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Senior plc Annual Report 2005

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Senior plc

Corporate profile

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, automotive and specialised industrial markets.

Aerospace

46% of Group turnover

Engine structures and mountings, fluid control systems, metallic high-pressure ducting, composite low-pressure ducting

Automotive

40% of Group turnover

Flexible exhaust connectors, engine emission pipework, diesel fuel systems, air conditioning/turbo charger pipework

Industrial

14% of Group turnover

Metallic and fabric expansion joints, flexible metallic hoses, composite hoses, ventilation ducting

Officers and Advisers

Secretary and Registered Office

Andrew Bodenham
59/61 High Street, Rickmansworth, Hertfordshire WD3 1RH

Registered in England and Wales No. 282772

Registrars

Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA

Auditors

Deloitte & Touche LLP
Four Brindleyplace, Birmingham B1 2HZ

Solicitors

Slaughter and May
One Bunhill Row, London EC1Y 8YY

Principal UK Clearing Bankers

HSBC Bank plc
8 Canada Square, London E14 5HQ

Royal Bank of Scotland plc
135 Bishopsgate, London EC2M 3UR

Investment Bankers

Schroder Salomon Smith Barney
Citigroup Centre, 33 Canada Square, London E14 5LB

Stockbrokers

Hoare Govett Limited
250 Bishopsgate, London EC2M 4AA

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Financial Highlights

	Year ended 31 December		
	2005	2004 ⁽¹⁾	
Revenue from continuing operations	£338.6m	£306.8m	+10.4%
Operating profit from continuing operations	£19.6m	£16.6m	+18.1%
Profit before taxation from continuing operations ⁽²⁾	£16.6m	£12.5m	
Basic earnings per share from continuing operations ⁽²⁾	4.59p	3.56p	
Adjusted profit before taxation ⁽³⁾	£14.8m	£12.5m	+18.4%
Adjusted earnings per share ⁽³⁾	4.01p	3.59p	+11.7%
Total dividends (paid and proposed) per share	2.00p	2.00p	–
Free cash flow ⁽⁴⁾	£2.2m	£10.5m	
Net borrowings	£62.4m	£50.6m	

Note

- (1) The figures for 2004 have been restated following the adoption of International Financial Reporting Standards.
- (2) Profit before tax and basic earnings per share from continuing operations include the benefit of a £2.0m gain (2004 – £nil) arising from foreign exchange movements on long-term intercompany loans as is currently required by IAS 21.
- (3) Adjusted profit before taxation and adjusted earnings per share arise from continuing and discontinued businesses before a £0.2m loss on disposal of fixed assets (2004 –£0.5m gain), £2.0m exchange gain on long-term intercompany loans (2004 – £nil) and loss on disposal of discontinued businesses of £nil (2004 – £4.8m).
- (4) See Note 34(b) for derivation of free cash flow.

“This is a healthy set of results with sales and adjusted earnings per share more than 10% ahead of the prior year. The ongoing recovery in the large civil aircraft market, the recent acquisition of Sterling Machine and the impending start of production of the new heavy duty diesel engine products mean prospects for future growth remain strong across the Group.”

James Kerr-Muir, Chairman

Revenue⁽⁵⁾ £m

05	338.6
04	306.8
03	322.9

Operating Margin⁽⁵⁾ %

05	5.8
04	5.4
03	5.5

Adjusted Earnings Per Share⁽³⁾ p

05	4.01
04	3.59
03	3.13

Dividends Per Share p

05	2.00
04	2.00
03	2.00

Gross Capital Expenditure £m

05	16.6
04	10.4
03	8.0

Basic Earnings Per Share⁽²⁾⁽⁶⁾ p

05	4.59
04	3.56
03	1.50

Net Debt £m

05	62.4
04	50.6
03	64.2

Free Cash Flow £m

05	2.2
04	10.5
03	20.2

Note

- (5) Continuing business
 (6) 2003 comparative calculated on a UK GAAP basis

Chairman's Statement



Senior made good progress in 2005.

The large civil aircraft market had a buoyant year with increased deliveries and a record number of new aircraft being ordered. In automotive, whilst the demand for passenger vehicles in Europe and the USA remained steady, Senior made significant progress in getting its new diesel products in North America ready for the start of production scheduled for late 2006. The Industrial Division benefited from the recovery in the oil and gas market.

The year ended with an 18.4% improvement in adjusted profit before taxation and solid order books with which to enter 2006.

Financial Results

Group revenue on continuing operations increased by 10.4% to £338.6m (2004 – £306.8m). Operating profit increased by 18.1% to £19.6m (2004 – £16.6m), whilst trading profit (which excludes any profit or loss on the sale of fixed assets) rose by 23.0% to £19.8m (2004 – £16.1m). Adjusted profit before tax, the measure which the Board believes best reflects the true underlying performance of the business, increased by 18.4% to £14.8m (2004 – £12.5m). Adjusted earnings per share increased by 11.7% to 4.01p per share (2004 – 3.59p). The results for 2005, and the comparatives for 2004, have been prepared for the first time under International Financial Reporting Standards. The derivation of trading profit, adjusted earnings per share and other non-statutory information is explained in the Business Review.

Trading profits in most of the Group's aerospace operations improved compared to 2004 as a result of the generally healthier marketplace, with those providing parts for the wide-bodied commercial aircraft seeing the greatest gains. Operations exposed to the regional jet market found trading conditions more challenging as a result of the decline in build rates in this sector. Overall, the Aerospace Division improved trading profits by 16.1% over 2004 (at constant currency).

As a result of the corrective actions taken early in the year, the French automotive operation recovered from its 2004 difficulties. Its improved financial performance assisted the Automotive Division to report trading profits 9.9% ahead of 2004 (at constant currency). The Division accounted for £13.2m of the Group's total

£16.6m of capital expenditure in the year, as plant and machinery began to be installed to produce the new heavy duty diesel engine parts for the North American market. Start of production remains firmly on track for late 2006 onwards.

In the Industrial Division, trading profit more than doubled in a year of contrasting fortunes. On the one hand, the year contained the loss-making Wembley Stadium contract at Senior Hargreaves but, more significantly, the lower cost base and very buoyant oil and gas market helped the North American operations, particularly Pathway, to have a much improved year.

Net debt at the end of the year was £62.4m (2004 – £50.6m), with the increase due to the increased Automotive capital expenditure and the effect of the strengthening US dollar on the Group's reported borrowings.

Acquisition

Senior made its first acquisition in six years, Sterling Machine, in January 2006 and I am particularly pleased to be able to welcome all the employees of this company to the Group. Sterling Machine, which will join the Aerospace Division, is a key supplier of critical components to the military helicopter market, a sector that has very good growth prospects. The acquisition further widens the customer spread as well as increasing the military content of the Division. It is profitable, well run and respected by its main customer, Sikorsky, and it is expected to contribute to Group earnings in 2006. The acquisition was partially funded by a share placing of 15 million new shares in Senior plc at 60p per share.

Dividend

The Board is recommending an unchanged final dividend of 1.35p per share in respect of 2005, bringing the total paid and proposed dividends for the year to 2.00p per share (2004 – 2.00p).

Employees and the Board

Ian Much joined the Board in December 2005 after Gordon Campbell stood down due to his other commitments. I would like to thank Gordon for his contribution and welcome Ian who brings with him international experience of both the aerospace and automotive markets. He will stand for election at the forthcoming Annual General Meeting.

I would like to thank all the Group's employees for another year of unstinting effort and commitment in dealing with the challenges our operations faced in 2005, a year of improving market outlook, but one of unrelenting pressure on performance.

Outlook

Recovery in the large civil aircraft market is well underway and build rates are being increased significantly. The business jet and the military and defence sectors are strong although the regional jet market is weak. Overall, notwithstanding the current difficulty in sourcing raw materials, the aerospace market sector is well positioned for Senior. In Automotive, whilst the build rates of passenger cars may remain flat in the Group's markets, production of the new heavy duty diesel products is on schedule for late 2006 and represents the beginning of significant organic growth potential. The strong oil and gas market will continue to sustain the industrial operations and the Wembley Stadium contract should be finished in the first half of 2006.

Trading in the first two months of 2006 has been satisfactory and in line with the Board's expectations. The Group can anticipate that 2006 will bring new challenges but improved prospects and further growth opportunities.

Chief Executive's Statement



Aerospace

During 2005, the aerospace industry continued its rapid recovery in build rates. Boeing delivered 290 aircraft, up from 285 in 2004, and booked a net 1,002 of new orders. They plan to deliver 395 aircraft in 2006, a 36% increase. Airbus has not yet announced its build plan for 2006, but it delivered 378 aircraft in 2005, an 18% increase over 2004, and booked an unprecedented net 1,055 in new orders during the year.

Together, Boeing and Airbus delivered 668 aircraft in 2005 but took net orders for 2,057 aircraft – a book to bill ratio of 3.1. This was a record year for the industry, both for the large civil aircraft builders and for the engine suppliers, such as Rolls-Royce, GE and Snecma. In the smaller regional jet aircraft sector the two main assemblers fared less well. Bombardier reduced regional jet deliveries by 26%, from 176 aircraft in 2004 to 130 in 2005, and Embraer by 10% from 134 to 120. Bookings were also down with Bombardier, suffering from significant cancellations on its CRJ 200 programme, receiving net orders for only 4 aircraft in 2005 compared to 135 in 2004 and Embraer booking 90, down from 108.

The small business jet sector was very buoyant and the military and defence sector remained at a healthy level.

Senior Aerospace has a good spread of customers in the aerospace industry with about 30% of sales being to the military and defence sector. The industry recovery, however, is being powered by the demand for Boeing and Airbus large civil aircraft that should see build rates at a higher level for a number of years to come.

In addition, there are a variety of new programmes that are helping demand. The very large Airbus A380 flew for the first time in 2005 and is due into service in 2007. Work has commenced on the European military transport aircraft, the A400M, and production of the Eurofighter has been extended into its second tranche of around 250 aircraft. Both Boeing and Airbus have launched new mid-size large civil aircraft – respectively the B787 and A350 – and had received orders of 291 and 87 aircraft for these models by the end of 2005. The new aircraft are planned to cost less to buy and fly compared to the current equivalent aircraft.

Growth in the aerospace industry is not, however, without its challenges. The availability

and price of raw materials is a major concern and this could slow the industry efforts to increase build rates. The industry uses a variety of specialist materials in higher volumes than most other industries. One such material is titanium, where by January 2006 the price had risen by over 65% from a year earlier and the delivery lead time for supplies of titanium had stretched to around 72 weeks.

In addition to build rates increasing, and new aircraft being launched, Senior Aerospace now has an additional member company. Sterling Machine was bought from its private owners in January 2006. Located in Connecticut, USA, it is a well run, profitable, growing and well invested business which makes transmission and rotor-head components for military helicopters – primarily for its main customer Sikorsky. The build rate of the Sikorsky Blackhawk is forecast to grow substantially in the near term as a result of a strong order book. In the medium term, the US government has agreed financing to recommence production of the heavy lift Sikorsky Super Stallion. Sterling Machine is a welcome addition to the Group.

Automotive

In both Europe and North America, automotive markets were flat in 2005. Within these markets, diesel engined vehicles in Europe continued to gain market share as common rail diesel technology became available to most engine assemblers. This high pressure fuel technology increases power output, reduces noise and vibration, improves fuel consumption and helps meet emission standards which authorities around the world continue to tighten. In North America, the rise in fuel prices during 2005 precipitated a switch from large sports utility vehicles to smaller regular passenger cars. Fortunately, the Group's products in production today are more likely to be fitted on the latter rather than the former. In addition, the "Big 3" continued to have their market share eroded by the Japanese and Korean assemblers. These two factors resulted in some distress in the industry with General Motors, Ford and Daimler Chrysler announcing rationalisations, cost reductions and plant closures.

In Senior Automotive, material price pressures slackened somewhat in 2005 compared to 2004 when the industry had witnessed dramatic price increases in a variety of metals. Senior almost exclusively uses varieties of stainless steels where price increases of its component metals (nickel,

molybdenum, cobalt etc.) had led to the need to negotiate surcharge mechanisms with both raw material suppliers and customers. The supply chain in the industry now has surcharge mechanisms in place that largely address variations in raw material prices.

Investment by the Division over the last three years in new product programmes is now bearing fruit. The diesel engine manufacturers in the USA, who build essentially for heavy truck assemblers, have adopted common rail high pressure fuel systems for their 2007 model year. It is currently the most economic way to meet 2007 emission standards. Today, the Division has little exposure to heavy trucks but, by 2007, sales in this sector will increase substantially and the dependence upon diesel engines, both large in the USA and small in Europe, will increase significantly. This will dilute Senior's exposure to regular passenger vehicles.

Industrial

In 2005, there were conflicting fortunes in the Industrial Division. Trying to complete the Wembley Stadium ducting contract on cost, and on time, proved impossible on a very difficult site where the main contractor, Multiplex, has regularly reported on its own financial and operational difficulties. The contract is near to completion with the adverse financial impact of the contract being recognised in the 2005 results. By contrast oil and gas, in North America, has been a very healthy market and looks set to continue as long as the crude oil price remains high. Together with the cost reductions affected in 2004, this helped the performance of the Industrial Division improve significantly in 2005, particularly at Pathway.

Operational Excellence

Throughout the Group, engineered products are manufactured for large original equipment assemblers. Consequently, demand levels in the Group's factories are a direct function of the success of the Group's customers in selling their own products together with the dynamics of the marketplaces themselves. In order to continue to be a successful and growing business, the Group remains committed to operational improvements, cost reduction and value enhancement through product and process design and development. Operational excellence, impeccable customer service and profitable pricing remain core objectives.

These policies and improving markets leave Senior well placed to grow in the future.

Group Activities

Senior is a global engineering group, with operations in 11 countries, principally serving the aerospace and automotive markets. The aerospace business is relatively evenly spread across the large commercial, military and regional jet marketplaces supplying both airframe, engine and aerospace component manufacturers. The Automotive Division principally produces products using the Group's flexible thin-walled metal "Flexonics" technology supplying exhaust, fuel, turbocharger, engine emission and cooling parts to both the car assemblers themselves and also their Tier 1 suppliers. The Group also supplies a variety of industrial markets including the oil and gas, chemical and HVAC industries.

Acquisition

Subsequent to the year-end, the Group completed the acquisition of Sterling Machine Co., Inc., a US manufacturer of precision machined parts for the aerospace industry. Sterling Machine is a pre-eminent manufacturer of transmission and rotor-head helicopter components for military platforms, principally to Sikorsky Aircraft Corporation. The business operates from a freehold site in Connecticut, USA. In 2005, Sterling Machine reported sales of US\$18.8m and profit before interest and tax of US\$4.2m. The cash consideration, including assumed net debt, was US\$37.6m which was funded through a combination of a placing of 15 million new Senior plc shares at 60p each and utilisation of the Group's existing borrowing facilities.

Future Structure of the Group

Starting with the 2006 interim results, the plan is to present the Group as having two divisions. The Senior Aerospace Division will have 11 subsidiaries, including the newly acquired Sterling Machine, while a newly named Senior Flexonics Division will include both the existing eight automotive operations and the three industrial operations. The reason for this move is threefold: the Group's dependence upon traditional automotive components is diminishing with the increase in heavy duty diesel applications; the Group already has an industry recognised common brand in "Flexonics" and much common technology across the automotive and industrial market sectors; and the move to only two divisions signifies the end of a period of rationalisation of the Group and marks the beginning of a sustained period of growth for Senior both as a result of new products and expanding markets.

Changes in Accounting Policy

Companies listed on security exchanges within the European Union were required to adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 31 December 2004. Accordingly, the Group's 2005 Financial Statements represent the first time the Group has reported under IFRS. The Company, Senior plc, is also reporting under IFRS for the first time. All comparative figures for 2004 have been restated with Note 39 to the financial statements explaining the effect of the transition to IFRS on the balance sheets at the start and end of 2004 and the income statement for 2004. The most significant effects relate to the non-amortisation of goodwill, the non-accrual for period end dividends and a change in the treatment of previously written-off goodwill upon the disposal of operations. The reconciliation at Note 39 shows that other effects were minor with the Group trading profit on continuing operations for 2004 being £0.3m lower under IFRS than previously reported under UK GAAP.

Financial Performance of the Group Sales

Total sales from continuing operations were £338.6m compared to £306.8m in 2004, an increase of £31.8m or 10.4%. Exchange rate movements had little year-on-year impact accounting for only £3.4m of the improvement. The underlying improvement was widely spread with each of the three divisions reporting improved turnover levels.

Operating Profit

The Group's operating profit on continuing operations was £19.6m, an 18.1% increase on the £16.6m reported for 2004. This result includes a loss on sale of fixed assets of £0.2m (2004 – £0.5m profit) which, when added back, results in a Group trading profit from continuing operations of £19.8m. This is £3.7m or 23.0% ahead of 2004's £16.1m with only £0.3m of the increase due to exchange rate movements. All three divisions reported improved profitability.

Investment Income and Finance Costs

Investment income fell to £1.3m from £2.1m in 2004 due to a one-off benefit in 2004 when £0.8m of interest relating to a US tax refund was received.

Finance costs remained relatively stable at £6.3m (2004 – £6.2m) despite the slightly higher levels

of net debt in the year. Finance costs include £1.1m (2004 – £1.2m) of net finance costs in respect of retirement benefit obligations.

Profit before Tax

Adjusted profit before tax (that arising from continuing and discontinued businesses before a £0.2m loss on disposal of fixed assets (2004 – £0.5m gain), £2.0m exchange gain on long-term intercompany loans (2004 – £nil) and a loss on disposal of discontinued businesses of £nil (2004 – £4.8m)) increased by 18.4% to £14.8m (2004 – £12.5m). Profit before tax on continuing operations was £16.6m (2004 – £12.5m). This includes the £2.0m gain (2004 – £nil) from foreign exchange movements on long-term intercompany loans as required by IAS 21 ("The Effects of Changes in Foreign Exchange Rates"), as currently endorsed by the European Union. It should be noted that an amendment to IAS 21 was issued in December 2005 which, when endorsed by the European Union, will require such foreign exchange differences to be taken to reserves rather than the income statement.

Taxation

The total tax charge on continuing operations increased to £2.5m (2004 – £1.6m). The effective tax rate, expressed as a percentage of profit before tax on continuing operations (excluding the foreign exchange gain on intercompany loans) was 17.1% (2004 – 12.8%). The low effective tax rate for 2004 benefited from £0.9m of adjustments in respect of prior periods whereas 2005 benefited by only £0.5m.

Disposals

There were no disposals in the year. In 2004 a loss of £4.4m was recognised in respect of discontinued operations being a profit before tax of £0.5m less tax of £0.1m and less the loss on disposal of £4.8m.

Earnings

Basic earnings per share from continuing operations was 4.59p an increase of 28.9% over 2004 (3.56p), reflecting both the underlying trading improvement and the £2.0m foreign exchange gain on intercompany loans discussed above. Adjusted earnings per share, the measure which the Board believes best reflects the true underlying performance of the business and whose derivation is set out at Note 12 to the financial statements, increased by 11.7% to 4.01p (2004 – 3.59p). Adjusted earnings per share exclude the effect of the disposal of businesses

and fixed assets and also foreign exchange gains or losses on long-term intercompany loans.

