

Senior plc

Results for the year ended 31 December 2008

Senior delivers a 48% increase in adjusted profit before tax

FINANCIAL HIGHLIGHTS	Year ended 31 December		
	2008	2007	
REVENUE	£562.4m	£470.7m	+19% ⁽³⁾
OPERATING PROFIT	£59.8m	£41.5m	+44% ⁽³⁾
ADJUSTED OPERATING PROFIT ⁽¹⁾	£64.5m	£45.0m	+43%
ADJUSTED OPERATING MARGIN ⁽¹⁾	11.5%	9.6%	
PROFIT BEFORE TAX	£51.3m	£34.3m	+50%
ADJUSTED PROFIT BEFORE TAX ⁽¹⁾	£56.0m	£37.8m	+48%
BASIC EARNINGS PER SHARE	9.92p	7.17p	+38%
ADJUSTED EARNINGS PER SHARE ⁽¹⁾	10.63p	7.71p	+38%
TOTAL DIVIDENDS (PAID AND PROPOSED) PER SHARE	2.60p	2.40p	+8%
FREE CASH FLOW ⁽²⁾	£52.4m	£18.5m	+183%
NET BORROWINGS	£174.5m	£94.8m	

(1) Adjusted figures are stated before loss on disposal of fixed assets of £nil (2007 - £0.7m), a £4.7m charge for amortisation of intangible assets acquired on acquisitions (2007 - £3.3m) and the release of a provision set up on a previous acquisition of £nil (2007 - £0.5m). Adjusted earnings per share takes account of the tax impact of these items.

(2) See Note 11(b) for derivation of free cash flow.

(3) Excluding the effects of acquisitions and foreign exchange movements, underlying revenue increased by 5% and operating profit by 26%.

(4) The Group's principal exchange rates, for the US dollar and the Euro, applied in the translation of revenue, profit and cash flow items at average rates were \$1.85 (2007 - \$2.00) and €1.26 (2007 - €1.46), respectively. The US dollar and Euro rates applied to the balance sheet at 31 December 2008 were \$1.44 (2007 - \$1.99) and €1.03 (2007 - €1.36), respectively.

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

“The Group has delivered an excellent set of results for 2008, with adjusted profit before tax 48% ahead of the prior year and free cash flow nearly three times the level achieved in 2007, due to strong performances from both the Aerospace and Flexonics Divisions.

Senior has no material re-financing need until 2012, is strongly cash generative and is operating comfortably within its bank covenants. Whilst the Group’s end markets are expected to be challenging, for the foreseeable future, this financial position combined with the decisive actions taken by management to reduce the Group’s cost base and the content it has on future growth programmes, such as Boeing’s 787 and Lockheed’s Joint Strike Fighter aircraft, gives the Board confidence in the long-term future prospects for the Group. 2009 has started satisfactorily, with adjusted profit before tax of £4.7m in January and the level of net debt reducing by £3.4m during the month.”

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This Release represents the Company’s dissemination announcement in accordance with the requirements of Rule 6.3.5 of the Disclosure and Transparency Rules of the United Kingdom’s Financial Services Authority. The full Annual Report & Accounts 2008, together with other information on Senior plc, may be found at: www.seniorplc.com

The information contained in this Release is an extract from the Annual Report & Accounts 2008, however, some references to Note and page numbers have been amended to reflect Note and page numbers appropriate to this Release.

The Directors’ Responsibility Statement has been prepared in connection with the full Financial Statements, Operating and Financial Review and Directors’ Report as included in the Annual Report & Accounts 2008. Therefore, certain Notes and parts of the Directors’ Report reported on are not included within this Release.

Note to Editors:

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

Cautionary Statement

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

Results for the year ended 31 December 2008

CHAIRMAN'S STATEMENT

The Group has delivered an excellent set of results for 2008, with adjusted profit before tax 48% ahead of the prior year and free cash flow nearly three times the level achieved in 2007. This strong foundation, combined with the successful long-term refinancing of the Group undertaken during 2008, means Senior is well placed to deal with the uncertainty being seen in markets across the world today.

Financial Results

2008 saw the Group achieve record levels of operating profit and cash generation from operations.

