cash generative, continues to operate well within its bank covenants and does not have a major banking facility renewal until 2012. Going forward, the Group is well funded with healthy long-term prospects.

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 those expected or from historical results. The principal risks and uncertainties are set out below. Overall, the Group's risk profile has moderated during 2009 principally due to: a stabilisation of key market demand; increased confidence in the outlook compared to a year ago; and a significant increase in the Group's level of funding headroom which has been driven by very strong free cash flow generation during the year.

Global financial crisis

The potential adverse impact on the Group of the global financial crisis remains significant, but has receded during the year. The Group suffered a significant reduction in demand in almost all of its key markets in the first half of 2009, and had to implement profit preservation plans that resulted in a reduction in the total workforce of 20% in the nine month period ended 30 June 2009. Market demand conditions generally stabilised during the second half of the year and the Group even enjoyed some volume uplift in land vehicle markets. Customer financing issues have also lessened, as credit markets have become more liquid and the North American car industry has been restructured.

The Group's financing position, which has been reported earlier in this Operating and Financial Review, improved significantly in the year due to very strong free cash flow generation. Therefore, Senior is well placed to be able to withstand any further potential negative consequences that may arise from any residual global credit market issues.

Markets and customers

Long-term growth in demand, including participation in future development programmes in the Group's major markets, is an essential foundation for future growth. The Group is well positioned in this respect in its key aerospace and industrial markets, and in the emission-related sectors of land based vehicle and industrial markets, where increasingly stringent legislation will ensure that long-term demand for the Group's products remains healthy. To ensure that the Group retains its position and is well placed to take advantage of new market growth opportunities, the senior management team has recently been strengthened through the recruitment of a Head of Business Development, a newly created role.

The Group maintains close relationships with its key customers in both Divisions. Innovative customer solutions and quality products delivered on time, fully in line with specifications, are critical components of customer value that ensure continued participation in existing and future development programmes, and these underpin the Group's long-term growth aspirations. Provision of superior customer value is a top priority within the Group.

The Group derived 59% of its sales in 2009 from the aerospace market with the most significant element attributable to the large commercial aircraft sector which accounted for 24% of Group sales. Whilst the commercial aerospace market is expected to be strong in the long term (driven by sustained growth in global passenger air miles), and build rates for wide-bodied commercial aircraft are anticipated to remain broadly stable in 2010, 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 well-balanced portfolio of aerospace customers, nearly all of whom are financially strong with the largest, Boeing, representing only 8% of 2009 Group sales. The immediate and total loss of such a customer is considered to be highly improbable, given that many parts are typically supplied by a number of Senior's operations to a range of customer locations, with many products on long-term agreements.

The Group's industrial markets are diverse and fragmented, with the largest single customer representing only 2% of 2009 Group sales. The failure of any single industrial customer is, therefore, unlikely to have a material effect on the Group.

The long-term potential economic viability of North American and European automotive manufacturers improved in 2009, but nevertheless remains uncertain, despite industry restructuring and significant recent government support. It is therefore possible that one of the larger US automotive manufacturers may again seek protection from its creditors (known as going into Chapter 11 in the US), which in turn could result in some of its suppliers seeking similar creditor protection. In this event the Group may not recover all of the amounts owed to it. However as seen in the last year, production of vehicles, and hence sales of the Group's relevant products would likely continue, albeit at a lower level, so rendering the impact to be of a one-off, rather than ongoing, nature. The largest automotive manufacturer accounted for around 3% of 2009 Group sales, both to the manufacturer directly and/or to its supplier base.

Competitors

The Group operates in competitive market sectors. The aerospace supply base is today principally located in North America and Europe, and this is where the Group's aerospace operations are situated, so enabling commercial, operational and engineering support to be readily given to its customers. Whilst the industry is consolidating, the supplier base remains fragmented, and the Group participates in a diverse range of aerospace programmes with a broad range of end customers. Hence, the actions of a single competitor are unlikely to have a material impact on the results of the Group.

An additional threat relates to the increasing pressure, principally on the part of customers, to move the manufacture of certain aerospace components to operations in low-cost countries. In response, some years ago the Group set up an operation in Mexico and is actively engaged in new programme bids to expand this facility. Other low-cost country alternatives will also be considered at the appropriate time.