Dividend

As noted in the Chairman's Statement, an unchanged final dividend of 1.35p per share is proposed. Together with the unchanged interim dividend of 0.65p, the total dividend for 2005 will be 2.00p (2004 – 2.00p) assuming the final dividend is approved. The total dividend is covered 2.0x (2004 – 1.8x) by adjusted earnings per share.

Cash Flow

	2005	2004
	£m	£m
Net cash from operating activities	16.5	17.7
Interest received	1.4	2.5
Capital expenditure	(16.6)	(10.4)
Proceeds from sale of fixed assets	0.9	0.7
Free cash flow	2.2	10.5
Dividends paid	(6.1)	(6.1)
Acquisitions/disposals	(0.1)	4.5
Share issues	0.5	–
Effect of exchange rates	(7.8)	4.7
Change in net borrowings	(11.3)	13.6
New borrowings under IFRS	(0.5)	–
Opening net borrowings	(50.6)	(64.2)
Closing net borrowings	(62.4)	(50.6)

Free cash flow, as set out above and in Note 34(b) to the financial statements, decreased from £10.5m to £2.2m. This was largely due to an increase of £6.2m in capital expenditure to £16.6m (2004 – £10.4m) with the increase arising in the Automotive Division where capital expenditure rose to £13.2m (2004 – £4.4m) as plant and machinery began to be installed ready for the manufacture of the new heavy duty diesel engine products for North America which are scheduled to go into production towards the end of 2006.

Net Borrowings

At the end of 2005, the Group had net borrowings of £62.4m, an increase of £11.8m in the year (31 December 2004 – £50.6m). The increase was due in part to exchange movements as well as increased capital expenditure. The Group primarily finances its borrowings through the US private placement market in US dollars and through two revolving credit facilities (one US dollar; one multi-currency). The US dollar strengthened from \$1.92:£1 at the start of the year to \$1.72:£1 at the end and this, together with other currency movements, caused £7.8m of the increase in net borrowings.

At the end of 2005 the Group had total borrowing facilities of £138.3m, of which £119.2m were committed facilities. £53.3m (2004 – £59.0m) of the committed facilities remained undrawn at the end of the year. Gearing at the year-end was 68% (2004 – 61%) measured on total net assets of £92.3m (2004 – £83.7m).

Shareholders' Equity

The increase in total shareholders' equity of £8.6m in the year; to £92.3m, largely arose from the £14.1m profit for the period less the £6.1m of dividends paid. Also of note was a £0.2m increase in share capital and a £0.3m increase in the share premium account following the exercise of options over 1.8 million shares under employee share save schemes.

Divisional Review

Aerospace Division

£m	2005	2004	Change
Sales [®]	156.2	140.3	+11.3%
Trading profit [®]	13.0	11.2	+16.1%
Margin [®]	8.3%	8.0%	–

[®]2004 results translated at 2005 exchange rates

In the Aerospace Division (ten operations in 2005), sales grew by 11.3% to £156.2m (2004 – £140.3m at constant currency). Recovery in build rates within the industry helped this growth along with new programmes coming on stream. Trading profit increased by 16.1% to £13.0m (2004 – £11.2m at constant currency) as a result of the growth in revenue, maintained control of spending and a continued focus on process improvement and efficiency. The improved operating margin of 8.3% (2004 – 8.0%) arose as a result of better throughput in the factories partially offset by the steady rise in raw material prices. Whilst the large civil aircraft builders finished 2005 with record order-books, the smaller regional jet builders recorded poor bookings in the year. Business jet and defence and military demand remained at a good level and a number of sectors, military helicopters for instance, move into 2006 with growing order books.

Another important consequence of the ongoing industry growth is the increasing opportunity for the Division to take on work being outsourced by the aircraft and engine assemblers as they seek to free up manufacturing space at their own factories. Bird Bellows benefited, during 2005, from Airbus outsourcing some ducting parts, whilst Ketema won outsourced engine parts from

Rolls-Royce which will add to sales from 2006 onwards. On the other hand, the decline in the regional jet market impacted Ketema particularly hard during 2005 and there is little sign of recovery in this market. As well as benefiting generally from the increase in aircraft build-rates, the Division also saw improved performances as a result of the business and factory rationalisations carried out at Stainless Steel Products, in the USA, and Bosman, in Holland, during the prior year.

Overall, the recent addition of Sterling Machine and the generally healthy marketplace mean prospects for the Aerospace Division should remain positive for the foreseeable future.

Automotive Division

£m	2005	2004	Change
Sales [®]	135.9	125.1	+8.6%
Trading profit [®]	8.9	8.1	+9.9%
Margin [®]	6.5%	6.5%	–

[®]2004 results translated at 2005 exchange rates

Despite the flat markets, sales in the Automotive Division (eight operations) grew by 8.6% to £135.9m (2004 – £125.1m at constant currency) and trading profits by 9.9% to £8.9m (2004 – £8.1m at constant currency) as new programmes came on stream at a number of locations. The operating margin remained unchanged at 6.5% with the gearing benefit of the increase in sales offset by the additional engineering resource and start-up costs associated with bringing the new heavy duty diesel engine parts into production at Bartlett, in the USA.

The lower cost operations in Brazil, India and South Africa continued to perform well, with new automotive programmes starting up in all three locations. Sales in the Crumlin factory in Wales, however, fell as MG Rover went into bankruptcy and replacement exhaust programmes started up in South Africa rather than Crumlin. More positively, Crumlin's newly developed EGR Cooler for diesel engine passenger vehicles continues to attract interest from a number of vehicle manufacturers which may lead to orders being placed in the coming months. As anticipated, the French operation, having resolved its material supply problems, made a profit in the second half of the year after a difficult 2004 and its prospects remain encouraging for 2006.

As mentioned previously in the Chief Executive's Statement, the introduction of the heavy duty

diesel engine products in the USA remains firmly on track with production scheduled to start in late 2006. To put these new products into production requires substantial capital investment in new capacity to be able to produce the necessary volumes. Capital expenditure, at £13.2m for the Division, was over double depreciation for the year, and is expected to be at least this level in 2006. The sales are scheduled to come through in 2007.

With such a large number of new products being introduced and the associated plant and equipment being installed, 2006 is likely to bring a number of challenges. 2007 is anticipated to be the first year to benefit from the additional volumes. Significant enquiries continue to be received for opportunities beyond those already booked which, together with growing volumes at a number of other locations, leave the Division well placed for growth from 2007 onwards.

Industrial Division

£m	2005	2004	Change
Sales ^o	47.8	45.4	+5.3%
Trading profit ^o	2.2	0.9	+144%
Margin ^o	4.6%	2.0%	–

^o2004 results translated at 2005 exchange rates

Sales in the Industrial Division (three operations) increased by 5.3% to £47.8m (2004 – £45.4m at constant currency) with trading profits improving to around two and a half times 2004 levels (2005 – £2.2m; 2004 – £0.9m at constant currency). This significant improvement was achieved despite Senior Hargreaves being adversely impacted by the losses incurred on its Wembley Stadium ducting contract as previously described. Whilst the Canadian operation once again improved its performance, the main driver for the Divisional improvement was the larger Pathway operation, in the USA, where improved markets, such as oil and gas, and the site consolidation and operational improvement actions undertaken during 2004, drove its performance well ahead of the break-even position reported in 2004. Its markets remain strong and, with the completion of Wembley Stadium in the first half of 2006, the Division can anticipate improved prospects for 2006.

Other Financial Matters

Financial Risk Management

The main financial risks faced by the Group continue to be movements in interest rates and foreign currency exchange rates as well as funding

and liquidity risks. All such risks are managed by a centralised treasury department which reports to the Group Finance Director. It operates under the guidance of the Treasury Committee, which meets quarterly and acts according to the laid-down objectives, policies and authority levels approved by the Board. The Group's external auditors normally attend the Treasury Committee once a year. All activities are focused on the management and hedging of risk and it is Group policy not to engage in speculative financial transactions.

The Group is exposed to movements in exchange rates for both foreign currency transactions and the translation of net assets and income statements of overseas operations. The Group has a policy of hedging its net investment in overseas operations through currency denominated loans and forward contracts but it does not hedge the effects of currency movements on the translation of its overseas earnings into sterling. Transaction exposures are, however, normally hedged through forward exchange contracts on a rolling 12 month basis. Changes in the fair value of derivative financial instruments that are designated and are effective as a cash flow hedge are recognised through reserves with any ineffective portion recognised in the income statement.

It is Group policy to have the majority of its gross borrowings subject to fixed rates of interest. This is achieved through having a mixture of fixed and variable rate borrowings and by entering into interest rate swaps.

Pensions

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

At the end of 2005, total IAS 19 pension and post-retirement net liabilities were £39.9m (2004 – £41.4m), a reduction of £1.5m (2004 – £2.8m) in the year. Whilst equity returns were very strong, with the Group's pension fund assets increasing by £11.0m more than anticipated in the year, interest rates on long-term index-linked government bonds fell such that the liabilities of the Group's pension schemes, as calculated at the year-end, rose by £10.8m more than anticipated, effectively cancelling out the increase in asset valuations.

The UK defined benefit scheme with around 5,200 members, 460 of which are active members, accounted for the vast majority, £31.3m (2004 – £33.7m), of the Group's total net pension liabilities. The latest actuarial valuation of the UK scheme was carried out during 2004 with the past service deficit calculated at that time as £18.5m. From 2006 onwards this is being funded by additional company contributions of £3.0m per annum (2005 – £2.6m). The actuarial deficit for the UK scheme is lower than the IAS 19 deficit primarily due to the different discount rates used to value the liabilities.

In total, £1.8m (2004 – £2.0m) was charged to the profit and loss account in the year in respect of defined benefit schemes, in addition to the £1.1m (2004 – £1.2m) of net finance costs discussed earlier. The total charge for the Group's defined contribution schemes was £2.2m (2004 – £2.2m). Note 37 to the financial statements provides comprehensive details of the Group's pension plans.

Non-statutory Information

In the commentary to the year's results reference is made to non-statutory financial information. Such information includes:

- Trading profit – this is used to illustrate the underlying trading performance of the Group and excludes any profit or loss on the sale of fixed assets. The Consolidated Income Statement provides the information to reconcile this to operating profit.
- Adjusted earnings per share – this indicates the overall performance of the Group before the effect of the disposal of businesses and fixed assets and foreign exchange gains or losses on long-term intercompany loans. Note 12 to the financial statements reconciles this to reported results.
- Free cash flow – this highlights the total net cash generated by the Group prior to corporate activity such as acquisitions, disposals and dividend payments. Note 34(b) to the financial statements reconciles this to the reported results.

Going Concern

Having assessed the future funding of the Group, the Directors are of the opinion that it is appropriate for the financial statements to be prepared on a going concern basis.

Board of Directors



1

1 James Kerr-Muir Non-Executive Chairman, Age 65. Chairman of Davenham Group Holdings plc, and of Hardys & Hansons plc. He is also a non-executive director of Gartmore Fledgling Trust plc. He joined the Board in 1996 and was appointed Chairman in 2001. He is Chairman of the Nominations Committee and was Chairman of the Remuneration Committee until 31 January 2005.



2

2 Graham Menzies Group Chief Executive, Age 58. Joined as Group Chief Executive in 2000 previously having been with Adwest Automotive plc for over 14 years, latterly as Chief Executive. He is a non-executive director of UK Coal PLC and Heywood Williams Group PLC.



3

3 Mark Rollins Group Finance Director, Age 43. A Chartered Accountant, he formerly held a number of senior corporate and operational finance roles with Morgan Crucible plc. He joined the Group in 1998 and became Group Finance Director in 2000, when he joined the Board. He is Chairman of the Group's Treasury Committee. He was appointed a non-executive director of WSP Group plc in January 2006.



4

4 Michael Sheppard Executive Director, Age 47. Joined the Board on 1 September 2002. A citizen of the United States, he has worked for Senior for a number of years, and is the Chief Executive of the Automotive and North American Industrial Division.



5

5 Martin Clark Non-Executive Director and Senior Independent Director, Age 60. Joined the Board in 2001 and is also a non-executive director of Clarkson plc and ICM Computer Group PLC. He is Chairman of the Audit Committee and of the Trustee Board of the Senior plc Pension Plan. The Board considers Martin Clark to be independent.



6

6 Ian Much Non-Executive Director, Age 61. Joined the Board on 21 December 2005 and is also non-executive director of Chemring Group plc, and was formerly Chief Executive of De La Rue plc. The Board considers Ian Much to be independent.

Main Board

The main Board met a total of ten times during the period 1 January 2005 to 31 December 2005. There was full attendance at every Board Meeting during the year.

Audit Committee

Martin Clark (Chairman), Gordon Campbell to 30 November 2005, and Ian Much from 21 December 2005. Met four times during the year.

Remuneration Committee

Ian Much (Chairman since 21 December 2005), Martin Clark, and Gordon Campbell to 30 November 2005. James Kerr-Muir resigned from the Committee on 31 January 2005. Gordon Campbell was Chairman from 31 January 2005 until he resigned from the Committee on 30 November 2005. Met three times during the year.

Nominations Committee

James Kerr-Muir (Chairman), Martin Clark, and Gordon Campbell until 30 November 2005, and Ian Much from 21 December 2005. Met twice during the year.

Health, Safety & Environment Committee

Graham Menzies (Chairman), Mike Sheppard and Ron Case (CEO Aerospace Division). Its inaugural meeting was held in October 2005, and it will meet on a quarterly basis.

There was full attendance at every Committee of the Board during the year.

Gordon Campbell

Non-Executive Director, Age 59. He resigned from the Board on 30 November 2005. He was also Chairman of the Remuneration Committee until that date. The Board considered Gordon Campbell to be independent.

Report of the Directors

The Directors present their report and supplementary reports, together with the audited financial statements for the year ended 31 December 2005.

Activities and Business Review

Senior plc is a holding company. Its Principal Group Undertakings are shown on page 59 and comments on each Division's results and activities in 2005 are included in the Business Review on pages 4 to 6.

Acquisitions and Disposals

There were no disposals during the year. Sterling Machine Co., Inc. was acquired on 27 January 2006; details of the transaction are set out in Note 38 to the Financial Statements on page 52.

Results and Dividends

The results for the year are shown in the Consolidated Income Statement on page 22.

An interim dividend of 0.65p per share (2004 – 0.65p) has already been paid and the Directors recommend a final dividend of 1.35p per share (2004 – 1.35p). The final dividend, if approved, will be payable on 31 May 2006 to shareholders on the register at the close of business on 5 May 2006. This would bring the total dividend for the year to 2.00p per share (2004 – 2.00p).

Share Capital

During 2005, 1,834,994 shares were allotted in respect of the Senior plc Savings Related Share Option Plan. A further 184,347 shares were allotted under the same Plan in January and February 2006. As at 31 December 2005 the issued share capital of the Company was 309,285,740 ordinary shares. 15,000,000 shares were allotted on 30 January 2006 as a result of a placing to partly finance the acquisition of Sterling Machine Co., Inc.

Further share capital details are given in Note 25 to the Financial Statements on page 43.

Directors

The Directors who served during the year and their interests in the shares of the Company are included in the Remuneration Report on pages 10 to 15. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings.

GA Campbell resigned from the Board on 30 November 2005. IFR Much was appointed to the Board on 21 December 2005. He retires in accordance with Article 82 and, being eligible, offers himself for election. M Rollins and M Sheppard retire by rotation and, being eligible, offer themselves for re-election at the AGM. IFR Much has no service agreement with the Company and M Rollins and M Sheppard have service agreements, subject to 12 months' notice by either party.

Research and Development

In 2005, the Group incurred £8.3m (2004 – £8.7m) on research and development, before recoveries from customers of £0.6m (2004 – £0.8m). The majority of the Group's efforts are devoted towards product development and improved manufacturing techniques.

Charitable and Political Donations

During the year the Group made charitable donations amounting to £53,000 (2004 – £22,000), principally to local charities serving the communities in which the Group operates. Included within this amount, the Company made a donation of £20,000 to the Disasters Emergency Committee's Tsunami Earthquake Appeal. No political donations were made.

Policy on Payment of Creditors

The Group's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction and to seek to adhere to those terms. Based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by suppliers, the number of days outstanding at the year-end was 37 days (2004 – 37 days).

Major Shareholdings

At 1 March 2006, the following shareholders had advised holdings in excess of 3% of the issued share capital of the Company:

Schroder Investment Management	33,694,012	10.38%
Legal & General Investment Management	15,839,411	4.88%
Deutsche Asset Management	13,706,031	4.22%
Aegon Asset Management	13,534,400	4.17%
HBOS	12,361,671	3.81%
Morley Fund Management	11,745,657	3.62%
Hermes Pensions Management	11,067,380	3.41%
Barclays Global Investors	10,044,829	3.10%

So far as is known, no other shareholder had a notifiable interest amounting to 3% or more of the share capital of the Company and the Directors believe that the close company provisions of the Income and Corporation Taxes Act 1988 (as amended) do not apply to the Company.

Compliance with the 2003 FRC Code

Statements of compliance with the 2003 FRC Code and on internal controls are set out on page 20. For the purposes of the 2003 FRC Code, the Company is a "smaller company" and therefore is required to have at least two independent non-executive Directors. Excluding the Chairman, the Company had two independent non-executive Directors throughout the year, except for the three week period between 30 November 2005 (when G A Campbell resigned from the Board) and 21 December 2005 (when I F R Much was appointed to the Board as a non-executive Director).

Remuneration Report

The Company's policy on executive Directors' remuneration is set out in the Remuneration Report on pages 10 to 15. The Remuneration Report is to be put to shareholder vote at the Annual General Meeting on 28 April 2006.

Annual General Meeting

The Notice of Meeting describes the business to be considered at the Annual General Meeting to be held on Friday 28 April 2006 at ABN Amro, 250 Bishopsgate, London EC2M 4AA at 11.30 am.

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board
Andrew Bodenham, Secretary
1 March 2006

Remuneration Report

The Directors present their Remuneration Report for the year ended 31 December 2005 in accordance with the Directors' Remuneration Report Regulations 2002 and the relevant provisions of the Listing Rules of the Financial Services Authority. The report also describes how the Board has applied the Principles of Good Governance relating to Directors' Remuneration.

Composition of the Remuneration Committee

The Remuneration Committee consists entirely of non-executive Directors. M Clark was a member of the Committee throughout the year. G A Campbell was a member of the Committee to 30 November 2005; and took over as Chairman of the Committee on 31 January 2005. IFR Much has been Chairman of the Committee since his appointment on 21 December 2005. Given the retirement of RT Turner during 2004 the Board considered that it would be in the best interest of shareholders for J R Kerr-Muir to remain on the Remuneration Committee to provide continuity during a period of transition. J R Kerr-Muir resigned from the Remuneration Committee on 31 January 2005.

Role of the Remuneration Committee

The primary role of the Committee is to consider and make recommendations to the Board concerning the remuneration packages and conditions of service of the executive Directors and approximately 90 other senior managers. The terms of reference of the Remuneration Committee may be found on the Company's website. During the financial year the Committee met three times. Details of Directors' attendance at these meetings are disclosed on page 7.

Advisers to the Remuneration Committee

All advisers to the Remuneration Committee are appointed and instructed by the Committee. During the year, the Committee was advised by New Bridge Street Consultants, in relation to the introduction of a new share incentive plan, and by the Group Company Secretary.

Remuneration Policy

In determining remuneration of the executive Directors, the Committee seeks to maintain a competitive programme, which enables the Company to attract and retain the highest calibre of executive. The performance-related elements of remuneration form a significant proportion of the total remuneration package of executive Directors, details of which are set out in paragraphs (c) and (d) below. They are designed to align their interests with those of shareholders and to give such executive Directors incentives to perform at the highest levels.