Group revenue increased by 19% to £562.4m (2007 - £470.7m) and, with margins improving strongly, operating profit increased by 44% to £59.8m (2007 - £41.5m). Capo Industries, acquired in January 2008, and Absolute Manufacturing, acquired in December 2007, both made positive contributions in their first year within the Group. Excluding the beneficial effects of acquisitions and foreign exchange movements, revenue grew by 5% and operating profit by 26%, with the industrial and aerospace businesses the key contributors, along with a much improved performance from the heavy duty diesel products in North America.

Adjusted profit before tax (as defined in the Financial Highlights table above), the measure which the Board believes best represents the true underlying performance of the business, increased by 48% to £56.0m (2007 - £37.8m). Adjusted earnings per share increased by 38% to 10.63 pence (2007 - 7.71 pence).

Operating profit and adjusted profit before tax are stated after £1.9m of costs associated with reducing the Group's headcount by 480 people (8% of total Group employees) in the final quarter of the year, of which 35 were UK-based employees. Savings of £7.0m are anticipated in 2009 as a result of this reduction in employee numbers. The reductions arose mainly in those businesses providing parts for the land vehicle markets.

In the current global economic climate, cash generation is very important to the future well-being of every business and, therefore, the £52.4m (2007 - £18.5m) of free cash flow for the year was particularly pleasing, driven by the increase in profitability and strong inflows from working capital. This clearly demonstrates the strongly cash generative nature of the Group.

Financing

The Group's year-end net debt stood at £174.5m (2007 - £94.8m), as the strong operational cash flows were offset by £79.5m in adverse foreign exchange movements and the acquisition, in January 2008, of Capo Industries for £44.1m. At the end of December 2008, the Group had committed facilities of £224.5m, so providing £50.0m of headroom, and is operating comfortably within its banking covenants.

In early October 2008, the Group issued \$120m of new loan notes through a private placement offer. The notes mature after 7, 10 and 12 years. This significant, and timely, refinancing means that no material funds are now due for repayment before July 2012.

Dividend

The Board is recommending an unchanged final dividend of 1.70 pence per share (2007 - 1.70 pence), bringing the total dividend for the year to 2.60 pence, an increase of 8% over the 2.40 pence for 2007. The size of the increase reflects the fact that the Group is strongly cash generative and is financed for the long term whilst, at the same time, acknowledging the uncertainty underlying many of the Group's markets. At the level recommended, the full year dividend would be covered 4.1 times (2007 - 3.2 times) by adjusted underlying earnings per share. The final dividend, if approved, will be paid on 29 May 2009 to shareholders on the register at close of business on 1 May 2009.

Operations

Senior reports as two Divisions – Aerospace, consisting of 14 operating entities and representing 56% of Group revenue, and Flexonics, consisting of 11 operations and representing 44% of Group revenue. The Aerospace Division was split into two sub-sectors, Aerostructures and Fluid Systems, during 2008 in order to enhance management oversight, improve market presence and aid best practice sharing. All of Senior's operations are focused on manufacturing components and systems for original equipment manufacturers. The Group's products are typically single sourced, highly engineered and difficult to manufacture.

Aerospace

Production of civil aircraft (63% of divisional sales) was generally strong throughout 2008. In the commercial large aircraft sector (38% of divisional sales), Boeing and Airbus reported combined net order intake of 1,439 aircraft, well ahead of aircraft deliveries (858 aircraft; 2007 - 894) such that their combined order book grew by 8% during the year to 7,429 aircraft (2007 - 6,848 aircraft). Boeing, the Group's largest customer, suffered a two month strike in the second half of the year which reduced its aircraft deliveries by around 70 aircraft in 2008. The combined order book of Boeing and Airbus now represents eight times current annual deliveries. This is a healthy backlog going into 2009 when deliveries are expected to show a modest increase over 2008, as Boeing recovers from its strike, but net order intake is expected to be lower than the rate of aircraft deliveries for the first time since 2004.

Following substantial delays, Boeing is finally expected to launch its 787 aircraft during 2009. This platform is a significant opportunity for the Group, as it is expected to represent Senior's largest ever ship-set value (between £420k and £775k per aircraft, dependent upon the chosen engine). Boeing has around 880 orders for the aircraft and anticipates ramping up production to at least 120 aircraft per year. The aircraft is currently scheduled to fly for the first time during the second quarter of 2009, and to be delivered to customers starting in the first quarter of 2010. Senior has already installed most of the production capacity required to meet this increased demand.