In the Flexonics Division, development of the Group's products is increasingly being driven by more stringent environmental and land vehicle emission legislation. The industrial markets in which the Group operates (50% of 2009 Divisional sales) are diverse both geographically and in nature, with engineering skills, technical qualifications and service levels being the key to competing successfully in these markets. Again, the markets are competitive but no single competitor represents a material threat to the Group. In the land vehicle markets, the Group's heavy duty diesel engine products are similar in nature to those produced in the Aerospace Division, in that engineering support and process engineering are very important to the customers' choice of supplier; the Group therefore maintains appropriate resources close to customers' locations in these cases.

However, there are other land vehicle based products where competition is fiercer and price more the defining factor. Where this is the case, the Group is increasingly manufacturing products in its lower cost operations in the Czech Republic, South Africa, Brazil and India, rather than in its North American and European operations, whilst retaining commercial and engineering expertise close to the customers' locations.

Defined benefit pension plans

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, Senior plc.

The Group's combined pension deficits at 31 December 2009 were £48.1m (31 December 2008 - £51.2m). The Group has experienced an increase in the combined deficits in recent years, principally due to underperformance in expected asset returns and adverse movements in discount rates applied to the plans' future liabilities, much of which is beyond the control of the Trustees of the plans.

The Group continues to work with the Trustees of the defined benefit pension plans to implement measures to reduce the level of volatility and risk in the plans, with the ultimate aim of eliminating the Group's pension deficit. The significant actions taken to date include the closure of all non-union plans to new members, increases in contribution rates, a cap on future increases in pensionable salary of 2% implemented in the UK in 2009, and implementation of liability-driven investment strategies in all defined benefit pension plans.

A 10-year funding plan was approved by the UK Pensions Regulator, based on the actuarial valuation of the UK pension plan undertaken in April 2007. Under this funding plan the Group is committed to contributing an additional £5m per annum above service cost for 10 years. However, given the Group's very strong cash generation in 2009, additional discretionary payments of £10m were made into this pension plan. The Group also made additional voluntary contributions to the smaller US plans of approximately £3.2m in 2009 to help improve their funding positions.

Recruitment and retention of key employees

Capable, empowered and highly engaged individuals are a key asset of the business. There is a risk that the Group's performance will deteriorate if it is unable to attract and retain high quality key employees. The Group has had considerable recent success in attracting highly experienced senior executives from within the industry, in part attributable to the culture of the Group as described in the Operations and Business Model section of this Operating and Financial Review. The Group's commitment to training and development has also increased through the introduction of a management development programme. Senior management turnover ratios remain low, a further indication of success in this very important area.

Capital risk management

The Group manages its capital structure to safeguard its ability to continue as a going concern whilst maximising the return to stakeholders through the optimisation of the balance between debt and equity. In considering the appropriate level of net debt the Group pays close attention to its level as compared to the cash generation potential of the Group, measured by adjusted profit before interest, tax, depreciation and amortisation ("EBITDA"). The Group also monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total of bank and other loans, obligations under finance leases, forward exchange contract losses less cash and cash equivalents and forward exchange contract gains. Total capital is the equity shown in the Consolidated Balance Sheet.

All of the Group's external borrowing facilities have a requirement for the ratio of net debt to EBITDA to be less than 3.0x. Internally the Group aims for this ratio to not exceed 2.5x. At 31 December 2009 net debt was 1.3x the Group's level of EBITDA (31 December 2008 – 2.1x). In addition, all borrowing facilities contain the requirement for EBITDA interest cover (the number of times net interest is covered by the Group's EBITDA) to be in excess of 3.5x. At 31 December 2009 EBITDA was 10.6x the level of net interest (31 December 2008 – 12.0x). Therefore, the Group currently has considerable funding headroom.

The Group's strategy in respect of gearing is to target a long-term gearing ratio within the range of 60% to 80%. Ratios outside this range may still be considered to be acceptable, in certain circumstances. The gearing ratio for the Group at the end of 2009 was 55% (2008 – 99%). The decrease in 2009 is attributable to a combination of the strong free cash flow generation during the year and foreign exchange gains arising mainly from an appreciation in the value of the Pound Sterling against the US dollar.

Financial risk management

The Group's activities expose it to a variety of financial risks including interest rate risk, credit risk, liquidity risk and foreign exchange risk. The Group's overall treasury risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Group's Treasury Committee on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest rate risk management

The Group has a policy of maintaining approximately 60% of its borrowing costs at fixed interest rates. The Group generally borrows long-term in fixed rates but at times may borrow at floating rates and swap into fixed depending on credit market conditions. Occasionally a portion of fixed debt interest is swapped into floating rates. The combination of maintaining an acceptable balance of fixed and floating rate debt, and the Group's policy of borrowing in foreign currency in proportion to its generation of foreign currency earnings, provides an effective hedge against the impact of interest rate and foreign currency volatility on total interest costs.