The non-executive Directors do not participate in any pension, bonus, share incentive or other share option plans. Their remuneration reflects both the time given and the contribution made by them to the Company's affairs, including membership or chairmanship of the Board or its Committees. The remuneration of the non-executive Directors is determined by the Board of Directors. The non-executive Directors do not participate in any discussion or decisions relating to their own remuneration.

Before recommending proposals for Board approval, the Remuneration Committee may seek advice from external remuneration consultants to ensure it is fully aware of comparative external remuneration practice as well as legislative and regulatory developments. The services of remuneration consultants were not used in determining the 2005 salaries.

a) Service Agreements

Each executive Director has a service agreement providing for a rolling period of notice of one year. There are no provisions in those agreements or otherwise for additional termination payments. The service agreements for G R Menzies, M Rollins and M Sheppard are dated 27 April 2000, 1 November 2000 and 4 February 2004, respectively. The agreements contain provisions requiring the relevant Director to mitigate his loss in the event of termination. G R Menzies' agreement (the terms of which remain unchanged since his appointment) provides that in the event of a change of control of the Company, he has the option to resign within three months of such change of control without a duty to mitigate.

The non-executive Directors do not have service agreements with the Company. J R Kerr-Muir was appointed Chairman with effect from 11 May 2001. His contract is terminable upon 12 months' notice by either party on or after the third anniversary. M Clark was appointed with effect from 1 February 2001 for an initial three year term, which was renewed for a further three year term with effect from 1 February 2004. G A Campbell resigned from the Board on 30 November 2005. IFR Much was appointed with effect from 21 December 2005 for an initial three year term.

With prior approval of the Board, executive Directors may hold external non-executive directorships and retain any fees paid for these appointments. At the year-end, G R Menzies held two such positions. M Rollins has held a non-executive directorship from January 2006.

b) Base Salaries

In setting the base salary of each Director, the Committee takes into account the pay practice of other companies and the performance of that Director. The Committee is also responsible for ratifying the salaries of approximately 90 senior managers and therefore is fully cognisant of pay levels in the Group when determining the pay of the executive Directors. The base salary for G R Menzies for 2005 remained the same as his 2004 salary as he now holds two non-executive directorships for which he retains the fees (rather than one, as had been the case for most of 2004). In 2005, G R Menzies received non-executive directorship fees of £62,000. M Rollins and M Sheppard received inflationary increases to their 2004 base salaries of 2.7% and 3.5% respectively. The base salary for M Rollins for 2006 is to remain the same as his 2005 salary as, from January 2006, he now holds a non-executive directorship for which he retains the fees. G R Menzies and M Sheppard received inflationary increases to their 2005 base salaries of 2.9% and 3.4% respectively. The 2006 fees for J R Kerr-Muir and M Clark increased by £6,000 each to £78,000 p.a. and £40,000 p.a. respectively; the first increases since 2002.

c) Annual Performance Bonus Scheme

Under the performance bonus scheme, bonuses up to 60% (2004 – up to 60%) of basic salary could be earned by the executive Directors depending on the Group's actual performance compared to the prior year and to internal targets in respect of underlying earnings per share and cash flow. The table below provides details of the maximum possible awards for 2005 together with details of the bonuses paid to G R Menzies and M Rollins as a percentage of their respective salaries:

	Cash flow target		Earnings per share target		Total %
	Interim %	Full year %	Internal target %	Year-on-year growth %	
Maximum possible award for 2005 and 2004	6.0	9.0	20.0	25.0	60.0
2004 bonus paid	4.2	7.1	1.0	3.7	16.0
2005 bonus paid	5.9	8.3	15.8	9.8	39.8

As M Sheppard serves as a Director of the Company, in addition to his role as Chief Executive of the Automotive and North American Industrial Division, his bonus for the year was 80% dependent on the operating profits and cash flow performance of the Automotive and North American Industrial Division and 20% on Group performance. In 2005 he earned a bonus of 51.5% of salary (2004 – 12.9%) consisting of 43.5% for Divisional performance and 8.0% for Group performance.

The scheme in place for 2006 is unchanged from the 2005 scheme.

d) Share Plans

The Company's policy regarding the granting of share options is to encourage participating Directors and other employees to build and retain a long-term stake in the Group and align their interests with those of the shareholders.

All executive Directors are, or were, eligible to participate in the following share plans:

i) 1999 Executive Share Option Plan ("the 1999 Plan") (closed for new awards)

No more options are to be granted under the 1999 Plan following shareholder approval of the Senior plc 2005 Long Term Incentive Plan at the 2005 AGM.

The 1999 Plan, which was open to executive Directors and other senior managers, was launched following its approval by shareholders at the Annual General Meeting in May 1999 with the performance target determined by the Remuneration Committee to be challenging in the light of the Company's performance and prevailing financial circumstances at the time. Any performance target must be no less challenging than the one it replaces.

The maximum number of shares over which options could be awarded to a participant was subject to their value at the time of grant not exceeding:

- 100% of the Director's basic salary at the time of the award;
- 125% of the Director's basic salary taking into account the combined notional current value of all awards under the Long Term Share Incentive Plan and awards under the 1999 Plan in any year; and
- the £30,000 statutory limit for the Approved Option element of the 1999 Plan.

The total value of options under the 1999 Plan and any earlier executive share option schemes, to subscribe for new issue shares granted in any ten year period could not exceed 4 x current annual basic salary or, if higher, remuneration excluding benefits in kind over the previous 12 months. Where options had already been exercised, further "replacement" options could be granted provided that the market value of all outstanding options did not exceed 4 x current annual basic salary or, if higher, remuneration (excluding benefits in kind) over the previous 12 months.

All options granted under this 1999 Plan to date will, in normal circumstances, only become exercisable if the Group's underlying earnings per share grows by not less than 4% p.a. compound above the growth in the UK Retail Prices Index over a period of three or more financial years. If not exercised within six years of the date of grant the options will lapse.

Options granted to the Directors are shown under Directors' Interests together with the base underlying earnings per share figure to be used when determining whether the performance target has been met.

ii) Long Term Share Incentive Plan (closed for new awards)

Following approval by shareholders at the Annual General Meeting in May 1996, the Long Term Share Incentive Plan was launched with a five year life which was subsequently extended for a further ten years at the May 2001 Annual General Meeting. No more awards are to be made under the Long Term Share Incentive Plan following shareholder approval of the Senior plc 2005 Long Term Incentive Plan at the 2005 AGM.

The maximum aggregate value of awards that could be made to an employee in any financial year was 60% of a participant's basic salary at the date of the award. In October 2001, awards, under the new performance criteria, were made to the executive Directors and are shown on page 14 under Directors' Interests, together with the base underlying earnings per share figure to be used in determining whether the performance target has been met. These were the only outstanding awards under the Long Term Share Incentive Plan and lapsed on 30 October 2005 as the performance requirement has not been achieved.

iii) Savings Related Share Option Plan

The Company's Savings Related Share Option Plan was first launched in 1996 to eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the Inland Revenue rules for such savings related plans. As employees, executive Directors are eligible to participate and their options under the Plan are on page 14 below under Directors' Interests.

Remuneration Report continued

iv) Senior plc 2005 Long Term Incentive Plan ('the 2005 LTIP')

At the 2005 AGM, shareholders approved the adoption of the 2005 LTIP, a new long term share incentive plan to replace the existing 1999 Plan and the Long Term Share Incentive Plan.

The Remuneration Committee considers that the 2005 LTIP (the main details of which are set out below) will bring Senior's arrangements more in line with current practice and the evolving views of investors, and provide a better link between senior management performance and reward.

Each year, an individual could receive an award worth up to 100% of annual salary (or 200% of salary in the case of recruitment). The first awards under the 2005 LTIP were made on 20 May 2005 and were limited to 80% of salary. The awards are conditional allocations, where the executives will receive free ordinary shares in the Company automatically on the vesting of their award. Awards will normally vest on, or shortly following, the third anniversary of grant once the Committee has determined the extent to which the applicable performance conditions (see below) have been satisfied, and provided the participant is still employed in the Company's group.

All awards are subject to performance conditions set by the Committee. The 2005 LTIP is designed to reward senior executives partly for delivering superior total shareholder return ("TSR") performance and partly for achieving challenging earnings per share ("EPS") growth targets. In each case, performance will be measured over a three year performance period beginning on the first day of the financial year in which the award is made. The vesting of one half of each of the initial awards will depend on the Company's TSR performance compared to that of the members of the FTSE Small Cap Index (excluding investment trusts), while the vesting of the other half of each award will depend on the growth of the Company's adjusted EPS relative to RPI.

The vesting of the TSR-related half of the initial awards will be determined on the following basis:

Ranking of Company's TSR compared with the FTSE Small Cap Index (excluding investment trusts) over the performance period	Percentage of TSR half of an award which vests
Below Median	0%
Median	25%
Upper Quintile (top 20%)	100%
Between Median and Upper Quintile	Pro rata on a straight-line basis between 25% and 100%

TSR will be averaged over three months prior to the start and end of the performance period.

The vesting of the EPS-related half of an award will be determined on the following basis:

Company's average annual adjusted EPS performance in excess of RPI	Vesting percentage – EPS half of an award
Less than 5% p.a.	0%
5% p.a.	25%
12% p.a.	100%
Between 5% and 12% p.a.	Pro rata on a straight-line basis between 25% and 100%

The Remuneration Committee encourages Directors to own shares and, in support of this policy, it expects Directors to retain at least 50% of the shares they acquire under the 2005 LTIP, after allowing for tax liabilities, until a holding of 100% of base salary is built up.

e) Retirement Benefits

G R Menzies' and M Rollins' pension arrangements are provided by the Group's UK plan and are based upon their pensionable salaries up to the Inland Revenue's "cap". From 6 April 2006 (A-Day) the Group's UK plan is to adopt its own earnings cap which shall be calculated on the same basis as the Inland Revenue's pre-A-Day "cap". M Sheppard participates in a defined benefit plan that has now closed to new entrants and a defined contribution plan that remains available to the Group's US employees. His base salary is pensionable up to a "cap" of \$210,000 p.a.

f) Other Benefits

There are non-cash benefits including provision of a fully expensed car and medical insurance.

Directors' Emoluments

The information presented in the remainder of this report has been audited, with the exception of the Directors' Interests in shares and the Total Shareholder Return graph.

Directors' emoluments

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2005 Total £000's	2004 Total £000's
Executive					
G R Menzies	314	179	20	513	383
M Rollins	190	76	14	280	228
M Sheppard	162	83	16	261	190
Non-executive					
J R Kerr-Muir	72	–	–	72	72
M Clark	34	–	–	34	34
I FR Much (from 21 December 2005)	1	–	–	1	–
G A Campbell (to 30 November 2005)	25	–	–	25	13
R T Turner (to 1 July 2004)	–	–	–	–	13
	798	338	50	1,186	933

Bonuses as shown above are payable to M Rollins and M Sheppard under the Annual Performance Bonus scheme. G R Menzies' bonus of £179k consisted of £125k payable under the Annual Performance Bonus scheme and a payment of £54k as compensation for the diminution in value of his pension benefits due to the previously incorrect calculation of his pension entitlement. The above figures for emoluments do not include any amount for the value of share options or awards granted to, or held by, Directors.

Aggregate remuneration

	2005 £000's	2004 £000's
Emoluments	1,186	933
Gains on exercise of share options and incentives (see below)	–	–
Money purchase pension contributions	6	6
Total	1,192	939

In addition to setting the remuneration of the executive Directors, the Remuneration Committee oversees the remuneration of 90 other senior managers. The table below shows the cumulative benefits of the three other Divisional directors and the three most senior Corporate managers:

	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2005 Total £000's	2004 Total £000's
	574	190	51	815	765

Directors' Interests

The Directors who served during the year and their interests (which are all beneficial), including family interests, in the 10p ordinary shares of the Company were as follows:

Shares	Shares 2005	Shares 2004
G R Menzies	600,000	500,000
M Rollins	100,000	100,000
M Sheppard	–	–
J R Kerr-Muir	175,819	150,819
M Clark	50,000	50,000
I FR Much (appointed to the Board 21 December 2005)	–	–
G A Campbell (retired from the Board 30 November 2005)	–	–

Remuneration Report continued

Options and other share incentives

	Date of grant/award	At 31.12.04	Granted 2005	Exercised 2005	Gains on exercise/ vesting 2005	Market price on exercise/ vesting 2005	Forefeited 2005	Lapsed 2005	At 31.12.05	Option price	Exercise period/ maturity date
G R Menzies											
1999 Executive Share Option Plan											
	05.04.00	227,272	–	–	–	–	–	–	227,272	82.50p	3 years to 04.04.06
	13.09.00	230,755	–	–	–	–	–	–	230,755	54.17p	3 years to 12.09.06
	12.03.03	1,019,552	–	–	–	–	–	–	1,019,552	23.08p	3 years to 11.03.09
Sharesave Plan											
	06.10.00	38,793	–	–	–	–	–	–	38,793	43.50p	6 months to 31.05.06
Long Term Share Incentive Plan – Performance Awards											
	31.10.01	270,000	–	–	–	–	270,000	–	–	–	30.10.05
2005 Long Term Incentive Plan											
	20.05.05	–	619,753	–	–	–	–	–	619,753	–	March 08
M Rollins											
1999 Executive Share Option Plan											
	13.05.99	37,172	–	–	–	–	–	37,172	–	154.35p	3 years to 12.05.05
	13.09.00	276,906	–	–	–	–	–	–	276,906	54.17p	3 years to 12.09.06
	12.03.03	521,014	–	–	–	–	–	–	521,014	23.08p	3 years to 11.03.09
Long Term Share Incentive Award Plan – Performance Awards											
	31.10.01	180,000	–	–	–	–	180,000	–	–	–	30.10.05
2005 Long Term Incentive Plan											
	20.05.05	–	375,308	–	–	–	–	–	375,308	–	March 08
M Sheppard											
1999 Executive Share Option Plan											
	13.05.99	48,924	–	–	–	–	–	48,924	–	154.35p	3 years to 12.05.05
	13.09.00	328,173	–	–	–	–	–	–	328,173	54.17p	3 years to 12.09.06
	12.03.03	499,747	–	–	–	–	–	–	499,747	23.08p	3 years to 11.03.09
Long Term Share Incentive Plan – Performance Awards											
	31.10.01	180,000	–	–	–	–	180,000	–	–	–	30.10.05
2005 Long Term Incentive Plan											
	20.05.05	–	316,693	–	–	–	–	–	316,693	–	March 08

The market price of the Company's shares on 20 May 2005, the date of the award under the 2005 LTIP, was 40.25p.

Details of the share schemes referred to in the above table may be found on pages 11 and 12.

Options granted from 1999 onwards and awards under the 2005 LTIP become exercisable only when certain performance targets have been met. The base underlying earnings per share figures used to determine whether the target has been met are as follows:

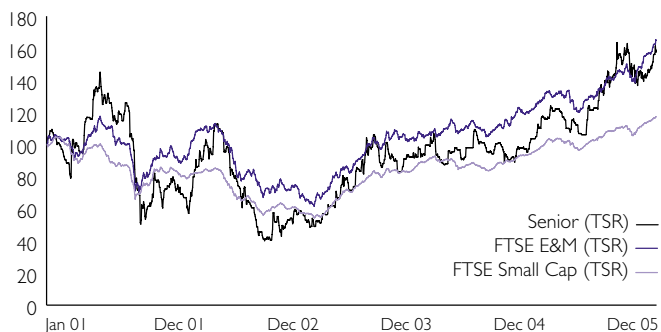
Date of grant	05.04.00	13.09.00	12.03.03	20.05.05
Base underlying EPS	6.03p	6.03p	4.47p	3.59p

The total net value of the Directors' unexercised options at 31 December 2005 (excluding awards under the 2005 LTIP), all of which were unexercisable, except for G R Menzies' option granted under the Sharesave Plan, was £793,839 (2004 – £355,423) representing options held by G R Menzies (£389,827), M Rollins (£204,512) and M Sheppard (£199,499). The net value of unexercised options is the positive difference between the closing middle market price of the Company's shares at the year-end (59.50p per share) and the exercise price of the options. It does not take into account the likelihood of the performance targets being met.

At 31 December 2005, 870,716 ordinary shares (2004 – 870,716 ordinary shares) were held by the Senior plc Employee Benefit Trust, a discretionary trust resident in Jersey. The market value of these shares at 31 December 2005 was £518,076 (2004 – £353,000). The Trust has materially waived its rights to dividends on these shares. As the award under the Long Term Share Incentive Plan lapsed during the year, the executive Directors are no longer collectively interested in these shares.

Dividends do not accrue on shares that vest under the 2005 LTIP arrangements and are not credited to share option awards under the 1999 Plan. The Remuneration Committee notes the introduction of International Accounting Standard 33 "Earnings per Share", and confirms that any change to the presentation of the EPS performance targets for the Company's share schemes will not result in any less stringent performance targets applying to the existing share awards.

The closing middle market price of the shares at 31 December 2005 was 59.50p (2004 – 40.50p). During 2005 the shares traded in the range of 40.25p to 62.00p.



This graph compares the Total Shareholder Return of the Company's shares against the FTSE Industrial Engineering Index and the FTSE Small Cap Index over a five-year period (where dividends are included gross of tax). This index allows a comparison to be made against organisations facing broadly similar economic and market conditions as the Company.

Directors' Pension Entitlements

The Directors had accrued entitlements under final salary plans as follows:

	Gross increase in accrued pension (A) £000's	Increase in accrued pension net of inflation (B) £000's	Total accrued pension at 31.12.05 (C) £000's	Value of net increase in accrual over period (D) £000's	Change in transfer value during period (E) £000's	Transfer value of accrued pension at 31.12.05 (F) £000's	Transfer value of accrued pension at 31.12.04 (G) £000's
G R Menzies	4	4	20	62	108	393	277
M Rollins	4	3	19	24	57	198	133
M Sheppard	3	2	33	4	10	62	47
Total	11	9	72	90	175	653	457

1. The pension entitlement shown is that which would be paid annually on retirement based on service to, and final pensionable salary at, 31 December 2005.
2. The gross increase in accrued pension during the year (A) includes an increase for inflation; the net increase in accrued pension (B) excludes any such increase.
3. The transfer values have been calculated in accordance with version 9.2 of Guidance Note GN11 issued by the actuarial profession.
4. Any Additional Voluntary Contributions paid by the Directors and the resulting benefits are not shown.
5. The figures quoted above for M Sheppard are in respect of the defined benefit element of his pension only. In addition, he has a defined contribution arrangement, to which he paid \$11,000 and the Company paid \$10,000 during the year.
6. The transfer value of net increase (D) represents the incremental value to the Director of his service during the year, calculated assuming service terminated at the year-end. It is based on the accrued pension increase (B) and is quoted after deducting the Director's contribution.
7. The change in the transfer value (E) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is quoted after deducting the Director's contribution.

Shareholder approval for the Remuneration Report

The Company is proposing an ordinary resolution to its shareholders approving this Remuneration Report.

This report was approved by the Board on 1 March 2006 and signed on its behalf by:

IFRMuch
Chairman of the Remuneration Committee

Corporate Social Responsibility Report

Principles

The policy of the Board is to enhance shareholder value in an ethical and socially responsible manner whilst seeking to preserve health, safety and the environment. The Board believes that operating in such a way is an integral part of efficient and profitable business management, and recognises that success in these areas depends on the involvement and commitment of everyone in the organisation.