Deliveries of regional and business jets, whose markets represented 25% of divisional sales, were good during 2008. The combined regional jet deliveries of the two largest manufacturers, Bombardier and Embraer, increased by 9% to 280 aircraft (2007 - 258) and business jet deliveries increased by 16% to 1,315 aircraft (2007 - 1,138). The military and defence sectors (23% of divisional sales) were strong throughout the year, with significantly higher content being won on the growing C130 military transporter programme.

Capo Industries, acquired in January 2008, and Absolute Manufacturing, acquired in December 2007, both contributed positively in their first year with the Group, achieving combined sales of £26.8m and adjusted operating profit of £3.3m, a 12.3% operating margin.

Healthy markets, improved operational efficiencies, acquisitions, new programme wins and beneficial currency movements, resulted in a 27% increase in the Aerospace Division's sales to £312.9m (2007 - £246.2m) and an increase in adjusted operating profit of 33% to £44.3m (2007 - £33.4m). The divisional operating margin increased for the fifth consecutive year to 14.1% (2007 - 13.6%).

Flexonics

Land vehicle markets accounted for 53% of divisional sales in 2008, with the remaining 47% of sales being made to industrial markets such as the petrochemical, power generation, heating and ventilation, and medical markets.

After a satisfactory first half of 2008, all land vehicle markets fell steeply at various times during the second half of the year. In North America, sales of light vehicles were 13.2 million units in 2008 (2007 - 16.1 million), with the annualised sales run rate in the fourth quarter being only 10.3 million units. Sales of medium and heavy duty trucks in North America fell by 20% to 298 thousand units (2007 - 371 thousand). In Europe, sales of light vehicles fell to 15.0 million units (2007 - 16.3 million) as volumes declined markedly in the final quarter of the year.

Senior's industrial markets remained strong throughout 2008 and the operations most exposed to these markets performed excellently. Senior Flexonics Pathway, the Group's largest industrial operation, delivered record results in 2008 on the back of strong petrochemical and power generation markets. Elsewhere, Senior's industrial businesses moved ahead strongly, benefiting from new programmes, increased volumes of products for the solar power generation market, and securing a £16m contract for the nuclear industry for delivery in 2010 and 2011.

As a result of falling demand for land vehicles, swift action was taken and costs reduced at every operation having exposure to these markets, with 16% of the workforce of these operations (380 employees) leaving the Group in the fourth quarter of 2008. Other actions such as reduced working weeks, overtime bans and wage restrictions were also implemented. Headcount has remained relatively stable in the industrial operations as these end markets generally continue at satisfactory levels.

Strong industrial markets, the decisive action taken to reduce the cost base in the land vehicle businesses, a significant operational improvement in the production of heavy duty diesel products in North America and currency benefits, resulted in sales for the Flexonics Division increasing by 11% to £250.1m (2007 - £225.0m) and adjusted operating profit improving by 49% to £25.9m (2007 - £17.4m). As a result, the Division's operating margin was 10.4%, 2.7 percentage points higher than the 7.7% reported for 2007 and at its highest level since 2000. Given the marked slowdown across the world in the Group's land vehicle markets, the Division's financial performance for the year was particularly pleasing and is reflective of the quality of the businesses and the prompt action taken by the Group.

Employees and the Board

The Group's employees worked exceptionally hard throughout 2008 and I would like to thank them for the significant contribution they each made to the year's excellent performance. Despite the global uncertainty, it is encouraging to witness, as I visit Senior's operations, the generally high level of morale and commitment exhibited by Senior's workforce. Such an attitude bodes well for the future success of the Group. It was, therefore, with reluctance that headcount levels were reduced towards the end of the year at a number of operations. However, with the sudden and steep fall in some global markets, particularly for land vehicles, such action was necessary to maintain a healthy business for the future.

As previously announced, Mark Rollins took over as Group Chief Executive from Graham Menzies during March 2008, having been Group Finance Director for the previous eight years. The transition has been smooth, with Mark's detailed knowledge of the Group proving advantageous in the current climate. Simon Nicholls was appointed as the Group Finance Director on 1 May 2008, joining Senior from Hanson plc, where he had worked for nine years, latterly as Group Financial Controller and the Chief Financial Officer for Hanson's North American operations. Simon has made a strong start with the Group.