Credit risk management

The Group's credit risk is primarily attributable to its trade receivables. The credit quality of customers is assessed taking into account their financial position, past experience and other factors. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group is guarantor under the leases of two buildings in the UK, which arose on the disposal of former Group owned subsidiaries in 2001 and 2004.

Liquidity risk management

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash flow forecasts are produced monthly, together with appropriate capacity planning and scenario analysis, to ensure that bank covenant and liquidity targets will be met. The Board also regularly assesses the balance of capital and debt funding of the Group, as part of a process to satisfy the Group's long-term strategic funding requirements.

The ongoing global recession presents a potential risk to the Group's funding status. Those steps already taken in relation to changes in market conditions, and in respect of the long-term financing of the Group, have been discussed earlier in this Operating and Financial Review. In summary, the Group has had considerable success in 2009 in paying down its level of debt through effective cost controls, implementation of necessary workforce reductions and tight control over working capital and discretionary expenditure. As a result, the Group is currently in a well-funded position, with significant headroom under its committed borrowing facilities and no major renewal of borrowing facilities due until 2012.

Group management is prepared to take further action to rationalise operations as necessary to mitigate the impact of any further downturn in market demand, should this occur. The Group has an experienced management team that was also substantially in place during the market downturn that occurred after "9/11", a period during which the Group generated significant positive free cash flow. It is considered unlikely that the Group will face any significant funding issues in the foreseeable future.

Foreign exchange risk management

The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on the operations' trading activities in foreign currencies. Where commented on below, the sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and left unchanged throughout the reporting period, with all other variables held constant (such as interest rates).

Translation risk

The Group derived 89% of its revenue from businesses outside the United Kingdom, of which 52% related to operations in the USA. Fluctuations in the value of the US dollar and other currencies in relation to the Pound Sterling have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pound Sterling. The Group decided not to hedge this translation risk. In addition, the majority of assets are denominated in foreign currency, particularly in US dollars. In order to provide a hedge against volatility in the value of these assets compared to the Group's earnings, and hence provide a natural hedge against the Group's principal borrowing covenant (the ratio of net debt to EBITDA), the Group aims to borrow in foreign currencies in similar proportions to its generation of foreign currency EBITDA, where practical and economic.

After taking account of these policies, a 10% appreciation (or depreciation) of the US dollar against the Pound Sterling would have increased (or decreased) 2009 Group operating profit by £4.4m and would have increased (or decreased) net equity by £13.7m.

Transaction risk

The Group has a number of transaction-related foreign currency exposures, particularly between the Euro and the South African Rand, and between the US dollar and the Pound Sterling. The Group seeks to hedge around 80% of transaction-related exposures for 15 months forward and applies hedge accounting where the forwards can be designated in a qualifying cash flow hedge relationship. Based on the net of the annual sales and purchase-related exposures, all transaction-related foreign currency exposures after hedging in existence at 31 December 2009 are immaterial.

Resources

Employees

The key resource of the Group is its employees, who have extensive knowledge of the Group's key markets, customers, product technology and manufacturing processes. The average number of employees employed in the Group during 2009 was 4,873 (2008 – 5,822). Of these 4,075 were in production-related roles, 56 in distribution, 307 in sales and 435 in administration. Senior is an international group operating in 11 countries. At the end of 2009 the Group employed a total of 4,764 people, with 49% located in North America, 15% in the United Kingdom, 21% in the rest of Europe and 15% in the Rest of the World.

Engineering capability and manufacturing technology

A key strength of the Group is its engineering capability and manufacturing technology. The Group possesses significant product design and manufacturing engineering capabilities, which are essential to support the development of precision components for customers and improve production processes to help maximise production efficiency and product quality. This in turn maintains and enhances the Group's reputation for delivering quality added-value products to its customers on time and at a competitive price. During 2009 the Group spent £12.6m (2008 – £24.5m) on capital expenditure to strengthen the Group's manufacturing capability, as well as its production capacity. This expenditure was 0.6x the depreciation level (2008 – 1.3x).

Financial

The Group funds its activities through a mixture of equity and debt financing. It obtains its equity financing from a wide range of non-related institutional investors who trade the Company's shares on the London Stock Exchange. The largest holder has an interest in around 12.3% of the shares of the Company. As at 31 December 2009, the Company's share price was 75.0p, giving it a market capitalisation of around £300m.