As a minimum, the Group operations around the world are required to meet their legal and regulatory obligations. This policy is reviewed annually for validity and is revised and reissued as necessary.

Goals

a) Ethical Operations

Applications for employment by disabled persons are encouraged, bearing in mind the respective aptitudes, skills and abilities of the applicant concerned and the requirements of the position. In the event of employees becoming disabled, the Group's aim is to ensure continued employment where possible and to arrange appropriate training. It is the policy of the Group to maintain, wherever feasible, the training, career development and promotion of disabled persons.

Group policy is that employment-related decisions are based on relevant aptitudes, skills and abilities, and promote a policy of equal opportunity in employment, without unlawful consideration of sex, race, nationality, age, disability, religion or any other category protected by law.

The Group promotes the dissemination of relevant information so that employees are kept regularly advised of Group and operating company developments. Where practical, local briefing sessions are held concerning such matters as health and safety, pension plans, etc.

There is a formal Code of Business Conduct in place for the Group, which promotes a commitment to maintaining the highest standard of ethics and integrity in the conduct of the Group's business throughout the world. This Code includes requirements for the personal conduct of Group employees, including specifically conflict of interest, business gifts, and bribery and corruption. The Code does not permit employees to make contributions to political parties, or organisations, or candidates for public office, with a view to gaining any advantage.

The Company has a Whistle Blowing Policy that is communicated throughout the Group. This Policy provides employees with the opportunity to report unethical or illegal corporate conduct. M Clark is the Company's Senior Independent Director; his position provides shareholders with an alternative channel of communication if they have concerns that the Chairman, Chief Executive or Finance Director has failed to resolve, or for which such contact is inappropriate.

b) Socially Aware Operations

The management of each operation in the Group is aware of the importance of being a good neighbour in its community and is encouraged to build a relationship with local organisations.

Each operation within the Group looks to offer a competitive remuneration package to its employees which assists in the retention of its skilled workforce. In addition, each operation aims to recognise and respond constructively to any community concerns about the Health, Safety & Environmental aspects of its operation.

c) Health, Safety & Environment

The Board as a whole takes an active interest in ensuring that all of its operations provide a safe working environment for its employees. In order to enhance the Group's efforts in managing Health, Safety & Environmental issues, a new committee of the Board was created during the year: the Health, Safety & Environment ("HSE") Committee. The HSE Committee is chaired by G R Menzies (Group Chief Executive), with M Sheppard (CEO Automotive & North American Industrial) and R Case (CEO Aerospace Division), as its other members. The Committee's terms of reference can be found on the Company's website.

The HSE Committee sits on a quarterly basis and is responsible for formulating the Group's HSE strategy and objectives, for measuring the Group's HSE performance against these objectives, and for ensuring that key HSE risks and issues are effectively identified and managed.

A new post of Group Health, Safety & Environment Manager was created to facilitate the effective implementation of the HSE Committee's strategy and objectives. The successful candidate was appointed in December 2005, and is due to take up his post in March 2006.

The Board also reviews the quarterly health and safety performance of all the Group's operations, on both an absolute and relative basis. The executive Directors, together with the CEOs of the local operations, are responsible for delivering improved HSE performance.

The Group's operations promote employee involvement in HSE matters, by open communication and encouragement of active participation.

Each operation aims to provide sufficient resources in terms of people, training, plant and equipment to meet applicable health and safety obligations.

The Group's operations continue to work on improving their health and safety performance through, for example, training, the use of internal assessments and regular reports on performance.

d) Environment

While already subject to various laws and regulations governing the emission of substances which could affect human health or the environment, each operation examines different means by which to reduce further such emissions.

The Group strives both to reduce waste at source by careful use of materials, energy and other resources, and to take advantage of recycling opportunities. Each operation considers, early in the development stage, the possible environmental impact of new products and processes, and the Group carefully considers environmental issues during acquisitions and divestments.

Each operation aims to provide resources in terms of people, training, plant and equipment to meet applicable environmental obligations.

The Group's operations continue to work on improving environmental performance through, among other things, training, the use of internal assessments and regular reports on performance.

Four of the Group's Automotive operations, which represent almost a third of the Group's turnover, have successfully obtained ISO14001, the international environmental accreditation. The HSE Committee has given further impetus to improving the Group's environmental performance by targeting the remaining operations in the Group to be compliant with ISO14001 in the near term.

Organisation and Responsibilities

Operating in an ethical and socially aware manner which preserves health, safety and the environment is a mainstream management responsibility. The Group Chief Executive, as Chairman of the HSE Committee, leads the Board's efforts in improving the Group's ethical, social, Health, Safety & Environmental performance, and is also responsible for external stakeholder issues. Executive and line managers at all levels within the Group are directly responsible, through the normal management structure, for these matters in the specific operations under their control.

All of the Group's employees have a responsibility to act in an ethical and socially aware manner; to take reasonable care of themselves and others while at work, and to participate positively in the task of preserving workplace health and safety, and the environment.

Each operation is expected to adopt policies in keeping with these principles and goals, which also describe the local organisation and to make arrangements for putting them into practice. Each operation has a person appointed to this task, who is responsible to the General Manager for the implementation of these principles and goals.

Ethical, social, Health, Safety & Environmental factors can represent risks to the Group's short and long-term value, as well as opportunities to enhance value that may arise from an appropriate response. The Board has established reporting structures in place to provide it with information on such risks and opportunities, as listed below:

- Ethical, social, Health, Safety & Environmental issues that represent significant business risk or opportunity are monitored and reported as part of the risk management process initiated following the Turnbull Report on corporate risk management, as described in the Corporate Governance Report. The Risk Management process adopted includes procedures for monitoring, and verification of matters reported.
- Other important ethical, social, Health, Safety & Environmental matters are reported to the Group's Executive Committee and to the Board on a regular basis, by the Group's Divisional Directors, as part of their reports on operational matters.

The Group continues to work closely with its employees, local works councils, and trade unions, where applicable. It values its employees and encourages long-term commitment by promoting job security and appropriate training packages for employees at all levels.

Customers and Suppliers

The nature of the businesses in which the Group operates relies heavily on forming close and long-term relationships with both its customers and suppliers. Generally, these relationships are managed at a local level, with Divisional support.

Corporate Governance Report

This Corporate Governance Report describes the manner in which the Company has applied the Principles of Good Governance set out in Section I of the Combined Code on Corporate Governance and whether or not it has complied with the Code provisions. In July 2003, the Financial Reporting Council issued the "Combined Code on Corporate Governance" known as the "2003 FRC Code", in response to the Higgs Review on Non-executive Directors and the Smith Review on Audit Committees.

Application of the Principles

The Principles of Good Corporate Governance are detailed in the 2003 FRC Code under four areas which have each been reviewed by the Directors and then commented upon below:

a) Directors

The Board is structured under a non-executive Chairman, and currently includes three executive Directors and two other non-executive independent Directors who were selected for appointment because of their wide industrial and commercial experience. In addition, there is a Group Executive Committee, chaired by the Group Chief Executive which is comprised of the executive Directors and other key executives within the Group. Brief details of the Board are included on page 7.

The Directors consider that there is in place an effective Board which leads and controls the Group, with clear divisions of responsibility between running the Board and running the Group's businesses. The Board is responsible for the strategic decisions regarding the Group, including the setting of commercial strategy and approval of Group budgets and financial statements. It also approves significant financial and contractual commitments made by the Group. The Board's Terms of Reference more fully describe the responsibilities of the Board, and may be found on the Company's website.

The Board delegates certain of its responsibilities to the Audit, Remuneration, Nominations, and Health, Safety & Environment ("HSE") Committees. The Group Chief Executive, together with the Group Executive Committee, is responsible for the implementation of the decisions made by the Board, and for the day-to-day conduct of the Group's operations.

The Board meets formally on a regular basis (ten times in 2005); and in addition there were four meetings of the Audit Committee in 2005, together with three meetings of the Remuneration Committee, two meetings of the Nominations Committee and the inaugural meeting of the HSE Committee during the year. There was full attendance at every Board meeting and Committee of the Board during the year. Other Committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from the Committee Meetings are available to the Board.

Procedures are in place to ensure that the Directors are properly briefed so that the decisions taken by the Board are based on the fullest available information. At every Board Meeting there are reviews of operational, financial and administrative matters. Health, Safety & Environmental performance is reviewed by the Board on at least a quarterly basis; while social and ethical issues, agreement of budgets and levels of insurance cover are reviewed whenever appropriate.

There is a procedure by which all Directors can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

Nominations Committee

The Nominations Committee leads the process for Board appointments, and supervises management development and succession plans; it also makes recommendations to the Board on all new Board appointments. The Committee, which consists entirely of non-executive Directors, is chaired by J R Kerr-Muir, and its composition is shown on page 7. Its Terms of Reference may be found on the Company's website.

The appointment of new non-executive Directors to the Board is controlled by the Committee, assisted by appropriate external recruitment consultants. In conjunction with the external consultant, consideration is given to the role and the capabilities required for a particular appointment. Based on agreed criteria, the consultant then produces a shortlist of candidates. The Committee members interview these candidates, then present their recommendation to the Board. Consideration is also given to the number of other posts held by the candidates, and their ability to devote sufficient time to discharge their duty as a non-executive Director. IFRMuch was appointed to the Board during the year. The Nominations Committee followed the above procedures and determined that he was the best candidate for the post, and would complement the skills, knowledge and experience of the other Directors.

During the year, the Board undertook a formal performance evaluation process to evaluate its own performance, and that of its Committees and individual Directors; this involved the completion and review of performance assessment questionnaires, and appraisal interviews. The results of the evaluation process are used to improve Board performance and to determine the training needs of the Directors. M Clark and G A Campbell, in consultation with the executive Directors, undertook an evaluation of the Chairman's performance, and concluded that J R Kerr-Muir continued to provide effective leadership of the Board. Based on the results of the performance evaluation process, the Chairman considers that each member of the Board, the Board collectively, and its Committees continue to contribute effectively to the running of the Company.

In accordance with the Company's Articles, Directors submit themselves for re-election at the Annual General Meeting following their appointment and thereafter at intervals of no more than three years.

b) Directors' Remuneration

The Remuneration Report on pages 10 to 15 describes how the Board has applied itself to remuneration matters.

c) Accountability and Audit

This section of the Corporate Governance Report describes the role of the Audit Committee and the manner in which it discharges its responsibilities. The Audit Committee's Terms of Reference may be found on the Company's website.

Composition of the Audit Committee

The composition of the Audit Committee, which consists entirely of non-executive Directors, is detailed on page 7. During 2005, the Audit Committee complied with all the recommendations of the Smith Guidance as appended to the 2003 FRC Code, except for the period from 30 November 2005 (when G A Campbell resigned from the Board) and 21 December 2005 (when IFRMuch was appointed to the Board). During this period there was only one non-executive Director as a member of the Audit Committee. No Committee meetings were held during this three week period.

Financial Reporting

The Board believes that the Annual Report properly presents a balanced and understandable assessment of the Group's position and prospects. The Audit Committee monitors the half year and full year annual financial statements before submission to the Board, as well as any formal announcements relating to the Group's financial position.

There is an independent internal audit function, which includes a cyclical programme of visits to all Group operations. The Group Internal Audit function also co-ordinates semi-annual Financial Integrity Declarations and self-assessment questionnaires which are applied on a cyclical basis and subjected to review. The results of these reviews and internal audit visits are reported to the Audit Committee, along with those from the external auditors.

The Audit Committee reviews the scope, cost and timing of the work of the external auditors, and acts to ensure their findings are appropriately implemented. Whilst the Company does not have a policy of subjecting its external auditors to a regular fixed term rotation, the Committee remains cognisant of the importance of maintaining the objectivity of the Company's external auditors. During the year, the lead audit partner was rotated after a 5-year term in that position.

The Audit Committee has reviewed, and is satisfied with, the effectiveness and independence of the external auditors. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditors. In 2005 £0.2m (2004 – £0.4m) was paid in fees to the external auditors relating to non-audit work, for advice on tax compliance. The Committee considers it is beneficial for the Company to retain Deloitte & Touche LLP for this type of work, because of their expertise in this area and knowledge of the Group; however, the Committee will continue to keep the nature and extent of such services under review, in order to balance the maintenance of objectivity and value for money.

Internal Control

The Company has a well-established and ongoing process, which was in place for the full year and up to the date of the Financial Statements, for identifying, evaluating and managing significant risks, including non-financial risks, faced by the Group. This process is regularly reviewed by the Board and has been further improved during the year. The process continues to accord with the Turnbull guidance on internal control.

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed for completeness and accuracy by the Group's management committees. This information is presented to the Board, for it to assess the effectiveness of the system of internal control. Whilst the Board acknowledges its overall responsibility for internal control, it believes strongly that senior management within the Group's operating businesses should contribute in a substantial way, and this has been built into the process.

In carrying out their review of the effectiveness of internal control in the Group, the Board takes into consideration the following key features of the risk management process and system of internal control:

- Senior management of each business has spent time identifying and assessing business unit and Group objectives, key issues, opportunities and controls. This assessment encompassed operational, compliance, financial and business risks and is updated on an ongoing basis. A risk assessment has similarly been prepared for the Group covering central functions and strategic risks;
- A detailed system of budgeting, reporting and forecasting for the Group's operations is in place; this is monitored, both locally and centrally, through a review of monthly management information;
- The Group has expanded the remit of the Internal Audit function, whose audit plan is reviewed, updated and approved by the Audit Committee. The conclusions from the function's work are reported to the Audit Committee, the Group Chief Executive and the Finance Director; and
- There is in place a formal annual risk management sign-off process for senior management in each of the business units. This is operated in order to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.

The whole risk management process is subject to review twice a year by the Audit Committee, and strengthened as appropriate. Steps are taken to embed internal controls and risk management further into the operations of the business, and to deal with areas of improvement which come to management's and the Board's attention. The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness. Such a system is designed to manage, rather than to eliminate, the risk of failure to achieve the Group's objectives, and can only provide reasonable but not absolute assurance against misstatement or loss.

d) Relations with Shareholders

The Company maintains regular contact with its institutional shareholders. Each year, the Group Chief Executive and Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the full year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2005, J R Kerr-Muir, the Company's non-executive Chairman and M Clark, the Company's Senior Independent Director, also attended the full year and interim results announcements to shareholders and analysts, in March and August respectively. No other non-executive Director formally met with shareholders during the year. M Clark is available to attend shareholder meetings, if this is requested by shareholders, so providing an alternative channel of communication between the Company and its shareholders. The Company's largest shareholders were invited to meet IFRM following his appointment as a non-executive Director on 21 December 2005. The Company consulted its largest shareholders prior to finalising the proposed 2005 Long Term Incentive Plan, which was approved by shareholders at the 2005 AGM.

The Company makes constructive use of the Annual General Meeting to communicate with private investors. A detailed presentation of the Company's performance is given at the AGM, and a copy of the presentation, along with other investor relations material, is available on the Company's website.

Corporate Governance Report continued

All resolutions at the 2005 AGM were passed unanimously on a show of hands. Details of the proxy voting received by the Company for the 2005 AGM are set out in the table below.

Proxy voting for the 2005 AGM

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	220,123,751	10,000	167,205	36,942	220,337,898
2. To approve Remuneration Report	219,539,709	566,255	173,250	58,684	220,337,898
3. To declare a final dividend	220,120,165	12,226	170,617	34,890	220,337,898
4. To re-elect Martin Clark as a Director	219,979,014	113,363	217,012	28,509	220,337,898
5. To re-elect Graham Menzies as a Director	220,019,840	73,432	217,454	27,172	220,337,898
6. To elect Gordon Campbell as a Director	216,774,643	603,546	221,755	2,737,954	220,337,898
7. To re-elect Deloitte & Touche LLP as auditors	216,854,895	541,653	212,589	2,728,761	220,337,898
8. Authority to allot shares	219,928,279	159,277	215,058	35,284	220,337,898
9. Disapplication of pre-emption rights	219,835,782	133,399	310,421	58,296	220,337,898
10. Authority to buy back shares	219,981,144	115,230	233,656	7,868	220,337,898
11. To adopt the 2005 LTIP	216,629,158	921,696	238,534	2,548,510	220,337,898

The issued share capital as at 2 March 2005 (the date of the notice of the 2005 AGM), was 307.6 million shares of 10p each.

A large majority of the abstentions to Resolutions 6, 7 and 11 approving the election of G A Campbell as a Director, the election of Deloitte & Touche LLP as Auditors and the adoption of the 2005 LTIP respectively came from a single shareholder.

The total number of proxy votes received for the 2005 AGM represented approximately 71.6% (2004 – 69.5%) of the issued share capital of the Company. The Company is supportive of initiatives to promote greater shareholder participation and offers CREST members the facility to appoint a proxy or proxies through the CREST electronic proxy appointment service. Further details of this service may be found in the enclosed Notice of the Annual General Meeting.

Compliance Statement

The Company has, throughout the year, consistently applied the Principles of Good Governance and Code of Best Practice, which together comprise the 2003 FRC Code appended to the Listing Rules of the Financial Services Authority, except as follows:

1. J R Kerr-Muir remained on the Remuneration Committee until 31 January 2005; FRC Code provision B.2.1; and

2. During the three week period between 30 November 2005 (when G A Campbell resigned from the Board) and 21 December 2005 (when IFR Much was appointed to the Board) the Company did not comply with the FRC Code provisions: A.3.2, A.4.1. and B.2.1; and 2.1 of the Smith Guidance appended to the FRC Code, as there were not at least two independent non-executive Directors on the Board and the Audit and Remuneration Committees, as required for "smaller companies". During this three week period a majority of the members of the Nominations Committee were not independent non-executive Directors, as the Committee consisted of the non-executive Chairman and the Senior non-executive Director.

The Company now fully complies with all the detailed provisions in Section 1 of the 2003 FRC Code.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare accounts for the Company and the Group in accordance with International Financial Reporting Standards. Company law requires the Directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. The Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Senior plc

We have audited the Group and individual company financial statements (the "financial statements") of Senior plc for the year ended 31 December 2005 which comprise the income statement, the statements of recognised income and expense, the balance sheets, the cash flow statements and the related Notes 1 to 40. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' Report is not consistent with the financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report including the unaudited part of the Directors' Remuneration Report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the individual company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the individual company's affairs as at 31 December 2005;
- the financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Birmingham

1 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	Year ended 2005 £m	Year ended 2004 £m
Continuing Operations			
Revenue	3	338.6	306.8
Trading profit	5	19.8	16.1
(Loss)/profit on sale of fixed assets		(0.2)	0.5
Operating profit		19.6	16.6
Exchange gain on long-term intercompany loans	29a	2.0	–
Investment income	7	1.3	2.1
Finance costs	8	(6.3)	(6.2)
Profit before tax		16.6	12.5
Tax	9	(2.5)	(1.6)
Profit for the period from continuing operations		14.1	10.9
Discontinued Operations			
Loss for the period from discontinued operations	10	–	(4.4)
Profit for the period	5	14.1	6.5
Attributable to:			
Equity holders of the parent		14.1	6.5
Earnings per share			
From continuing operations			
Basic	12	4.59p	3.56p
Diluted	12	4.51p	3.51p
From continuing and discontinued operations			
Basic	12	4.59p	2.12p
Diluted	12	4.51p	2.09p

The comparative figures for 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 39 for details.