Aerospace markets now account for the majority of the Group's revenue and, cognisant of this fact, the Board added expertise in this area with the appointment of Michael Steel as a non-executive Director on 1 May 2008. Michael had previously worked in an executive capacity for GE Aviation Systems (formerly Smiths Aerospace) for 17 years, and his knowledge and experience of the industry are proving to be beneficial to Senior.

Outlook

The combined order book of Boeing and Airbus represents eight times current annual deliveries. Within this, Airbus has recently announced a modest 6% reduction in build rates of their narrow-bodied aircraft from October 2009, so providing good visibility for the year, whilst Boeing's current forecast is to continue at existing production rates throughout 2009. Boeing's 787 aircraft is expected to ramp up production starting in 2010, providing significant revenue for Senior and partial mitigation for any further decline in the build rates of existing aircraft. The near-term outlook for the regional and business jet manufacturers has weakened significantly, with many manufacturers seeing large reductions in demand whilst only a few, typically those making the larger business jets, are maintaining production levels for the time being. The military and defence market remains strong and, in the medium term, this market is expected to become increasingly important to Senior, as production rates of the C130 military transporter increase, the Joint Strike Fighter moves from testing and development to full production and the A400M goes into service.

Senior's industrial markets, the largest being power and energy, remain generally healthy and the Group's industrial businesses had strong order books going into 2009. Much of the power generation business is driven by tightening emission requirements for coal-fired generating units and this business looks strong for the foreseeable future. However, demand in the land vehicle markets remains very weak, with the Group's customers typically seeing sales of finished vehicles down 30% to 40% on a year ago. No immediate recovery is anticipated and volumes are expected to remain near to current levels for the foreseeable future. The continuing significant reduction in vehicle sales across the globe is now causing severe financial hardship to automotive vehicle manufacturers, with the Governments of many countries stepping in to provide financial support to the industry during the current economic crisis.

As a result of the continuing poor land vehicle markets and also the weakness being seen in some of the regional and business jet markets, the Group is reducing headcount by a further 500 people during the first four months of 2009, of which 95 are expected to be UK-based employees. This headcount reduction is expected to cost around £0.8m and be spread evenly between the Aerospace and Flexonics Divisions. 220 people left the Group in January as part of this programme. When combined with the reduction undertaken in the final quarter of 2008, nearly 1,000 employees (17% of the workforce) will have left the Group by the end of April 2009, a cost reduction of £19m for 2009.

Senior has no material refinancing need until 2012, is strongly cash generative and is operating comfortably within its bank covenants. Whilst the Group's end markets are expected to be challenging, for the foreseeable future, this financial position combined with the decisive actions taken by management to reduce the Group's cost base and the content it has on future growth programmes, such as Boeing's 787 and Lockheed's Joint Strike Fighter aircraft, gives the Board confidence in the long-term future prospects for the Group. 2009 has started satisfactorily, with adjusted profit before tax of £4.7m in January and the level of net debt reducing by £3.4m during the month.

Martin Clark
Chairman

OPERATING AND FINANCIAL REVIEW

To the members of Senior plc

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

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

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

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

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

Operations

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

Aerospace

The Aerospace Division consists of 14 operations. These are located in the USA (nine), the United Kingdom (two), and continental Europe (three). In 2008, this Division accounted for 56% of total Group revenue. Its main products were engine structures and mounting systems (29% of divisional sales), metallic ducting systems (18%), airframe and other structural parts (18%), composite ducting systems (8%), helicopter machined parts (7%) and fluid control systems (6%). 14% of divisional sales were to non-aerospace, but related technology, markets. The Division’s largest customers include Boeing, representing 12% of 2008 divisional sales, United Technologies (11% of divisional sales), GE, Airbus, Rolls-Royce, Goodrich and Bombardier.