In respect of debt financing, at the end of 2009, the Group had committed borrowing facilities totalling £207.3m, of which £122.7m was being utilised. The Group held £20.4m in cash and hence net debt was £102.3m. The committed facilities at this time consisted of US\$35m (£21.7m) of loan notes due in 2014, US\$25m (£15.5m) of loan notes due in 2015, US\$30m (£18.6m) of loan notes due in 2017, US\$75m (£46.7m) of loan notes due in 2018, US\$20m (£12.4m) of loan notes due in 2020, an £80.0m multi-currency revolving credit facility maturing in 2012 and a US\$20m (£12.4m) bilateral facility maturing in 2011.

Corporate Social Responsibility

The policy of the Board is to seek to enhance shareholder value in an ethical and socially responsible manner, taking into account the wishes of all stakeholders, and with a particular focus on health and safety and preserving the environment. Two of the Group's six KPIs, namely reductions in carbon dioxide emissions and lost time injuries, are targeted at this area. Details of the Group's corporate and social responsibility principles and performance indices are set out in a separate "Corporate Social Responsibility Report" in the Annual Report & Accounts 2009.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

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

By Order of the Board

Mark Rollins
Group Chief Executive

26 February 2010

Simon Nicholls
Group Finance Director

26 February 2010

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Consolidated Income Statement

For the year ended 31 December 2009

	Notes	Year ended 2009 £m	Year ended 2008 £m
Continuing operations			
Revenue	3	540.1	562.4
Trading profit		61.1	59.8
Loss on sale of fixed assets		(0.1)	-
Operating profit ⁽¹⁾	3	61.0	59.8
Investment income		1.2	2.7
Finance costs		(12.6)	(11.2)
Profit before tax ⁽²⁾		49.6	51.3
Tax	5	(10.6)	(12.1)
Profit for the period		39.0	39.2
Attributable to:			
Equity holders of the parent		39.0	39.2
Earnings per share			
Basic	7	9.79p	9.92p
Diluted	7	9.58p	9.78p
⁽¹⁾ Adjusted operating profit	4	59.4	64.5
⁽²⁾ Adjusted profit before tax	4	48.0	56.0

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Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Year ended 2009 £m	Year ended 2008 £m
Profit for the period	39.0	39.2
Other comprehensive income:		
Gains/(losses) on cash flow hedges during the period	5.1	(9.0)
Reclassification adjustments for losses included in profit or loss	1.7	3.2
Gains/(losses) on cash flow hedges	6.8	(5.8)
Gains/(losses) on revaluation of financial instruments	8.0	(44.4)
Exchange differences on translation of foreign operations	(20.6)	59.9
Actuarial losses on defined benefit pension schemes	(20.0)	(15.0)
Other comprehensive income	(25.8)	(5.3)
Tax relating to components of other comprehensive income	4.4	0.5
Other comprehensive income for the period, net of tax	(21.4)	(4.8)
Total comprehensive income for the period	17.6	34.4
Attributable to:		
Equity holders of the parent	17.6	34.4

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Consolidated Balance Sheet

As at 31 December 2009

	Notes	Year ended 2009 £m	Year ended 2008 £m	Year ended 2007 £m
Non-current assets				
Goodwill	8	169.3	184.0	114.3
Other intangible assets		11.0	17.6	11.9
Property, plant and equipment	9	118.0	138.4	93.6
Deferred tax assets		0.2	0.4	0.1
Trade and other receivables		0.6	3.3	3.5
Total non-current assets		299.1	343.7	223.4
Current assets				
Inventories		65.0	99.6	79.4
Construction contracts		0.5	1.5	2.9
Trade and other receivables		79.1	92.7	78.7
Cash and cash equivalents	11c)	20.4	11.9	8.7
Total current assets		165.0	205.7	169.7
Total assets		464.1	549.4	393.1
Current liabilities				
Trade and other payables		95.6	151.8	92.5
Current tax liabilities		4.6	8.0	9.0
Obligations under finance leases		0.2	0.2	0.2
Bank overdrafts and loans		1.1	1.2	41.5
Total current liabilities		101.5	161.2	143.2
Non-current liabilities				
Bank and other loans	11c)	120.3	149.6	58.3
Retirement benefit obligations	12	48.1	51.2	36.3
Deferred tax liabilities		7.8	8.8	3.3
Obligations under finance leases		1.1	1.5	1.3
Others		0.5	0.9	0.8
Total non-current liabilities		177.8	212.0	100.0
Total liabilities		279.3	373.2	243.2
Net assets		184.8	176.2	149.9
Equity				
Issued share capital	10	39.9	39.8	39.1
Share premium account		12.1	12.0	11.3
Equity reserve		1.9	1.7	1.6
Distributable reserve		19.4	19.4	19.4
Hedging and translation reserve		1.6	6.3	(4.4)
Retained earnings		111.3	98.4	84.3
Own shares		(1.4)	(1.4)	(1.4)
Equity attributable to equity holders of the parent		184.8	176.2	149.9
Total equity		184.8	176.2	149.9