Statements of Recognised Income and Expense

For the year ended 31 December 2005

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Initial recognition of financial instruments	(0.2)	–	(0.7)	–
Gains on cash flow hedges	0.5	–	–	–
(Loss)/gain on revaluation of financial instruments	(1.8)	–	0.2	–
Exchange differences on translation of foreign operations	2.2	(0.5)	(0.1)	(0.3)
Actuarial gains/(losses) on defined benefit pension schemes	0.2	(0.3)	0.9	1.6
Tax on items taken directly to equity	(0.7)	1.0	–	–
Net income recognised directly in equity	0.2	0.2	0.3	1.3
Amounts transferred to profit or loss on cash flow hedges	(0.3)	–	–	–
Amounts transferred to loss on disposal	–	0.2	–	–
Profit for the period	14.1	6.5	14.8	14.7
Total recognised income and expense for the period	14.0	6.9	15.1	16.0
Attributable to:				
Equity holders of the parent	14.0	6.9	15.1	16.0

The comparative figures for 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 39 for details.

Balance Sheets

As at 31 December 2005

	Notes	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Non-current assets					
Goodwill	13	77.1	73.1	–	–
Other intangible assets	14	1.1	1.2	–	–
Investments in subsidiaries	16	–	–	92.0	30.3
Property, plant and equipment	15	76.1	68.8	0.1	0.1
Deferred tax assets	22	0.1	0.1	–	–
Trade and other receivables	19	3.8	3.8	134.4	191.0
Total non-current assets		158.2	147.0	226.5	221.4
Current assets					
Inventories	17	47.7	38.4	–	–
Construction contracts	18	3.4	4.5	–	–
Trade and other receivables	19	64.9	55.5	3.1	3.1
Cash and cash equivalents	34a	8.5	7.4	7.4	8.5
Total current assets		124.5	105.8	10.5	11.6
Total assets		282.7	252.8	237.0	233.0
Current liabilities					
Trade and other payables	24	69.7	59.6	2.3	2.5
Tax liabilities		10.0	9.5	0.2	0.2
Obligations under finance leases	23	0.2	0.3	–	–
Bank overdrafts and loans	20	0.2	2.6	0.2	–
Total current liabilities		80.1	72.0	2.7	2.7
Non-current liabilities					
Trade and other payables	24	–	–	29.1	46.0
Bank and other loans	20	66.3	52.6	65.7	52.1
Retirement benefit obligations	37	39.9	41.4	31.3	33.7
Deferred tax liabilities	22	2.1	0.9	–	–
Obligations under finance leases	23	1.6	1.8	–	–
Others		0.4	0.4	–	–
Total non-current liabilities		110.3	97.1	126.1	131.8
Total liabilities		190.4	169.1	128.8	134.5
Net assets		92.3	83.7	108.2	98.5
Equity					
Issued share capital	25	30.9	30.7	30.9	30.7
Share premium account	26	3.8	3.5	3.8	3.5
Equity reserve	27	0.4	0.2	0.4	0.2
Other reserve	28	–	17.0	–	83.8
Hedging and translation reserve	29	0.4	0.7	(0.9)	(0.3)
Retained earnings	30	58.1	32.9	75.3	(18.1)
Own shares	31	(1.3)	(1.3)	(1.3)	(1.3)
Equity attributable to equity holders of the parent		92.3	83.7	108.2	98.5
Total equity		92.3	83.7	108.2	98.5

The financial statements were approved by the Board of Directors and authorised for issue on 1 March 2006.
They were signed on its behalf by:

J R Kerr-Muir, Director

M Rollins, Director

The comparative figures for 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 39 for details.

Cash Flow Statements

For the year ended 31 December 2005

	Notes	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Net cash from operating activities	34a	16.5	17.7	(10.8)	(12.1)
Investing activities					
Interest received		1.4	2.5	10.1	8.5
Dividends received from subsidiaries		–	–	14.3	14.2
Disposal of subsidiary	32	–	4.7	–	–
Proceeds on disposal of property, plant and equipment		0.9	0.7	–	–
Purchases of property, plant and equipment		(16.3)	(9.8)	–	–
Purchases of intangible assets		(0.3)	(0.2)	–	–
Acquisition of subsidiary	33	(0.1)	(0.2)	–	–
Net cash used in investing activities		(14.4)	(2.3)	24.4	22.7
Financing activities					
Dividends paid		(6.1)	(6.1)	(6.1)	(6.1)
Repayment of borrowings		(1.0)	(18.9)	–	(16.7)
Repayments of obligations under finance leases		(0.3)	(0.3)	–	–
Share issues		0.5	–	0.5	–
New loans raised		7.1	–	7.1	–
Net loans (advanced to)/repayments from subsidiaries		–	–	(15.8)	27.0
Net cash (outflow)/inflow on forward contracts		(0.2)	4.5	(0.4)	(0.1)
Net cash from/(used in) financing activities		–	(20.8)	(14.7)	4.1
Net increase/(decrease) in cash and cash equivalents		2.1	(5.4)	(1.1)	14.7
Cash and cash equivalents at beginning of period		5.9	11.5	8.5	(6.2)
Effect of foreign exchange rate changes		0.5	(0.2)	–	–
Cash and cash equivalents at end of period		8.5	5.9	7.4	8.5

Notes to the Financial Statements

1. General information

Senior plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 4 and in the Business Review on pages 4 to 6.

2. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union for the first time with effect from 1 January 2005. They therefore comply with Article 4 of the EU IAS Regulation and have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in Note 39.

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

The principal accounting policies under IFRS are set out below.

Basis of consolidation

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

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

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

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

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

Goodwill

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

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

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

Goodwill arising on acquisitions prior to the date of transition to IFRS has been retained at the previous UK GAAP amount subject to being tested for

impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

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

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

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

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

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

Construction contracts

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

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

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

Leasing

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

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

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

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

Foreign currencies

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

Notes to the Financial Statements continued

2. Significant accounting policies continued

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

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

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

Government grants

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

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

Operating profit

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

Borrowing costs

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

Retirement benefit costs

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

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

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

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

Taxation

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary

differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

Property, plant and equipment

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

The Group does not intend to conduct annual revaluations.

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

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

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

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

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

Internally generated intangible assets – research and development expenditure

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

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

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

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

2. Significant accounting policies continued

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

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

Financial instruments

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

Trade receivables

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

Cash and cash equivalents

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

Non-derivative financial liabilities

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

Equity instruments

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

Derivative financial instruments and hedging

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

Changes in the fair value of derivative financial instruments that are designated and are effective as a cash flow hedge are recognised directly in equity and

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

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

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

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

Derivatives embedded in other financial instruments or other host contracts are treated as derivatives when their risks and characteristics are not closely related to those host contracts.

The Group has taken the exemption available in IFRS 1 not to restate comparatives for IAS 32 and IAS 39. Consequently, the comparative information for 2004 shown in Note 21 is in accordance with the figures previously presented under UK GAAP.

Provisions

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring and the plan has been communicated to the affected parties. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. They are not discounted to present value as the effect is not material.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group has issued equity-settled and cash-settled share-based payments to certain employees. The fair value (excluding the effect of non-market related conditions), as determined at the grant date, is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest and adjusted for the effect of non-market related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans, and a binomial model for the share awards under the 2005 Long Term Incentive Plan.

The liability in respect of equity-settled amounts is included in equity, whereas the liability in respect of cash-settled amounts is included in current and non-current liabilities as appropriate.

Segmental analysis

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

Notes to the Financial Statements continued

2. Significant accounting policies continued

Critical accounting judgements and key sources of estimation uncertainty

Where critical accounting judgements and key estimations have been applied, these are referred to in the relevant Notes, the most significant being in goodwill, derivative financial instruments, share-based payments and retirement benefit schemes.

3. Revenue

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

	Year ended 2005 £m	Year ended 2004 £m
Sale of goods	325.7	310.5
Revenue from construction contracts	12.9	15.4
	338.6	325.9
Continuing operations	338.6	306.8
Discontinued operations	–	19.1
Total	338.6	325.9

4. Business and geographical segments

Business segments

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

	External revenue Year ended 2005 £m	Inter segment revenue Year ended 2005 £m	Total revenue Year ended 2005 £m	Segment result Year ended 2005 £m	External revenue Year ended 2004 £m	Inter segment revenue Year ended 2004 £m	Total revenue Year ended 2004 £m	Segment result Year ended 2004 £m
Aerospace	155.8	0.4	156.2	12.8	139.5	0.1	139.6	11.1
Automotive	135.2	0.7	135.9	8.9	122.6	0.3	122.9	8.4
Industrial	47.6	0.2	47.8	2.2	44.7	0.2	44.9	0.9
Sub total	338.6	1.3	339.9	23.9	306.8	0.6	307.4	20.4
Eliminations		(1.3)	(1.3)	–		(0.6)	(0.6)	–
Central costs				(4.3)				(3.8)
Total continuing operations	338.6	–	338.6	19.6	306.8	–	306.8	16.6
Exchange gain on long-term intercompany loans				2.0				–
Investment income				1.3				2.1
Finance costs				(6.3)				(6.2)
Profit before tax				16.6				12.5
Tax				(2.5)				(1.6)
Loss for the period from discontinued operations				–				(4.4)
Profit after tax and discontinued operations				14.1				6.5

Segment results for 2005 shown above are stated after charging a £0.2m loss on sale of fixed assets, attributed wholly to the Aerospace segment. Segment results for 2004 shown above are stated after crediting profit on sale of fixed assets of £0.5m attributed wholly to the Automotive segment.

The total Group revenue was £338.6m (2004 – £325.9m), with discontinued operations contributing £nil (2004 – £19.1m). Details on the loss for the 2004 year from discontinued operations are shown in Note 10. The discontinued operations related wholly to the Industrial segment.

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

	Assets Year ended 2005 £m	Liabilities Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m	Depreciation and amortisation Year ended 2005 £m	Assets Year ended 2004 £m	Liabilities Year ended 2004 £m	Additions to PPE and intangibles Year ended 2004 £m	Depreciation and amortisation Year ended 2004 £m
Aerospace	143.0	25.9	3.1	5.2	132.1	20.6	4.1	5.5
Automotive	91.9	22.7	13.2	6.1	73.2	21.8	4.4	6.5
Industrial	34.0	9.0	0.3	0.6	33.5	9.1	1.5	0.6
Sub total continuing operations	268.9	57.6	16.6	11.9	238.8	51.5	10.0	12.6
Unallocated corporate amounts	13.8	132.8	–	0.1	14.0	117.6	0.1	0.1
Discontinued operations	–	–	–	–	–	–	0.3	0.6
Total	282.7	190.4	16.6	12.0	252.8	169.1	10.4	13.3

Additions to property, plant and equipment and intangibles during the year amounting to £nil (2004 – £0.4m) were financed by new finance leases. The additions in 2004 were attributed wholly to the Aerospace segment.

Notes to the Financial Statements continued

4. Business and geographical segments continued

Geographical segments

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

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

	Sales revenue Year ended 2005 £m	Segment assets Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m	Sales revenue Year ended 2004 £m	Segment assets Year ended 2004 £m	Additions to PPE and intangibles Year ended 2004 £m
North America	178.5	137.9	10.6	158.5	112.2	5.7
UK	40.7	62.3	1.7	42.2	62.4	0.8
Rest of Europe	94.2	51.4	2.9	88.7	52.2	2.7
Rest of World	25.2	17.3	1.4	17.4	12.0	0.8
Sub total continuing operations	338.6	268.9	16.6	306.8	238.8	10.0
Unallocated corporate amounts	—	13.8	—	—	14.0	0.1
Discontinued operations	—	—	—	19.1	—	0.3
Total	338.6	282.7	16.6	325.9	252.8	10.4

Revenue from the Group's discontinued operations was derived from North America (2005 – £nil, 2004 – £6.3m), UK (2005 – £nil, 2004 – £4.2m), Europe (2005 – £nil, 2004 – £7.4m) and Rest of World (2005 – £nil, 2004 – £1.2m).

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

Additions to property, plant and equipment and intangibles during the year amounting to £nil (2004 – £0.4m) were financed by new finance leases. The additions in 2004 were attributed wholly to North America.

The additions to property, plant and equipment and intangibles relating to the Group's discontinued operations were as follows:

North America (2005 – £nil, 2004 – £nil), UK (2005 – £nil, 2004 – £0.1m), Europe (2005 – £nil, 2004 – £0.2m) and Rest of World (2005 – £nil, 2004 – £nil).

5. Trading profit and profit for the period

Trading profit for continuing operations can be analysed as follows:

	Year ended 2005 £m	Year ended 2004 £m
Revenue	338.6	306.8
Cost of sales	(268.7)	(240.6)
Gross profit	69.9	66.2
Distribution costs	(3.7)	(3.6)
Administrative expenses	(46.4)	(46.5)
Trading profit	19.8	16.1

5. Trading profit and profit for the period continued

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

	Year ended 2005 £m	Year ended 2004 £m
Net foreign exchange gains	(0.3)	(0.5)
Research and development costs	8.3	8.7
Depreciation of property, plant and equipment	11.5	12.8
Amortisation of intangible assets included in administration expenses	0.5	0.5
Cost of inventories recognised as expense	268.7	255.3
Staff costs (see Note 6)	124.5	125.0
Auditors' remuneration for audit services (see below)	0.4	0.4

Amounts payable to Deloitte & Touche LLP and their associates by the Company and its subsidiary undertakings in respect of non-audit services were £0.2m (2004 – £0.4m).

Auditors' remuneration for audit services to the Company was £0.1m (2004 – £0.1m).

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

	£m	2005 %	£m	2004 %
Audit services				
– statutory audit	0.4	67	0.4	50
	0.4	67	0.4	50
Tax services				
– compliance services	0.1	16	0.3	37
– advisory services	0.1	17	0.1	13
	0.2	33	0.4	50
	0.6	100	0.8	100

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 18 and 19 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

6. Staff costs

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

	Group Year ended 2005 Number	Group Year ended 2004 Number	Company Year ended 2005 Number	Company Year ended 2004 Number
Production	4,175	4,201	–	–
Distribution	55	55	–	–
Sales	303	334	–	–
Administration	385	424	17	18
	4,918	5,014	17	18
	Year ended 2005 £m	Year ended 2004 £m	Year ended 2005 £m	Year ended 2004 £m
Their aggregate remuneration comprised:				
Wages and salaries	107.2	107.4	1.7	1.3
Social security costs	13.3	13.4	0.2	0.2
Other pension costs – defined contribution (see Note 37a)	2.2	2.2	–	–
Other pension costs – defined benefit (see Note 37e)	1.8	2.0	0.1	0.1
	124.5	125.0	2.0	1.6

Notes to the Financial Statements continued

7. Investment income

	Year ended 2005 £m	Year ended 2004 £m
Interest on bank deposits	0.2	0.1
Foreign currency derivatives	1.0	1.1
Interest on tax refund	–	0.8
Others	0.1	0.1
Total income	1.3	2.1

8. Finance costs

	Year ended 2005 £m	Year ended 2004 £m
Interest on bank overdrafts and loans	0.7	0.7
Interest on other loans	4.3	4.3
Interest on obligations under finance leases	0.1	0.1
Cost/(benefit) on interest rate swaps	0.1	(0.1)
Net finance cost of retirement benefit obligations (Note 37e)	1.1	1.2
Total finance costs	6.3	6.2

9. Tax charge

	Year ended 2005 £m	Year ended 2004 £m
Current tax:		
UK corporation tax	–	0.1
Foreign tax	2.3	2.5
Adjustments in respect of prior periods	(0.2)	(0.9)
	2.1	1.7
Deferred tax (Note 22):		
Current year	0.7	–
Adjustments in respect of prior periods	(0.3)	–
	0.4	
	2.5	1.7
Attributable to:		
Continuing operations	2.5	1.6
Discontinued operations	–	0.1
	2.5	1.7

UK corporation tax is calculated at 30% (2004 – 30%) of the estimated assessable profit for the year.

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

9. Tax charge continued

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

	Year ended 2005 £m	Year ended 2005 %	Year ended 2004 £m	Year ended 2004 %
Profit before tax from continuing operations	16.6		12.5	
Tax at the UK corporation tax rate of 30% (2004 – 30%)	5.0		3.8	
Tax effect of income/expenses that are non taxable/deductible in determining taxable profit	(0.5)		0.1	
Tax effect of unrelieved tax losses	1.8		2.0	
Tax effect of movements in temporary differences not previously recognised	(1.4)		(1.5)	
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1.9)		(1.9)	
Adjustments to tax charge in respect of prior periods	(0.5)		(0.9)	
Tax expense and effective tax rate for the year	2.5	15.0	1.6	12.8

In addition to the amount charged to the income statement, tax relating to unrealised foreign exchange gains/losses amounting to £0.7m (2004 – £1.0m credited) has been charged directly to equity via hedging and translation reserves (see Note 29).

10. Discontinued operations

There have been no disposals in 2005.

In August 2004, the Group's five industrial hose operations, comprising the share capitals of Senior Flexonics Limited, Flexonics SAS, Senior Flexonics B.V., Teknofluor Holding A.B and the trade and assets of the US Hose Division of Senior Operations Inc, were sold.

The results of the discontinued operations which have been included in the consolidated income statement were as follows:

	Year ended 2004 £m
Revenue	19.1
Expenses	(18.6)
Profit before tax	0.5
Attributable tax expense	(0.1)
Profit after tax	0.4
Loss on disposal of discontinued operations	(4.8)
Net loss attributable to discontinued operations	(4.4)

During the year, discontinued operations used £nil (2004 – £1.2m) of the Group's net operating cash flows, paid £nil (2004 – £0.3m) in respect of investing activities and paid £nil (2004 – £nil) in respect of financing activities.

A loss of £nil (2004 – £4.8m) arose on the disposal of discontinued operations, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable balance sheet goodwill.

11. Dividends

	Year ended 2005 £m	Year ended 2004 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2004 of 1.35p (2003 – 1.35p) per share	4.1	4.1
Interim dividend for the year ended 31 December 2005 of 0.65p (2004 – 0.65p) per share	2.0	2.0
	6.1	6.1
Proposed final dividend for the year ended 31 December 2005 of 1.35p (2004 – 1.35p) per share	4.2	4.1

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.

Notes to the Financial Statements continued

12. Earnings per share

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

	Year ended 2005 m	Year ended 2004 m
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	306.8	306.5
Effect of dilutive potential shares:		
Share options	5.6	4.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share	312.4	310.8

Earnings and earnings per share	Year ended 2005		Year ended 2004	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period from continuing operations	14.1	4.59	10.9	3.56
Loss for the period from discontinued operations	–	–	(4.4)	(1.44)
Profit for the period from continuing and discontinued operations	14.1	4.59	6.5	2.12
Adjust:				
Loss/(profit) on sale of fixed assets net of tax of £nil (2004 – £0.2m)	0.2	0.07	(0.3)	(0.10)
Exchange gain on long-term intercompany loans net of tax of £nil (2004 – £nil)	(2.0)	(0.65)	–	–
Loss on disposal of discontinued operations	–	–	4.8	1.57
Adjusted earnings after tax	12.3	4.01	11.0	3.59
Earnings per share				
– basic continuing		4.59p		3.56p
– basic discontinued		–		(1.44)p
– basic		4.59p		2.12p
– diluted		4.51p		2.09p
– adjusted		4.01p		3.59p
– adjusted and diluted		3.94p		3.54p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2004 – £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 disposal of fixed assets
- gains or losses arising from the disposal of discontinued operations
- gains or losses arising from the re-translation of long-term intercompany loans

13. Goodwill

	Group Year ended 2005 £m	Group Year ended 2004 £m
Cost		
At 1 January	73.1	76.7
Exchange differences	4.2	(2.3)
Derecognised on disposal of a subsidiary	–	(1.3)
Other changes	(0.2)	–
At 31 December	77.1	73.1
Accumulated impairment losses		
At 1 January and at 31 December	–	–
Carrying amount at 31 December	77.1	73.1

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

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

	Group Year ended 2005 £m	Group Year ended 2004 £m
Aerospace		
– Senior UK Limited	36.4	36.4
– Jet Products	15.0	13.4
– Other	1.3	1.3
	52.7	51.1
Automotive	7.4	6.8
Industrial		
– Pathway	15.6	14.0
– Other	1.4	1.2
	17.0	15.2
Total	77.1	73.1

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

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

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

The rate used to discount the forecast cash flows is 8.4%.