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Statement of Changes in Equity

For the year ended 31 December 2009

All equity is attributable to equity holders of the parent

	Issued share capital	Share premium account	Equity reserve	Distribut- able reserve	Hedging and translation reserve	Retained earnings	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2008	39.1	11.3	1.6	19.4	(4.4)	84.3	(1.4)	149.9
Profit for the year 2008	-	-	-	-	-	39.2	-	39.2
Losses on cash flow hedges	-	-	-	-	(5.8)	-	-	(5.8)
Losses on revaluation of financial instruments	-	-	-	-	(44.4)	-	-	(44.4)
Exchange differences on translation of foreign operations	-	-	-	-	59.9	-	-	59.9
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(15.0)	-	(15.0)
Tax relating to components of other comprehensive income	-	-	-	-	1.0	(0.5)	-	0.5
Total comprehensive income for the period	-	-	-	-	10.7	23.7	-	34.4
Issue of share capital	0.7	0.7	(0.1)	-	-	-	-	1.3
Share-based payment charge	-	-	0.9	-	-	-	-	0.9
Transfer to retained earnings	-	-	(0.7)	-	-	0.7	-	-
Dividends paid	-	-	-	-	-	(10.3)	-	(10.3)
Balance at 31 December 2008	39.8	12.0	1.7	19.4	6.3	98.4	(1.4)	176.2
Profit for the year 2009	-	-	-	-	-	39.0	-	39.0
Gains on cash flow hedges	-	-	-	-	6.8	-	-	6.8
Gains on revaluation of financial instruments	-	-	-	-	8.0	-	-	8.0
Exchange differences on translation of foreign operations	-	-	-	-	(20.6)	-	-	(20.6)
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(20.0)	-	(20.0)
Tax relating to components of other comprehensive income	-	-	-	-	1.1	3.3	-	4.4
Total comprehensive income for the period	-	-	-	-	(4.7)	22.3	-	17.6
Issue of share capital	0.1	0.1	(0.1)	-	-	-	-	0.1
Share-based payment charge	-	-	0.8	-	-	-	-	0.8
Tax relating to share-based payments	-	-	-	-	-	0.5	-	0.5
Transfer to retained earnings	-	-	(0.5)	-	-	0.5	-	-
Dividends paid	-	-	-	-	-	(10.4)	-	(10.4)
Balance at 31 December 2009	39.9	12.1	1.9	19.4	1.6	111.3	(1.4)	184.8

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Cash Flow Statement

For the year ended 31 December 2009

	Notes	Year ended 2009 £m	Year ended 2008 £m
Net cash from operating activities	11a)	<u>69.8</u>	<u>74.6</u>
Investing activities			
Interest received		2.6	1.7
Deferred consideration received		0.5	0.1
Proceeds on disposal of property, plant and equipment		0.3	0.6
Purchases of property, plant and equipment		(12.3)	(23.8)
Purchases of intangible assets		(0.3)	(0.7)
Acquisition of Capo Industries		-	(44.1)
Acquisition of Sterling Machine		-	0.4
Net cash used in investing activities		<u>(9.2)</u>	<u>(65.8)</u>
Financing activities			
Dividends paid		(10.4)	(10.3)
Repayment of borrowings		(20.0)	(85.9)
Repayments of obligations under finance leases		(0.2)	(0.2)
Share issues		0.1	1.3
New loans raised		4.5	103.4
Net cash outflow on forward contracts		(25.2)	(13.0)
Net cash used in financing activities		<u>(51.2)</u>	<u>(4.7)</u>
Net increase in cash and cash equivalents		9.4	4.1
Cash and cash equivalents at beginning of period		10.7	4.9
Effect of foreign exchange rate changes		(0.8)	1.7
Cash and cash equivalents at end of period	11c)	<u><u>19.3</u></u>	<u><u>10.7</u></u>

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Notes to the above Financial Statements

For the year ended 31 December 2009

1. General information

These results for the year ended 31 December 2009 are an excerpt from the forthcoming Annual Report & Accounts 2009 and do not constitute the Group's statutory accounts for 2009 or 2008. Statutory accounts for 2008 have been delivered to the Registrar of Companies, and those for 2009 will be delivered following the Company's Annual General Meeting. The Auditors have reported on both those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

2. Significant accounting policies

Whilst the financial information included in this Annual Results Release has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the Annual Report & Accounts 2009 which is available at www.seniorplc.com, copies of which will be distributed on or soon after 12 March 2010.

The accounting policies adopted are consistent with those followed in the preparation of the Group's Annual Report & Accounts 2009 which are unchanged from those adopted in the Group's Annual Report & Accounts 2008, except for as described below.

In the current financial year, the Group has adopted IFRS 8 "Operating Segments", IAS 1 (Revised) "Presentation of Financial Statements", IFRS 2 (Amendment) "Share-based Payment Vesting Conditions and Cancellations", IAS 23 (Revised) "Borrowing Costs", IFRS 7 (Amendment) "Improving Disclosure about Financial Instruments" and IFRIC 18 "Transfers of Assets from Customers".

IFRS 8 replaces IAS 14 "Segment Reporting" and requires segment information to be presented on the same basis as that used for internal reporting purposes, identifying the components of the Group that are regularly reviewed by the Group's Executive Committee to allocate resources to the segments and to assess their performance. Adoption of IFRS 8 has not led to a change in the Group's reportable segments.

IAS 1 (Revised) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. As a result, Statements of Changes in Equity have been included in the primary statements, showing changes in each component of equity for each period presented.

IFRS 2 (Amendment) clarifies that for share-based payments, vesting conditions are service and performance conditions only and that all cancellations of awards, whether by the entity or by other parties, should receive the same accounting treatment. These do not represent a material impact on the Group's Financial Statements.

IAS 23 (Revised) removes the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset and instead requires these costs to be capitalised as part of the cost of that asset. Whilst this is an accounting policy change for the Group, it does not represent a material impact on the Group's Financial Statements.

IFRS 7 (Amendment) requires enhanced disclosures about fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these enhanced disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

IFRIC 18 "Transfers of Assets from Customers" addresses the accounting by recipients for transfers of property, plant and equipment from customers. It concludes that when property, plant and equipment meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of transfer, with the credit recognised in accordance with IAS 18 "Revenue". This interpretation does not represent a material impact on the Group's Financial Statements.

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2. Accounting policies continued

The following Standards and Interpretations are also effective from the current financial year, but currently do not impact the Group's Financial Statements: IFRS 1 (Amendment)/IAS 27 (Amendment) "Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate"; IAS 32 (Amendment)/IAS 1 (Amendment) "Puttable Financial Instruments and Obligations Arising on Liquidation"; IAS 39 (Amendment)/IFRS 7 (Amendment) "Reclassification of Financial Assets"; Improvements to IFRS – as published in May 2008; and IFRIC 16 "Hedges of a Net Investment in a Foreign Operation". "Embedded Derivatives" (Amendments to IFRIC 9 and IAS 39), IFRIC 13 "Customer Loyalty Programmes" and IFRIC 15 "Agreements for the Construction of Real Estate" are currently not relevant to the Group's operations.

3. Segmental information

The Group reports its segment information as two operating Divisions according to the market segments they serve, Aerospace and Flexonics. For management purposes, the Aerospace Division is managed as two sub-divisions, Aerostructures and Fluid Systems, in order to enhance management oversight; however, these are aggregated as one reporting segment in accordance with IFRS 8. The Flexonics Division is managed as a single division.

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

	Aerospace	Flexonics	Elimination / Central costs	Total	Aerospace	Flexonics	Elimination / Central costs	Total
	Year ended 2009 £m	Year ended 2009 £m	Year ended 2009 £m	Year ended 2009 £m	Year ended 2008 £m	Year ended 2008 £m	Year ended 2008 £m	Year ended 2008 £m
External revenue	319.0	221.1	-	540.1	312.4	250.0	-	562.4
Inter-segment revenue	0.2	0.2	(0.4)	-	0.5	0.1	(0.6)	-
Total revenue	319.2	221.3	(0.4)	540.1	312.9	250.1	(0.6)	562.4
Adjusted operating profit (see note 4)	38.8	26.2	(5.6)	59.4	44.3	25.9	(5.7)	64.5
Loss on sale of fixed assets	(0.1)	-	-	(0.1)	-	-	-	-
Exceptional pension gain	-	-	6.3	6.3	-	-	-	-
Amortisation of intangible assets from acquisitions	(4.6)	-	-	(4.6)	(4.7)	-	-	(4.7)
Operating profit	34.1	26.2	0.7	61.0	39.6	25.9	(5.7)	59.8
Investment income				1.2				2.7
Finance costs				(12.6)				(11.2)
Profit before tax				49.6				51.3
Tax				(10.6)				(12.1)
Profit after tax				39.0				39.2

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3. Segmental information continued

Segment information for assets and liabilities is presented below.