Notes to the Financial Statements continued

14. Other intangible assets

	Group Year ended 2005 Computer software £m	Group Year ended 2004 Computer software £m	Company Year ended 2005 Computer software £m	Company Year ended 2004 Computer software £m
Cost				
At 1 January	4.1	4.1	0.1	0.1
Additions	0.3	0.2	–	–
Disposals	(0.1)	–	–	–
Exchange differences	0.5	(0.2)	–	–
At 31 December	4.8	4.1	0.1	0.1
Amortisation				
At 1 January	2.9	2.5	0.1	0.1
Charge for the year	0.5	0.5	–	–
Disposals	(0.1)	–	–	–
Exchange differences	0.4	(0.1)	–	–
At 31 December	3.7	2.9	0.1	0.1
Carrying amount at 31 December	1.1	1.2	–	–

15. Property, plant and equipment

a) Group

	Year ended 2005 Freehold land and buildings £m	Year ended 2005 Leasehold land and buildings £m	Year ended 2005 Plant and equipment £m	Year ended 2005 Total £m	Year ended 2004 Freehold land and buildings £m	Year ended 2004 Leasehold land and buildings £m	Year ended 2004 Plant and equipment £m	Year ended 2004 Total £m
Cost or valuation								
At 1 January	39.9	1.2	155.4	196.5	40.5	1.2	169.1	210.8
Additions	0.9	–	15.4	16.3	1.6	0.1	8.5	10.2
Exchange differences	1.9	0.2	9.3	11.4	(1.2)	(0.1)	(4.9)	(6.2)
Business disposal	–	–	–	–	(0.9)	–	(15.3)	(16.2)
Disposals	(1.9)	–	(3.7)	(5.6)	(0.1)	–	(2.0)	(2.1)
At 31 December	40.8	1.4	176.4	218.6	39.9	1.2	155.4	196.5
Accumulated depreciation and impairment								
At 1 January	8.8	0.7	118.2	127.7	8.4	0.7	124.2	133.3
Charge for the year	0.9	0.1	10.5	11.5	1.0	–	11.8	12.8
Exchange differences	0.4	0.1	7.4	7.9	(0.3)	–	(4.0)	(4.3)
Business disposal	–	–	–	–	(0.3)	–	(11.9)	(12.2)
Eliminated on disposals	(0.9)	–	(3.7)	(4.6)	–	–	(1.9)	(1.9)
At 31 December	9.2	0.9	132.4	142.5	8.8	0.7	118.2	127.7
Carrying amount at 31 December	31.6	0.5	44.0	76.1	31.1	0.5	37.2	68.8

The carrying amount of the Group's land and buildings and plant and equipment includes an amount of £2.9m (2004 – £3.1m) in respect of assets held under finance leases.

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

At 31 December 2005, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £7.3m (2004 – £2.5m).

15. Property, plant and equipment continued

b) Company

	Year ended 2005 Plant and equipment £m	Year ended 2004 Plant and equipment £m
Cost		
At 1 January and at 31 December	0.4	0.4
Accumulated depreciation		
At 1 January	0.3	0.2
Charge for the year	–	0.1
At 31 December	0.3	0.3
Carrying amount at 31 December	0.1	0.1

16. Investments in subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given on page 59.

	Company Year ended 2005 £m	Company Year ended 2004 £m
At 1 January	30.3	30.3
Additional investment in subsidiary	61.7	–
At 31 December	92.0	30.3

Additional investment in subsidiary comprises re-capitalisation of the subsidiary by means of the capitalisation of part of an interest bearing loan due from the subsidiary.

17. Inventories

	Group Year ended 2005 £m	Group Year ended 2004 £m
Raw materials	18.8	15.3
Work-in-progress	21.4	17.4
Finished goods	7.5	5.7
	47.7	38.4

An amount of £1.0m (2004 – £1.1m) has been charged in respect of inventory write-downs.

Notes to the Financial Statements continued

18. Construction contracts

	Group Year ended 2005 £m	Group Year ended 2004 £m
Contracts in progress at balance sheet date:		
Amounts due from contract customers included in current assets	3.4	4.5
Amounts due to contract customers included in trade and other payables	(0.1)	–
	3.3	4.5
Current costs incurred plus recognised profits less recognised losses to date	10.7	6.9
Less: progress billings	(7.4)	(2.4)
	3.3	4.5

At 31 December 2005, retentions held by customers for contract work amounted to £0.6m (2004 – £0.7m). Advances received from customers for contract work amounted to £nil (2004 – £nil).

At 31 December 2005, amounts of £0.2m (2004 – £0.1m) included in trade and other receivables and arising from construction contracts are due for settlement after more than 12 months.

19. Other financial assets

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

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Non-current assets				
Deferred consideration on disposal of Hose operations	2.8	3.0	–	–
Trade receivables	0.2	0.1	–	–
Other receivables	0.8	0.7	–	–
Due from subsidiaries	–	–	134.4	191.0
	3.8	3.8	134.4	191.0
Current assets				
Trade receivables	56.9	49.2	–	–
Current tax recoverable	0.4	1.2	1.6	–
Value added tax	0.6	0.9	0.1	–
Currency derivatives	1.4	–	0.2	–
Prepayments and accrued income	5.0	3.5	0.4	0.5
Other receivables	0.6	0.7	0.7	0.7
Due from subsidiaries	–	–	0.1	1.9
	64.9	55.5	3.1	3.1
Total trade and other receivables	68.7	59.3	137.5	194.1

The average credit period taken on sales of goods is 74 days. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.5m (2004 – £1.5m). This allowance has been determined in accordance with Group policy.

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

Credit risk

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

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

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

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

The amounts due from subsidiaries have been reduced due to the re-capitalisation of a subsidiary as referred to in Note 16.

20. Bank overdrafts and loans

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Bank overdrafts	–	1.5	–	–
Bank loans	7.2	1.1	7.2	–
Other loans	59.3	52.6	58.7	52.1
	66.5	55.2	65.9	52.1

The borrowings are repayable as follows:

On demand or within one year	0.2	2.6	0.2	–
In the second year	21.7	–	21.7	–
In the third to fifth years inclusive	44.0	52.1	44.0	52.1
After five years	0.6	0.5	–	–
	66.5	55.2	65.9	52.1
Less: amount due for settlement within 12 months (shown under current liabilities)	(0.2)	(2.6)	(0.2)	–
Amount due for settlement after 12 months	66.3	52.6	65.7	52.1

Analysis of borrowings by currency:

31 December 2005

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

31 December 2004

	Total £m	Sterling £m	Euros £m	US dollars £m
Bank overdrafts	1.5	–	1.5	–
Bank loans	1.1	–	1.1	–
Other loans	52.6	–	0.5	52.1
	55.2	–	3.1	52.1

The weighted average interest rates paid were as follows:

	Year ended 2005 %	Year ended 2004 %
Bank overdrafts	3.55	3.45
Bank loans	3.20	2.75
Other loans	7.47	7.47

Bank loans and overdrafts of £7.2m (2004 – £2.6m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk. Interest rate swaps of £5.8m (2004 – £16.1m) had been taken out at the year-end to convert interest from fixed rates to floating rates.

Notes to the Financial Statements continued

20. Bank overdrafts and loans continued

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

	Year ended 2005 £m	Year ended 2004 £m
Bank overdrafts	–	1.5
Bank loans	7.2	1.1
Other loans	60.6	54.4
	67.8	57.0

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

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

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

a) Loan notes of \$75m, 2005 £43.6m (2004 – £39.1m) were taken out in October 1998 and are due for repayment in October 2008. The loan notes carry interest at the rate of 6.52% per annum.

b) Loan notes of \$25m, 2005 £14.5m (2004 – £13.0m) were taken out in October 1992 and are due for repayment in June 2007. The loan notes carry interest at the rate of 8.75% per annum.

The Group also has two revolving credit facilities: a committed £46m multi-currency facility maturing on 31 October 2007 and a committed single bank \$25m (£14.5m) facility maturing on 31 May 2007. As at 31 December 2005, £7.2m was drawn under the first facility, comprising \$5m (£2.9m) and €6.3m (£4.3m). There were no amounts drawn under this facility at 31 December 2004. There were no amounts drawn under the second facility at 31 December 2005 and 2004.

As at 31 December 2005, the Group had available £53.3m (2004 – £59.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

21. Derivative financial instruments

The Group has taken the exemption available in IFRS 1 not to restate comparatives for IAS 32 and IAS 39. Consequently, the comparative information for 2004 shown in this note is in accordance with the figures previously presented under UK GAAP.

Currency derivatives

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

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

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Forward foreign exchange contracts	98.5	46.7	8.3	–

At 31 December 2005, the fair value of the Group's currency derivatives is estimated to be approximately £1.4m liability (2004 – £0.6m asset). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising £1.2m assets included in trade and other receivables and £2.6m liabilities included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £0.7m has been deferred in equity.

An amount of £0.3m has been transferred to the income statement in respect of contracts matured during the period.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with an average nominal value of \$27.4m (£15.0m) (2004 – \$27.0m, £14.8m) had receipts of fixed interest at an average rate of 2.28% (2004 – 2.15%) per annum and floating interest payments at LIBOR for periods up until May 2006.

The fair value of swaps entered into at 31 December 2005 is estimated at £0.1m liability (2004 – £0.1m liability). These amounts are based on market values of equivalent instruments at the balance sheet date. All of these interest rate swaps are designated and effective as fair value hedges. An amount of £0.1m has been charged (2004 – £0.1m offset) against hedged interest payments made in the period.

22. Deferred tax

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

	Accelerated tax depreciation £m	Unrealised FX gains £m	Goodwill amortisation £m	Retirement benefit obligations £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 January 2004	5.8	1.2	0.9	(0.4)	(2.8)	(3.4)	1.3
Charge (credit) to income	1.4	–	0.6	–	(1.0)	(1.0)	–
Credit to equity	–	(0.1)	–	–	–	–	(0.1)
Disposal of subsidiary	–	–	–	–	(0.3)	–	(0.3)
Exchange differences	(0.2)	–	(0.1)	(0.1)	0.3	–	(0.1)
At 1 January 2005	7.0	1.1	1.4	(0.5)	(3.8)	(4.4)	0.8
Charge (credit) to income	–	0.2	0.8	(0.1)	(0.4)	(0.1)	0.4
Charge to equity	–	0.7	–	–	–	–	0.7
Exchange differences	0.4	–	0.2	–	(0.5)	–	0.1
As 31 December 2005	7.4	2.0	2.4	(0.6)	(4.7)	(4.5)	2.0

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

	Group Year ended 2005 £m	Group Year ended 2004 £m
Deferred tax liabilities	2.1	0.9
Deferred tax assets	(0.1)	(0.1)
	2.0	0.8

At the balance sheet date, the Group has unused tax losses of £36.6m (2004 – £44.6m) available for offset against future profits. A deferred tax asset has been recognised in respect of £12.5m (2004 – £17.8m) of such losses. No deferred tax asset has been recognised in respect of the remaining £24.1m (2004 – £26.8m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £5.2m (2004 – £9.3m) that will expire within 20 years. Other losses may be carried forward indefinitely.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £107.6m (2004 – £104.7m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

In addition, at the balance sheet date there were deductible temporary differences, for which no deferred tax asset has been recognised, in respect of retirement benefit obligations of £36.7m (2004 – £38.1m), share-based payments of £1.5m (2004 – £0.8m), accelerated book depreciation of £6.2m (2004 – £4.4m) and other temporary differences of £2.3m (2004 – £0.7m). Deferred tax assets have not been recognised in respect of these differences due to the unpredictability of both the timing of the reversal of these temporary differences and of the future profit streams in the entities concerned.

At the balance sheet date, the Group has £5.0m (2004 – £5.0m) of surplus ACT previously written off, for which no deferred tax asset has been recognised as it is unlikely to be recovered in the foreseeable future due to the anticipated ongoing level of dividend payments and UK earnings. The Group also has £16.3m (2004 – £16.3m) of unused capital losses available for offset against future capital gains for which no deferred tax asset has been recognised as no such capital gains are anticipated to arise in the foreseeable future.

Notes to the Financial Statements continued

23. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Group Year ended 2005 £m	Group Year ended 2004 £m	Group Year ended 2005 £m	Group Year ended 2004 £m
Amounts payable under finance leases:				
Within one year	0.3	0.4	0.2	0.3
In the second to fifth years inclusive	1.0	1.1	0.7	0.7
After five years	1.1	1.3	0.9	1.1
	2.4	2.8	1.8	2.1
Less: future finance charges	(0.6)	(0.7)	–	–
Present value of lease obligations	1.8	2.1	1.8	2.1
Less: amount due for settlement within 12 months (shown under current liabilities)			(0.2)	(0.3)
Amount due for settlement after 12 months			1.6	1.8

It is the Group's policy to lease certain of its buildings and fixtures and equipment under finance leases. The most significant lease, representing approximately 73% of the Group's obligations, expires in 2014. For the year ended 31 December 2005, the average effective borrowing rate was 6.2% (2004 – 6.2%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

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

24. Other financial liabilities

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

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Non-current liabilities				
Due to subsidiaries	–	–	29.1	46.0
	–	–	29.1	46.0
Current liabilities				
Trade payables	36.5	30.5	0.4	0.4
Due to subsidiaries	–	–	–	0.2
Social security and PAYE	4.7	4.6	0.1	0.1
Value added tax	0.3	0.1	–	–
Foreign currency derivatives	3.3	0.7	–	0.4
Other payables and accruals	24.9	23.7	1.8	1.4
	69.7	59.6	2.3	2.5
	69.7	59.6	31.4	48.5

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

The average credit period taken for trade purchases is 69 days.

25. Issued share capital

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Authorised: 500 million ordinary shares of 10p each	50.0	50.0
Issued and fully paid 309.3 million ordinary shares of 10p each	30.9	30.7

At 31 December 2004, the issued and fully paid up share capital was 307.5 million ordinary shares of 10p each.

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

26. Share premium account

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Balance at 1 January	3.5	3.5
Movement in year	0.3	–
Balance at 31 December	3.8	3.5

27. Equity reserve

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Balance at 1 January	0.2	0.1
Movement in year	0.2	0.1
Balance at 31 December	0.4	0.2

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

Notes to the Financial Statements continued

28. Other reserve

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Balances at 1 January	17.0	17.0	83.8	83.8
Transfer to retained earnings	(17.0)	–	(83.8)	–
Balance at 31 December	–	17.0	–	83.8

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

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

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

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

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

29. Hedging and translation reserves

a) Group

	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 £m	Total Year ended 2005 £m	Hedging reserve Year ended 2004 £m	Translation reserve Year ended 2004 £m	Total Year ended 2004 £m
Balance at 1 January	–	0.7	0.7	–	–	–
Initial recognition of financial instruments	(0.2)	–	(0.2)	–	–	–
Exchange differences on translation of overseas operations	–	2.2	2.2	–	(0.5)	(0.5)
Change in fair value of hedging derivatives	(1.6)	–	(1.6)	–	–	–
Disposal of subsidiary	–	–	–	–	0.2	0.2
Tax on items taken directly to equity	–	(0.7)	(0.7)	–	1.0	1.0
Balance at 31 December	(1.8)	2.2	0.4	–	0.7	0.7

Under IAS 21 as currently endorsed by the EU, exchange differences that arise on re-translation of intercompany loans that are in a currency different to that of either counterparty are taken to the income statement. An amendment to IAS 21 was issued in December 2005 stating such exchange differences are to be taken to reserves. However, the amendment has not yet been endorsed by the EU and consequently the Group has recognised a gain of £2.0m (2004 – £nil) in the income statement in respect of such loans. It is anticipated that the EU will endorse the amendment to the Standard in 2006 at which time the Group will recognise this £2.0m gain and any such future exchange differences in the translation reserve.

b) Company

	Hedging reserve Year ended 2005 £m	Translation reserve Year ended 2005 £m	Total Year ended 2005 £m	Hedging reserve Year ended 2004 £m	Translation reserve Year ended 2004 £m	Total Year ended 2004 £m
Balance at 1 January	–	(0.3)	(0.3)	–	–	–
Initial recognition of financial instruments	(0.7)	–	(0.7)	–	–	–
Exchange differences on translation	–	(0.1)	(0.1)	–	(0.3)	(0.3)
Increase in fair value of hedging derivatives	0.2	–	0.2	–	–	–
Balance at 31 December	(0.5)	(0.4)	(0.9)	–	(0.3)	(0.3)

30. Retained earnings

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Balance at 1 January	32.9	32.8	(18.1)	(28.3)
Dividends paid	(6.1)	(6.1)	(6.1)	(6.1)
Net profit for the year	14.1	6.5	14.8	14.7
Pension actuarial gain/(loss)	0.2	(0.3)	0.9	1.6
Transfer from other reserves of special reserve	17.0	–	83.8	–
Balance at 31 December	58.1	32.9	75.3	(18.1)

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

31. Own shares

	Group and Company Year ended 2005 £m	Year ended 2004 £m
Balance at 1 January and at 31 December	1.3	1.3

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

32. Disposal of subsidiary

In August 2004, the Group's five industrial hose operations, comprising the share capitals of Senior Flexonics Limited, Flexonics SAS, Senior Flexonics B.V., Teknofluor Holding A.B and the trade and assets of the US Hose Division of Senior Operations Inc, were sold.

The net assets at the date of disposal were as follows:

	August 2004 £m
Property, plant and equipment	4.0
Inventories	6.1
Trade and other receivables	6.8
Bank balances and cash	0.7
Deferred tax liability	(0.3)
Trade and other payables	(5.6)
Bank overdraft	(0.2)
Attributable goodwill	1.3
Recycled foreign exchange differences	0.2
	13.0
Loss on disposal	(4.8)
Total consideration	8.2
Satisfied by:	
Cash	5.8
Costs	(0.6)
Deferred consideration	3.0
	8.2
Net cash inflow arising on disposal:	
Cash consideration	5.8
Costs	(0.6)
Cash and cash equivalents disposed of	(0.5)
	4.7

The impact on the Group's results in the prior periods is disclosed in Note 10.

Notes to the Financial Statements continued

33. Acquisitions

The amount of £0.1m (2004 – £0.2m) shown in the Group cash flow statement relates to deferred consideration payable in respect of previous acquisitions.