Assets	Year ended 2009 £m	Year ended 2008 £m
Aerospace	162.3	202.6
Flexonics	97.7	126.9
Corporate	0.9	1.6
Segment assets for reportable segments	<u>260.9</u>	<u>331.1</u>
Unallocated		
Goodwill	169.3	184.0
Intangible customer relationships	9.5	15.7
Cash	20.4	11.9
Deferred and current tax	2.6	1.0
Others	1.4	5.7
Total assets per balance sheet	<u><u>464.1</u></u>	<u><u>549.4</u></u>
Liabilities	Year ended 2009 £m	Year ended 2008 £m
Aerospace	42.1	54.5
Flexonics	40.1	50.5
Corporate	11.2	7.9
Segment liabilities for reportable segments	<u>93.4</u>	<u>112.9</u>
Unallocated		
Debt	121.4	150.8
Finance leases	1.3	1.7
Deferred and current tax	12.4	16.8
Retirement benefit obligations	48.1	51.2
Forward exchange contracts	-	33.9
Others	2.7	5.9
Total liabilities per balance sheet	<u><u>279.3</u></u>	<u><u>373.2</u></u>

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4. Adjusted operating profit and adjusted profit before tax

The provision of adjusted operating profit and adjusted profit before tax, derived in accordance with the table below, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of gains or losses arising from the sale of fixed assets, an exceptional pension gain and amortisation of intangible assets acquired on acquisitions. The exceptional pension gain relates to the curtailment gain arising from the introduction of a cap on future pensionable earnings growth of 2% per annum from 6 April 2010 in the UK defined benefit plan.

	Year ended 2009 £m	Year ended 2008 £m
Operating profit	61.0	59.8
Loss on sale of fixed assets	0.1	-
Exceptional pension gain	(6.3)	-
Amortisation of intangible assets from acquisitions	4.6	4.7
Adjustments to operating profit	(1.6)	4.7
Adjusted operating profit	59.4	64.5
Profit before tax	49.6	51.3
Adjustments to profit as above before tax	(1.6)	4.7
Adjusted profit before tax	48.0	56.0

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5. Tax charge

	Year ended 2009 £m	Year ended 2008 £m
Current tax:		
UK Corporation Tax	-	-
Foreign tax	4.5	9.8
Adjustments in respect of prior periods	1.9	(0.2)
	<u>6.4</u>	<u>9.6</u>
Deferred tax:		
Current year	6.5	3.6
Adjustments in respect of prior periods	(2.3)	(1.1)
	<u>4.2</u>	<u>2.5</u>
	<u>10.6</u>	<u>12.1</u>

UK Corporation Tax is calculated at an effective rate of 28% (2008 – 28.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. Dividends

	Year ended 2009 £m	Year ended 2008 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2008 of 1.70p (2007 - 1.70p) per share	6.8	6.7
Interim dividend for the year ended 31 December 2009 of 0.90p (2008 - 0.90p) per share	3.6	3.6
	<u>10.4</u>	<u>10.3</u>
Proposed final dividend for the year ended 31 December 2009 of 1.70p (2008 - 1.70p) per share	6.8	6.8

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.

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7. Earnings per share

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

Number of shares	Year ended 2009 million	Year ended 2008 million
Weighted average number of ordinary shares for the purposes of basic earnings per share	398.3	395.0
Effect of dilutive potential ordinary shares:		
Share options	9.0	6.0
Weighted average number of ordinary shares for the purposes of diluted earnings per share	407.3	401.0

Earnings and earnings per share	Year ended 2009 Earnings £m	Year ended 2009 EPS pence	Year ended 2008 Earnings £m	Year ended 2008 EPS pence
Profit for the period	39.0	9.79	39.2	9.92
Adjust:				
Loss on sale of fixed assets net of tax of £0.1m (2008 - £nil)	-	-	-	-
Exceptional pension gain	(6.3)	(1.58)	-	-
Amortisation of intangible assets from acquisitions net of tax of £1.8m (2008 - £1.9m)	2.8	0.70	2.8	0.71
Adjusted earnings after tax	35.5	8.91	42.0	10.63
Earnings per share				
- basic		9.79p		9.92p
- diluted		9.58p		9.78p
- adjusted		8.91p		10.63p
- adjusted and diluted		8.72p		10.47p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2008 - £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
- exceptional pension gain
- amortisation of intangible assets acquired on acquisitions.

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8. Goodwill

Goodwill decreased by £14.7m during the year to £169.3m (2008 - £184.0m). The decrease represents £14.7m of exchange translation differences. No impairment charges were recognised in 2009 (2008 - £nil).

9. Property, Plant and Equipment

During the period, the Group spent £12.3m (2008 - £23.8m) on the acquisition of property, plant and equipment. The Group also disposed of machinery with a carrying value of £0.4m (2008 - £0.6m) for proceeds of £0.3m (2008 - £0.6m).

10. Share Capital

Share capital as at 31 December 2009 amounted to £39.9m. During 2009, the Group issued 239,894 shares at an average price of 21.97p per share under share option plans raising £0.1m. 1,099,451 shares were also issued during 2009 under the 2005 Long Term Incentive Plan.

11. Notes to the cash flow statement

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

	Year ended 2009 £m	Year ended 2008 £m
Operating profit from continuing operations	61.0	59.8
Adjustments for:		
Depreciation of property, plant and equipment	20.1	18.1
Amortisation of intangible assets	5.3	5.3
Share options	0.9	0.9
Loss on disposal of property, plant and equipment	0.1	-
Exceptional pension gain	(6.3)	-
Pension payments in excess of service cost	(19.6)	(5.2)
Operating cash flows before movements in working capital	61.5	78.9
Decrease in inventories	26.8	7.6
Decrease in receivables	11.5	10.0
Decrease in payables	(8.4)	(5.4)
Working capital currency movements	(1.7)	0.8
Cash generated by operations	89.7	91.9
Income taxes paid	(11.2)	(8.8)
Interest paid	(8.7)	(8.5)
Net cash from operating activities	69.8	74.6

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11. Notes to the cash flow statement continued

b) Free cash flow

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

	Year ended 2009 £m	Year ended 2008 £m
Net cash from operating activities	69.8	74.6
Interest received	2.6	1.7
Proceeds on disposal of property, plant and equipment	0.3	0.6
Purchases of property, plant and equipment - cash	(12.3)	(23.8)
Purchase of intangible assets	(0.3)	(0.7)
Free cash flow	<u>60.1</u>	<u>52.4</u>

c) Analysis of net debt

	At 1 Jan 2009 £m	Cash flow £m	Exchange Movement £m	At 31 Dec 2009 £m
Cash	11.9	9.3	(0.8)	20.4
Overdrafts	(1.2)	0.1	-	(1.1)
Cash and cash equivalents	<u>10.7</u>	<u>9.4</u>	<u>(0.8)</u>	<u>19.3</u>
Debt due within one year	-	-	-	-
Debt due after one year	(149.6)	15.5	13.8	(120.3)
Finance leases	(1.7)	0.2	0.2	(1.3)
Forward exchange contract losses	(33.9)	25.2	8.7	-
Total	<u>(174.5)</u>	<u>50.3</u>	<u>21.9</u>	<u>(102.3)</u>

The forward exchange contract losses shown above are reported as £nil (2008 - £33.9m) in current liabilities within trade and other payables.

	Year ended 2009 £m	Year ended 2008 £m
Cash and cash equivalents comprise:		
Cash	20.4	11.9
Bank overdrafts	(1.1)	(1.2)
Total	<u>19.3</u>	<u>10.7</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the Balance Sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. The Directors consider that the carrying amount of cash and cash equivalents approximates their fair value.

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12. Retirement benefit schemes

Defined Benefit Schemes

Aggregate post-retirement benefit liabilities are £48.1m (2008 - £51.2m). The primary components of this liability are the Group's UK pension plan and US pension plans, with deficits of £39.6m (2008 - £37.3m) and £3.8m (2008 - £9.3m) respectively. These values have been assessed by an independent actuary using current market values and discount rates. The decrease in the liability from £51.2m at 31 December 2008 to £48.1m at 31 December 2009 is primarily due to contributions in excess of service cost of £19.6m, higher returns on plan assets than assumed and an exceptional pension gain arising from the introduction of a cap on future pensionable earnings growth of 2% per annum from 6 April 2010 in the UK plan, offset partially by a decrease in the UK plan discount rate assumption to 5.7% (2008 - 6.4%) and an increase in the UK plan inflation rate assumption to 3.5% (2008 - 2.8%). The changes in discount and inflation rate assumptions since 31 December 2008 are in line with movements in market yields of high quality corporate bonds and movements in market estimates of future price inflation.