34. Notes to the cash flow statement

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

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Operating profit/(loss) from continuing operations	19.6	16.6	(3.0)	(2.1)
Discontinued operations profit before tax	–	0.5	–	–
Adjustments for:				
Depreciation of property, plant and equipment	11.5	12.8	–	0.1
Amortisation of intangible assets	0.5	0.5	–	–
Share options	0.2	0.1	0.2	0.1
Loss/(gain) on disposal of property, plant and equipment	0.2	(0.5)	–	–
Pension payments in excess of service cost	(2.8)	(4.0)	(2.5)	(1.4)
Operating cash flows before movements in working capital	29.2	26.0	(5.3)	(3.3)
Increase in inventories	(9.3)	(4.4)	–	–
Increase in receivables	(8.1)	(3.3)	–	(0.3)
Increase/(decrease) in payables	7.9	3.1	(0.1)	(0.4)
Working capital currency movements	2.6	(1.0)	–	–
Cash generated by operations	22.3	20.4	(5.4)	(4.0)
Income taxes(paid)/received	(0.9)	2.7	–	(1.9)
Interest paid	(4.9)	(5.4)	(5.4)	(6.2)
Net cash from operating activities	16.5	17.7	(10.8)	(12.1)
Cash and cash equivalents comprise:				
Cash	8.5	7.4	7.4	8.5
Bank overdrafts	–	(1.5)	–	–
Total	8.5	5.9	7.4	8.5

Additions to property, plant and equipment during the year amounting to £nil (2004 – £0.4m) were financed by new finance leases.

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

b) Free cash flow

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

	Group Year ended 2005 £m	Group Year ended 2004 £m
Net cash from operating activities	16.5	17.7
Interest received	1.4	2.5
Proceeds on disposal of property, plant and equipment	0.9	0.7
Purchases of property, plant and equipment – cash	(16.3)	(9.8)
– finances leases	–	(0.4)
Purchase of intangible assets	(0.3)	(0.2)
Free cash flow	2.2	10.5

34. Notes to the cash flow statement continued

c) Analysis of net debt
Group

	At 1 January 2005 £m	Cash flow £m	Non cash items £m	Exchange movement £m	At 31 December 2005 £m
Cash	7.4	0.6	–	0.5	8.5
Overdrafts	(1.5)	1.5	–	–	–
Cash and cash equivalents	5.9	2.1	–	0.5	8.5
Debt due within one year	(1.1)	1.0	(0.2)	0.1	(0.2)
Debt due after one year	(52.6)	(7.1)	(0.3)	(6.3)	(66.3)
Finance leases	(2.1)	0.3	–	–	(1.8)
Forward exchange contract losses	(0.7)	0.2	–	(2.1)	(2.6)
Total	(50.6)	(3.5)	(0.5)	(7.8)	(62.4)

Debt due within one year shown above includes short-term bank borrowings of £nil (1 January 2005 – £1.1m).

The forward exchange contract losses shown above are reported as £2.8m (2004 – £0.7m) in current liabilities within trade and other payables and £0.2m (2004 – £nil) in current assets within trade and other receivables.

Non cash items shown above relate to the recognition of financial instruments under IAS 39.

Additions to property, plant and equipment during the period of £nil (2004 – £0.4m) were financed by new finance leases.

35. Operating lease arrangements

The Group and the Company as lessee

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Minimum lease payments under operating leases recognised in the Consolidated Income Statement for the year	3.9	3.9	0.2	0.2

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

	Group Year ended 2005 £m	Group Year ended 2004 £m	Company Year ended 2005 £m	Company Year ended 2004 £m
Within one year	3.6	3.2	0.2	0.2
In the second to fifth years inclusive	10.9	9.8	0.6	0.6
After five years	15.7	15.0	0.3	0.5
	30.2	28.0	1.1	1.3

Operating lease payments principally represent rentals payable by the Group for certain of its manufacturing properties. The leases with the two largest outstanding commitments, representing 59% of the Group's commitment, expire in 2018 and 2026, with rentals fixed for 2.5 years and 1 year respectively.

The Company has guaranteed £1.4m (2004 – £1.4m) of annual lease commitments of certain current and previous subsidiary entities.

Notes to the Financial Statements continued

36. Share-based payments

The Group and Company recognised total expenses of £0.2m (2004 – £0.1m) related to share-based payments, of which £0.2m (2004 – £0.1m) related to equity-settled share-based payments.

(i) 1999 Executive Share Option Plan

Equity-settled share option plans

Under the 1999 Executive Share Option Plan, options will normally only become exercisable if the Group's Adjusted Earnings per Share grows by not less than 4% per annum compound above the growth in the UK Retail Price Index (RPI) over a period of three or more financial years commencing in January of the year of grant. They will lapse if not exercised within six years of the date of grant. Options are exercisable at a price equal to the average of the closing mid-market price of the Company's shares in the three days prior to the date of grant. No options were granted or exercised under the 1999 Executive Share Option Plan during the year. The following options were outstanding as at 31 December 2005 and 2004:

	Year ended 2005		Year ended 2004	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	11,023,221	38.92p	12,602,246	39.88p
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	(1,253,196)	35.94p	(1,579,025)	46.57p
Expired	(420,587)	154.35p	–	–
Outstanding at 31 December	9,349,438	34.13p	11,023,221	38.92p
Exercisable at 31 December	–	n/a	–	n/a

The options outstanding at 31 December 2005 had exercise prices ranging from 23.08p – 82.50p per share, and a weighted average remaining contractual life of 2.3 years. The options outstanding at 31 December 2004 had exercise prices ranging from 23.08p – 154.35p per share, and a weighted average remaining contractual life of 3.2 years.

Cash-settled share option plans

Under the 1999 Executive Share Option Plan, shadow options have been granted to certain employees. These are subject to the same general terms and conditions as the above equity-settled options, however, on exercise the holder is entitled to receive an amount equal to the difference between the exercise price and the then market value of the shares in relation to which the shadow option is exercised. No shadow options were granted or exercised under the 1999 Executive Share Option Plan during the year. Shadow share options over 237,941 shares were outstanding as at 31 December 2005 and 2004 with an exercise price of 23.08p per share and a remaining contractual life of 3.2 years (2004 – 4.2 years).

(ii) 2005 Long Term Incentive Plan

1,596,241 shares were awarded under the 2005 Long Term Incentive Plan on 20 May 2005. Awards under this plan have a three year vesting period, subject to earnings per share (EPS) and total shareholder return (TSR) performance condition being met. Half the awards have an attaching performance target for EPS growth over the three year performance period of at least 5% per annum above the RPI. The other half of the awards begin to vest if the Company's TSR falls in the top half of a comparator group at the end of the three year performance period. Vesting levels increase with higher performance. The awards are settled by delivering shares to the participant.

The estimated fair value for the awards with EPS conditions is 34.00p per share, which is essentially the share price at the date of grant of 40.25p per share less an allowance for dividends foregone over the three year vesting period. The estimated fair value for the awards with TSR conditions is 15.90p per share, reflecting an adjustment of 47% to the fair value of the awards with EPS conditions due to the stringent TSR condition.

These fair values were calculated by applying a binomial option pricing model. This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition. The model inputs at the date of grant were the share price of 40.25p, a risk free interest rate of 4.3% per annum, expected volatility of 46.0% per annum, net dividend yield of 5.5% per annum, and the performance conditions as noted above. Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous three years.

(iii) Long Term Share Incentive Plan

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

36. Share-based payments continued

(iv) Savings Related Share Option Plan

The Company operates a Savings Related Share Option Plan for eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the Inland Revenue rules for such savings plans. No such options have been awarded since 6 September 2002. The following options were outstanding as at 31 December 2005 and 2004:

	Year ended 2005		Year ended 2004	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	4,656,280	30.11p	6,446,249	33.83p
Granted	–	–	–	–
Exercised	(1,834,994)	26.38p	(65,159)	25.25p
Forfeited	(370,403)	31.45p	(864,226)	34.97p
Expired	(540,803)	48.21p	(860,584)	53.44p
Outstanding at 31 December	1,910,080	28.31p	4,656,280	30.11p
Exercisable at 31 December	568,033	28.24p	543,015	48.39p

The weighted average share price at the date of exercise for share options exercised during the period was 53.53p (2004 – 39.76p). The options outstanding at 31 December 2005 had exercise prices ranging from 25.25p – 43.50p per share, and a weighted average remaining contractual life of 1.7 years. The options outstanding at 31 December 2004 had exercise prices ranging from 25.25p – 91.50p per share, and a weighted average remaining contractual life of 1.9 years.

37. Retirement benefit schemes

The Group operates a number of pension plans in the UK, North America and Europe. These include both defined contribution arrangements and defined benefit arrangements. The largest defined benefit arrangement for the Group and Company, the Senior plc Pension Plan, is a funded scheme in the UK, providing benefits based on final pensionable emoluments for the employees of the Group and Company. The latest full actuarial valuation was carried out as at 5 April 2004 and, for the purposes of accounting under IAS 19, this valuation has been rolled forward to 31 December 2005.

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

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

The Group has early adopted amendments to disclosures under IAS 19.

a) Defined Contribution Schemes

The Group has a number of different defined contribution and government sponsored arrangements in place in the countries in which it operates. None of these are individually material to the Group and the aggregate cost of such schemes for the period was £2.2m (2004 – £2.2m).

b) Defined Benefit Schemes

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes is as follows:

	31 December 2005				31 December 2004			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Present value of defined benefit obligations	(165.7)	(23.2)	(3.7)	(192.6)	(150.9)	(19.8)	(3.5)	(174.2)
Fair value of plan assets	134.4	18.3	–	152.7	117.2	15.6	–	132.8
Plan deficit per balance sheet	(31.3)	(4.9)	(3.7)	(39.9)	(33.7)	(4.2)	(3.5)	(41.4)

Notes to the Financial Statements continued

37. Retirement benefit schemes continued

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

	31 December 2005				31 December 2004			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	150.9	19.8	3.5	174.2	146.2	18.8	3.3	168.3
Current service costs	1.2	0.5	0.1	1.8	1.4	0.4	0.1	1.9
Interest cost	8.1	1.2	0.2	9.5	8.0	1.1	0.2	9.3
Contributions by plan participants	0.7	–	–	0.7	0.8	–	–	0.8
Actuarial losses	10.2	0.2	0.4	10.8	0.2	1.4	0.2	1.8
Benefits paid	(5.4)	(0.9)	(0.4)	(6.7)	(5.7)	(0.8)	(0.3)	(6.8)
Past service cost	–	–	–	–	–	0.1	–	0.1
Exchange	–	2.4	(0.1)	2.3	–	(1.2)	–	(1.2)
At 31 December	165.7	23.2	3.7	192.6	150.9	19.8	3.5	174.2

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

	31 December 2005				31 December 2004			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	117.2	15.6	–	132.8	110.5	13.6	–	124.1
Expected return on plan assets	7.1	1.3	–	8.4	7.0	1.1	–	8.1
Actuarial gains/(losses)	11.1	(0.1)	–	11.0	1.8	(0.3)	–	1.5
Contributions from employer	3.7	0.5	–	4.2	2.8	2.9	–	5.7
Contributions by plan participants	0.7	–	–	0.7	0.8	–	–	0.8
Benefits paid	(5.4)	(0.9)	–	(6.3)	(5.7)	(0.8)	–	(6.5)
Exchange	–	1.9	–	1.9	–	(0.9)	–	(0.9)
At 31 December	134.4	18.3	–	152.7	117.2	15.6	–	132.8

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

	31 December 2005				31 December 2004			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost	1.2	0.5	0.1	1.8	1.4	0.4	0.1	1.9
Past service cost	–	–	–	–	–	0.1	–	0.1
Included within operating profit	1.2	0.5	0.1	1.8	1.4	0.5	0.1	2.0
Interest cost	8.1	1.2	0.2	9.5	8.0	1.1	0.2	9.3
Expected return on plan assets	(7.1)	(1.3)	–	(8.4)	(7.0)	(1.1)	–	(8.1)
Included within finance costs	1.0	(0.1)	0.2	1.1	1.0	–	0.2	1.2
	2.2	0.4	0.3	2.9	2.4	0.5	0.3	3.2

Of the current and past service cost for the year, £1.2m (2004 – £1.2m) has been included in cost of sales, and £0.6m (2004 – £0.8m) has been included in administrative expenses.

Actuarial gains of £0.2m (2004 – £0.3m losses) have been recognised in the statement of recognised income and expense. The cumulative amount of actuarial losses recognised in the statement of recognised income and expense as at 31 December 2005 is £0.1m (2004 – £0.3m).

37. Retirement benefit schemes continued

f) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2005 £m	2004 £m	2005 £m	2004 £m
Fair value of plan assets				
Equities	78.0	66.4	12.6	10.1
Bonds	11.3	20.5	5.0	4.4
Gilts	44.8	29.7	–	–
Properties & other	0.3	0.6	0.7	1.1
Total	134.4	117.2	18.3	15.6
Actual return on plan assets	18.2	8.8	1.2	0.8
Major Assumptions (per annum %)				
Inflation	2.6%	2.6%	2.5%	2.5%
Increase in salaries	3.6%	3.6%	4.0%	4.0%
Increase in pensions	2.6%	2.6%	0.0%	0.0%
Increase in deferred pensions	2.6%	2.6%	0.0%	0.0%
Rate used to discount plan liabilities	5.0%	5.4%	5.9%	6.0%
Expected return on assets	5.6%	6.1%	8.0%	8.0%
Life expectancy of a male aged 65 in 2005	18.6	18.6	16.7	16.7

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

The estimated amounts of contributions expected to be paid during 2006 to the UK Plan is £4.2m (£3.0m of which is additional to normal contributions to fund the past service deficit) and to the US Funded Plans is £1.0m (all of which is discretionary).

g) Other Post-Retirement Liabilities

This balance comprises an unfunded German pension plan £2.4m (2004 – £2.2m), unfunded closed pension and post-retirement healthcare plans in the US £0.5m (2004 – £0.4m) and provision for post-retirement payments in France of £0.8m (2004 – £0.9m).

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

Notes to the Financial Statements continued

37. Retirement benefit schemes continued

h) History of experience gains and losses

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

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

38. Events after the balance sheet date

On 27 January 2006, the Group acquired Sterling Machine Co., Inc., a manufacturer of precision machined parts for the aerospace industry, based in Enfield, Connecticut, USA. The cash consideration, including assumed net debt, was £21.4m including costs of which £1.2m related to the purchase of property. The acquisition was funded in part by a placing of 5m ordinary shares generating net proceeds of £8.8m, the balance being funded by the Group's existing revolving credit facilities.

39. Explanation of transition to IFRS

This is the first year that the Group and the Company have presented their financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition was therefore 1 January 2004.

a) Reconciliation of equity at 1 January 2004 (date of transition to IFRS)

	Notes	Group UK GAAP £m	Group adjustment £m	Group IFRS £m	Company UK GAAP £m	Company adjustment £m	Company IFRS £m
Non-current assets							
Goodwill		76.7	–	76.7	–	–	–
Intangible assets	(i)	–	1.6	1.6	–	–	–
Investments in subsidiaries		–	–	–	30.3	–	30.3
Property, plant and equipment	(i)	79.1	(1.6)	77.5	0.2	–	0.2
Deferred tax assets		0.1	–	0.1	–	–	–
Financial assets		1.0	–	1.0	396.5	–	396.5
Total non-current assets		156.9	–	156.9	427.0	–	427.0
Current assets							
Inventories		40.1	–	40.1	–	–	–
Construction contracts		4.9	–	4.9	–	–	–
Trade and other receivables		62.0	–	62.0	1.4	–	1.4
Cash and cash equivalents		11.6	–	11.6	1.5	–	1.5
Total current assets		118.6	–	118.6	2.9	–	2.9
Total assets		275.5	–	275.5	429.9	–	429.9
Liabilities							
Trade and other payables	(ii)	65.6	(4.1)	61.5	226.5	(4.1)	222.4
Current tax liabilities		6.0	–	6.0	2.1	–	2.1
Obligations under finance leases		2.0	–	2.0	–	–	–
Interest bearing loans		77.1	–	77.1	81.2	–	81.2
Retirement benefit obligations	(iii)	44.0	0.2	44.2	–	35.7	35.7
Deferred tax liabilities	(iv)	0.8	0.6	1.4	–	–	–
Others		0.5	–	0.5	–	–	–
Total liabilities		196.0	(3.3)	192.7	309.8	31.6	341.4
Total assets less total liabilities		79.5	3.3	82.8	120.1	(31.6)	88.5
Equity							
Issued share capital		30.7	–	30.7	30.7	–	30.7
Share premium account		3.5	–	3.5	3.5	–	3.5
Equity reserve	(v)	–	0.1	0.1	–	0.1	0.1
Other reserve	(vi)	17.7	(0.7)	17.0	83.8	–	83.8
Hedging and translation reserve	(vi)	–	–	–	–	–	–
Retained earnings	(vi)	28.9	3.9	32.8	3.4	(31.7)	(28.3)
Own shares		(1.3)	–	(1.3)	(1.3)	–	(1.3)
Total equity		79.5	3.3	82.8	120.1	(31.6)	88.5

Notes to the Financial Statements continued

39. Explanation of transition to IFRS continued

Notes to the reconciliation of equity at 1 January 2004

(i) Intangible assets

IFRS requires computer software to be recorded as an intangible asset and amortised over its useful life. Accordingly, £1.6m of net book value has been transferred from within plant and equipment to intangible assets.

(ii) Dividends

Under UK GAAP, any dividend proposed in respect of a year is recognised in the profit and loss account and provided for in the closing balance sheet. Under IFRS, a declared dividend does not constitute an adjusting post balance sheet event. Hence, the provision for the final dividend of £4.1m at the end of 2003 under UK GAAP has been reversed under IFRS.

(iii) Retirement benefit obligations

The Group implemented FRS 17 under UK GAAP. IFRS requires that invested assets be valued at bid price, rather than at mid-price as required under UK GAAP, by FRS 17. This revaluation causes the assets held by the funded plans to reduce in value by £0.2m, and consequently the net balance sheet pension deficit to increase by the same amount. Under FRS 17 the pension deficits were held on consolidation rather than being attributed to any specific company. IFRS requires that deficits are attributed and hence the UK plan deficit is recorded in the Company, which is the sponsoring employer to the plan. The £35.7m liability is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets.

(iv) Deferred tax

IFRS changes the focus of deferred tax from the income statement to the balance sheet and to the differences between the book value and tax base of assets and liabilities. Under IFRS, deferred tax is provided on all temporary differences, albeit that deferred tax assets are only recognised to the extent that they may be regarded as recoverable. The Group has recognised a net increase in deferred tax liabilities of £0.6m relating to the taxation of deferred foreign exchange gains arising in overseas territories.

(v) Share-based payments

Under IFRS there is an aggregate provision of £nil in respect of cash-settled share option plans, and a provision of £0.1m in respect of equity-settled share option plans.

(vi) Share capital and reserves

In line with the available exemptions in IFRS 1, the cumulative translation differences were set to zero at the transition date. Also, as allowed under IFRS 1 exemptions, the existing UK GAAP value of property, plant and equipment was taken as the deemed cost for IFRS. Hence, the revaluation reserve has been reset to zero, with the previous balance of £0.7m having been transferred to the retained earnings reserve.

b) Reconciliation of equity at 31 December 2004 (date of last UK GAAP financial statements)

	Notes	Group UK GAAP £m	Group adjustment £m	Group IFRS £m	Company UK GAAP £m	Company adjustment £m	Company IFRS £m
Non-current assets							
Goodwill	(i)	68.0	5.1	73.1	–	–	–
Intangible assets	(ii)	–	1.2	1.2	–	–	–
Property, plant and equipment	(ii)	70.0	(1.2)	68.8	0.1	–	0.1
Investments in subsidiaries		–	–	–	30.3	–	30.3
Deferred tax assets		0.1	–	0.1	–	–	–
Financial assets		3.8	–	3.8	191.0	–	191.0
Total non-current assets		141.9	5.1	147.0	221.4	–	221.4
Current assets							
Inventories		38.4	–	38.4	–	–	–
Construction contracts		4.5	–	4.5	–	–	–
Trade and other receivables		55.5	–	55.5	3.1	–	3.1
Cash and cash equivalents		7.4	–	7.4	8.5	–	8.5
Total current assets		105.8	–	105.8	11.6	–	11.6
Total assets		247.7	5.1	252.8	233.0	–	233.0
Liabilities							
Trade and other payables	(iii)	63.7	(4.1)	59.6	52.2	(4.1)	48.1
Current tax liabilities		9.5	–	9.5	0.2	–	0.2
Obligations under finance leases		2.1	–	2.1	–	–	–
Interest bearing loans		55.2	–	55.2	52.5	–	52.5
Retirement benefit obligations	(iv)	41.2	0.2	41.4	–	33.7	33.7
Deferred tax liabilities	(v)	0.4	0.5	0.9	–	–	–
Others	(vi)	0.3	0.1	0.4	–	–	–
Total liabilities		172.4	(3.3)	169.1	104.9	29.6	134.5
Total assets less total liabilities		75.3	8.4	83.7	128.1	(29.6)	98.5

39. Explanation of transition to IFRS continued

	Notes	Group UK GAAP £m	Group adjustment £m	Group IFRS £m	Company UK GAAP £m	Company adjustment £m	Company IFRS £m
Equity							
Issued share capital		30.7	–	30.7	30.7	–	30.7
Share premium account		3.5	–	3.5	3.5	–	3.5
Equity reserve	(vii)	–	0.2	0.2	–	0.2	0.2
Other reserve	(viii)	17.7	(0.7)	17.0	83.8	–	83.8
Hedging and translation reserve	(viii)	–	0.7	0.7	–	(0.3)	(0.3)
Retained earnings	(viii)	24.7	8.2	32.9	11.4	(29.5)	(18.1)
Own shares		(1.3)	–	(1.3)	(1.3)	–	(1.3)
Total equity		75.3	8.4	83.7	128.1	(29.6)	98.5

Notes to the reconciliation of equity at 31 December 2004

(i) Goodwill amortisation

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRS, goodwill is held at its carrying value (the UK GAAP net book value as at 31 December 2003) and subjected to annual impairment testing. Hence the goodwill amortisation charge of £5.1m has been reversed, leading to an equivalent increase in the goodwill value on the balance sheet at the end of 2004 under IFRS.

(ii) Intangible assets

IFRS requires computer software to be recorded as an intangible asset and amortised over its useful life. Accordingly, £1.2m of net book value has been transferred from within plant and equipment to intangible assets.

(iii) Dividends

Under UK GAAP, any dividend proposed in respect of a year is recognised in the profit and loss account and provided for in the closing balance sheet. Under IFRS, a declared dividend does not constitute an adjusting post balance sheet event. Hence, the provision for the final dividend of £4.1m at the end of 2004 under UK GAAP has been reversed under IFRS.

(iv) Retirement benefit obligations

The Group implemented FRS 17 under UK GAAP. IFRS requires that invested assets be valued at bid price, rather than at mid-price as required under UK GAAP, by FRS 17. This revaluation causes the assets held by the funded plans to reduce in value by £0.2m, and consequently the net balance sheet pension deficit to increase by the same amount. Under FRS 17 the pension deficits were held on consolidation rather than being attributed to any specific company. IFRS requires that deficits are attributed and hence the UK plan deficit is recorded in the Company, which is the sponsoring employer to the plan. The £33.7m liability is based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets.

(v) Deferred tax

IFRS changes the focus of deferred tax from the income statement to the balance sheet and to the differences between the book value and tax base of assets and liabilities. Under IFRS, deferred tax is provided on all temporary differences, albeit that deferred tax assets are only recognised to the extent that they may be regarded as recoverable. The Group has recognised a net increase in deferred tax liabilities of £0.5m relating to the taxation of deferred foreign exchange gains arising in overseas territories.

(vi) Liabilities

IFRS requires that the charge to the income statement for operating leases is adjusted to take account of fixed inflationary elements over the period of a lease instead of when the payment is made. An additional £0.1m charge has been made in 2004, resulting in an additional accrual of the same amount.

(vii) Share-based payments

Under IFRS, there is an aggregate provision of £nil in respect of cash-settled share option plans, and a provision of £0.2m in respect of equity-settled share option plans.

(viii) Share capital and reserves

As stated above in part a) of Note 39, the cumulative translation differences were set to zero at the transition date. An amount of £0.7m has arisen in the year. Also, as stated in part a) of Note 39 above, the existing UK GAAP value of property, plant and equipment was taken as the deemed cost for IFRS. Hence, the revaluation reserve has been reset to zero, with the previous balance of £0.7m having been transferred to the retained earnings reserve.

The Group and Company adjustment to retained earnings reserve is as shown below:

	Group £m	Company £m
Opening adjustments	3.9	(31.7)
Profit for the period	13.4	0.3
Goodwill on Hose disposal	(8.7)	–
Pension actuarial gain	–	1.6
Transfer from hedging and translation reserve	(0.4)	0.3
	8.2	(29.5)

Notes to the Financial Statements continued

39. Explanation of transition to IFRS continued

c) Reconciliation of income statement for the year ended 31 December 2004

	Notes	Group UK GAAP reformatted 2004 £m	Group adjustment 2004 £m	Group IFRS 2004 £m	Company UK GAAP reformatted 2004 £m	Company adjustment 2004 £m	Company IFRS 2004 £m
Continuing operations							
Revenue		306.8	–	306.8	–	–	–
Trading profit/(loss)	(i), (ii), (v)	16.9	(0.3)	16.6	(3.4)	1.3	(2.1)
Amortisation of goodwill	(iii)	(5.1)	5.1	–	–	–	–
Operating profit/(loss)		11.8	4.8	16.6	(3.4)	1.3	(2.1)
Dividends receivable		–	–	–	14.2	–	14.2
Interest receivable	(iv)	2.2	(0.1)	2.1	10.0	(0.1)	9.9
Interest payable and similar charges	(iv)	(5.1)	0.1	(5.0)	(6.2)	0.1	(6.1)
Finance cost of net pension liability	(v)	(1.2)	–	(1.2)	–	(1.0)	(1.0)
Profit before taxation		7.7	4.8	12.5	14.6	0.3	14.9
Taxation	(vi)	(1.7)	0.1	(1.6)	(0.2)	–	(0.2)
Profit for the period from continuing operations		6.0	4.9	10.9	14.4	0.3	14.7
Discontinued operations							
Profit from operations before taxation	(i)	0.4	0.1	0.5			
Taxation	(vi)	–	(0.1)	(0.1)			
Loss on disposal	(vii)	(13.3)	8.5	(4.8)			
Loss for the period from discontinued operations		(12.9)	8.5	(4.4)			
Profit for the period		(6.9)	13.4	6.5			

Notes to the reconciliation of income statement for the year ended 31 December 2004

(i) Trading profit

Trading profit of continuing businesses for the Group is reduced by £0.1m, which is offset by the equivalent improvement in discontinued businesses. This relates to £0.1m of central cost previously allocated to discontinued operations. Central costs will now be disclosed separately within the segmental analysis, rather than being allocated to segments as occurred previously under UK GAAP. Trading profit for the Group is further reduced by £0.1m by the additional operating lease charge, as stated in Note 39 b)(vi).

(ii) Share-based payments

Share-based payment arrangements exist in relation to share and share option schemes offered to senior management. Share options were issued in March 2003 and it is considered that these may ultimately vest. No cost was included in UK GAAP accounts as the intrinsic value was nil. A cost of £0.1m has been included in the IFRS financial statements for the Group and Company. This expense has been based on the fair value at the date of the award, as calculated according to the Black-Scholes pricing model.

(iii) Goodwill amortisation

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRS, goodwill is held at its carrying value (the UK GAAP net book value as at 31 December 2003) and subjected to annual impairment testing. Hence the goodwill amortisation charge of £5.1m for 2004 under UK GAAP has been reversed for IFRS purposes.

(iv) Interest receivable and interest payable

A benefit of £0.1m arising from interest rate swap agreements was previously shown as interest receivable. This has now been offset against the related interest payable amount.

(v) Retirement benefit obligations

Under FRS 17, as the Company did not record the deficit in its balance sheet, its profit and loss charge reflected only the cash contributions to the UK plan (£1.6m) and not the net finance cost. Under IFRS the operating cost includes only the service cost (£0.2m) and the net finance cost (£1.0m).

(vi) Tax charge

The tax charge has been analysed between that attributable to continuing operations and that attributable to discontinued operations.

39. Explanation of transition to IFRS continued

(vii) Loss on disposal of discontinued operations

Under UK GAAP, goodwill arising on acquisitions prior to 1 January 1998 was written off directly to equity. When such a company was subsequently disposed, the goodwill was "recycled" through the profit and loss account as part of the profit or loss on disposal. There is no such requirement under IFRS. Hence, the UK GAAP loss is reduced by £8.7m. Additionally, IFRS requires cumulative translation differences to be recognised in the disposal transaction. These amount to £0.2m, making the aggregate adjustment £8.5m.

d) Explanation of material adjustments to the cash flow statements for 2004

Income taxes received by the Group of £2.7m and interest payments of £5.4m are classified as part of operating cashflows under IFRS, but were included in separate categories under UK GAAP. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

40. Related party transactions

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

	Year ended 2005 £m	Year ended 2004 £m
Transactions in year		
Management charges	0.2	0.7
Dividends receivable	14.3	14.2
Interest receivable	8.3	9.6
Interest payable	(0.6)	(1.5)
Balances at year-end		
Investments in subsidiaries	92.0	30.3
Amounts due from subsidiaries	134.5	192.9
Amounts due to subsidiaries	29.1	46.2

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

The remuneration of the Directors, who are the key management personnel of the Group, is set out in the Remuneration Report on pages 10 to 15.

Five Year Summary

	IFRS		UK GAAP		
	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Group income statement					
Revenue					
Continuing operations	338.6	306.8	322.9	368.4	411.7
Discontinued operations	–	19.1	32.0	36.0	52.0
	338.6	325.9	354.9	404.4	463.7
Operating profit before impairment and amortisation of goodwill					
Continuing operations	19.6	16.6	17.8	23.0	31.2
Discontinued operations	–	0.5	1.1	(0.1)	0.4
	19.6	17.1	18.9	22.9	31.6
Impairment of goodwill	–	–	–	–	(4.0)
Amortisation of goodwill	–	–	(5.4)	(5.8)	(6.2)
Operating profit	19.6	17.1	13.5	17.1	21.4
Share of operating profit in associate net of amortisation of goodwill	–	–	–	–	0.2
Exchange gain on long-term intercompany loan	2.0	–	–	–	–
Loss on disposal of discontinued operations	–	(4.8)	–	(3.5)	(2.3)
Investment income/finance costs, net	(3.9)	(2.9)	(4.9)	(6.6)	(9.8)
Net finance cost of retirement benefit obligations	(1.1)	(1.2)	(2.2)	–	–
Profit before tax	16.6	8.2	6.4	7.0	9.5
Tax	(2.5)	(1.7)	(1.8)	(3.1)	(5.1)
Profit for the year	14.1	6.5	4.6	3.9	4.4
Depreciation and software amortisation	12.0	13.3	16.1	17.8	18.4
Gross capital expenditure (including finance lease assets)	16.6	10.4	8.0	13.1	16.5
Basic earnings per share	4.59p	2.12p	1.50p	1.29p	1.46p
Diluted earnings per share	4.51p	2.09p	1.49p	1.29p	1.45p
Adjusted earnings per share	4.01p	3.59p	3.13p	4.47p	5.51p
Dividends in respect of year – per share	2.00p	2.00p	2.00p	2.00p	2.00p
– value	6.1	6.1	6.1	6.1	6.1
Group balance sheets					
Non-current assets	158.2	147.0	155.8	175.7	201.3
Net current assets	44.4	33.8	41.8	45.8	53.8
Non-current liabilities	(110.3)	(97.1)	(118.1)	(100.2)	(130.0)
Net assets	92.3	83.7	79.5	121.3	125.1
Net borrowings	(62.4)	(50.6)	(64.2)	(87.4)	(122.7)
Gearing, net	67.6%	60.5%	80.8%	72.0%	98.1%
Group cash flow					
Net cash from operating activities	16.5	17.7	25.9	36.3	43.5
Interest received	1.4	2.5	1.2	0.6	0.7
Proceeds from disposal of property, plant and equipment	0.9	0.7	1.1	1.4	0.9
Purchase of property, plant and equipment – cash	(16.3)	(9.8)	(8.0)	(11.6)	(16.5)
– finance leases	–	(0.4)	–	(1.5)	–
Purchase of intangible assets	(0.3)	(0.2)	–	–	–
Free cash flow	2.2	10.5	20.2	25.2	28.6
Dividends paid	(6.1)	(6.1)	(6.1)	(2.5)	(15.0)
Acquisitions less disposals	(0.1)	4.5	0.4	2.2	11.5
Dividend income from associate	–	–	–	–	0.2
Share issues	0.5	–	–	–	–
Increase/(decrease) in loans	6.1	(18.9)	(14.8)	(32.2)	(25.3)
(Decrease)/increase in finance leases	(0.3)	0.1	(0.3)	1.4	–
Cash (outflow)/inflow on forward contracts	(0.2)	4.5	4.5	0.2	–
Increase/(decrease) in cash and cash equivalents	2.1	(5.4)	3.9	(5.7)	–

The amounts disclosed for 2003 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in Note 39 to the financial statements.

The figures for 2003 have been restated to reflect changes in accounting policies relating to retirement benefits and ESOP trusts following the adoption in 2004 of Financial Reporting Standard No.17 and UITF 38. Earlier years have not been restated.

Principal Group Undertakings

Operating companies	Business units	Locations
Senior Hargreaves Limited (incorporated in England and Wales)	Senior Hargreaves	Bury
Senior UK Limited (incorporated in England and Wales)	Senior Automotive – Crumlin Senior Aerospace – BWT Senior Aerospace – Bird Bellows	Crumlin Macclesfield Congleton
Senior Operations Inc. (incorporated in Delaware, USA)	Senior Automotive – Bartlett Senior Flexonics – Pathway Senior Aerospace – Metal Bellows Senior Aerospace – SSP Senior Aerospace – Composites Senior Aerospace – Ketema Senior Aerospace – Ketema Senior Aerospace – Jet Products	Bartlett, Illinois New Braunfels, Texas Sharon, Massachusetts Burbank, California Wichita, Kansas El Cajon, California Saltillo, Mexico San Diego, California
Sterling Machine Co., Inc.* (incorporated in Connecticut, USA)	Senior Aerospace – Sterling Machine	Enfield, Connecticut
Senior Operations (Canada) Limited (incorporated in Canada)	Senior Flexonics – Canada	Brampton, Ontario
Senior Berghofer GmbH (incorporated in Germany)	Senior Automotive – Kassel	Kassel, Germany
Senior Automotive Czech s.r.o. (incorporated in the Czech Republic)	Senior Automotive – Olomouc	Olomouc, Czech Republic
Senior Aerospace Ermeto SAS (incorporated in France)	Senior Aerospace – Ermeto	Blois, France
Senior Automotive Blois SAS (incorporated in France)	Senior Automotive – Blois	Blois, France
Senior Calorstat SAS (incorporated in France)	Senior Aerospace – Calorstat	Dourdan, France
Senior Aerospace Bosman B.V. (incorporated in Holland)	Senior Aerospace – Bosman	Rotterdam, Holland
Senior Automotive S.A. (Pty) Limited (incorporated in the Republic of South Africa)	Senior Automotive – Cape Town	Cape Town, South Africa
Senior do Brasil Ltda. (incorporated in Brazil)	Senior Automotive – Sao Paulo	Sao Paulo, Brazil
Senior India Private Limited (incorporated in India)	Senior Automotive – New Delhi	New Delhi, India
Senior Investments AG (incorporated in Switzerland)		Schaffhausen, Switzerland

*Sterling Machine Co., Inc. was acquired on 27 January 2006.

All Group undertakings are wholly and directly owned by subsidiary undertakings of Senior plc and in every case the principal country of operation is the country of incorporation.

Additional Shareholder Information

Analysis of Shareholders at 31 December 2005

	Shareholders number	Shareholders %	Shareholdings millions	Shareholdings %
By Category				
Corporate bodies	982	23.93	293.36	94.85
Other shareholders	3,122	76.07	15.93	5.15
	4,104	100.00	309.29	100.00
By Range of Holdings				
1 – 24,999	3,752	91.43	15.19	4.91
25,000 – 49,999	110	2.68	3.75	1.21
50,000 – 249,999	135	3.29	13.22	4.28
250,000 – 499,999	34	0.83	12.03	3.89
500,000 – 999,999	24	0.58	17.73	5.73
1,000,000 – and over	49	1.19	247.37	79.98
	4,104	100.00	309.29	100.00

The number of shares in issue at 31 December 2005 was 309,285,740.

Share Registrars

All shareholder records are maintained by Lloyds TSB Registrars and all correspondence should be addressed to the Registrar, Senior plc at the Lloyds TSB Registrars' address shown on the facing page, quoting the reference number starting with 0228 detailed on your dividend vouchers. The Registrar should be notified regarding changes to name or address, loss of either share certificate or dividend warrant, or request for, or change to, a dividend mandate.

Lloyds TSB Registrars provide a range of shareholder information on-line. Shareholders can check their holdings, update details and obtain practical help on transferring shares at: www.shareview.co.uk

Instead of payment by post to your registered address, dividends can be paid through the BACS system direct into a UK bank or building society account, with the dividend voucher still sent to your registered address. If you wish to use this facility and have not previously applied, then please apply direct to Lloyds TSB Registrars and request a dividend mandate form. Shareholders who are currently receiving duplicate sets of Company mailings, as a result of any inconsistency in name or address details, should write direct to Lloyds TSB Registrars so holdings can be combined, if appropriate.

CREST Proxy Voting

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 28 April 2006 and any adjournment(s) thereof by using the procedures described in the CREST Manual. Further details relating to voting via CREST may be found on the Notice of Meeting/Proxy Card inserted within the Annual Report.

2006 Financial Calendar

The key events for the Company are set out below. Some of the dates are indicative only and may be subject to change.

2 March	Preliminary announcement of 2005 annual results.
14 March	Publication of Annual Report 2005.
28 April	Annual General Meeting.
3 May	Shares ex-dividend for 2005 final dividend.
5 May	Record date for shareholders on the register to receive the 2005 final dividend.
31 May	Payment of 2005 final dividend.
26 June	Pre-close period statement.
3 August	Preliminary announcement of 2006 interim results.
7 August	Publication of Interim Report 2006.
1 November	Shares ex-dividend for 2006 interim dividend.
3 November	Record date for shareholders on the register to receive 2006 interim dividend.
30 November	Payment of 2006 interim dividend.
13 December	Pre-close period statement.