Flexonics

The Flexonics Division has 11 operations. These are located in North America (three), the United Kingdom (two), continental Europe (three), South Africa, India and Brazil. In 2008, the Flexonics Division accounted for 44% of total Group revenue. This Division’s sales comprised flexible mechanisms for vehicle exhaust systems (26% of divisional sales), cooling and emission control components (14%) and diesel fuel distribution pipework (13%). Sales of industrial components, principally expansion joints, control bellows and hoses increased to 47% of divisional sales in 2008 (2007 - 42%). The components were supplied to power and boiler markets (16% of divisional sales), HVAC and solar markets (11% of divisional sales), oil and gas and chemical processing industries (7% of divisional sales) and other industrial markets (13% of divisional sales). The Division’s largest end users are land vehicle customers, including PSA, Cummins and Ford, each representing 9% of divisional sales, and General Motors (8% of divisional sales). The percentage of Divisional sales coming from the automotive market fell to 37% (2007 - 47%) with sales to the heavy duty diesel engine market (e.g. Cummins, Caterpillar and Siemens) growing to 16% of divisional sales (2007 - 11%).

Long-Term Strategy, Business Objectives and Key Performance Indicators

Senior is a manufacturer of products used principally in the aerospace, defence, land vehicle and energy markets.

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

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

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

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

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

- to reduce the Group's carbon dioxide emissions to revenue ratio by 15% from 113.7 tonnes in 2006 to below 96.60 tonnes by 2010; and
- to reduce the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work by 5% per annum.

In 2008 the Group made good progress against all of its strategic targets, driven notably by a significant improvement in the underlying performance within organic operations in both Divisions. This improvement was in turn attributable to a combination of various new programme wins, increased operational efficiencies and improved working capital management through the continued implementation of the Group's Lean Manufacturing Programme. Further improvements were also made in the level of carbon dioxide emissions and recordable injuries.

A summary of the Key Performance Indicators ("KPI s") showing the Group's progress in relation to its strategic objectives is set out in the table below:

	2008	2007
Organic revenue growth ⁽¹⁾	+5%	+18%
Adjusted earnings per share ⁽²⁾	10.63p	7.71p
– growth	+38%	+66%
Return on revenue margin ⁽³⁾	11.5%	9.6%
Return on capital employed ⁽⁴⁾	21.7%	19.2%
CO ₂ emissions/£m revenue ⁽⁵⁾	104 tonnes	110 tonnes
Lost time injury frequency rate ⁽⁶⁾	1.94	2.55

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

(2) Adjusted earnings per share is the profit after taxation (adjusted for the profit or loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and the release of a provision set up on a previous acquisition) divided by the average number of shares in issue in the period.

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

- (4) Return on capital employed is the Group's adjusted operating profit divided by the average of the capital employed at the start and end of the period. Capital employed is total assets less total liabilities, except for those of an interest bearing nature.
- (5) CO₂ emissions/£m revenue is an estimate of the Group's carbon dioxide emissions in tonnes divided by the Group's revenue in £ millions.
- (6) Lost time injury is the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees.

The above table of Key Performance Indicators shows that the Group achieved all of its financial targets in the year. It also remains on course to achieve its targeted CO₂ emissions reduction of 15% by 2010 (compared to 2006), and reduced the level of recordable injuries by 25% in the year, comfortably in excess of its annual target.

Acquisitions

The Group completed the acquisition of Capo Industries on 25 January 2008 for a total consideration of £44.6m (including deferred consideration of £0.5m). Located in Chino, California, Capo Industries specialises in the 5-axis machining of titanium and steel alloys primarily for auxiliary power units on large commercial aircraft and for propulsion engines on business jets. Capo Industries is a complementary fit for the Group's Aerospace Structures operations. Financial details relating to this acquisition are disclosed in Note 10.

Financial Review

Summary

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

	Revenue		Adj. Operating Profit ⁽¹⁾		Margin	
	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	%	%
Aerospace	312.9	246.2	44.3	33.4	14.1	13.6
Flexonics	250.1	225.0	25.9	17.4	10.4	7.7
Inter-segment sales	(0.6)	(0.5)	-	-	-	-
Central costs	-	-	(5.7)	(5.8)	-	-
Group Total	562.4	470.7	64.5	45.0	11.5	9.6

- (1) Adjusted operating profit is the profit before interest and tax and before the loss on disposal of fixed assets, amortisation of intangible assets arising on acquisitions and the release of a provision set up on a previous acquisition.

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

	2008	2007
	£m	£m
Operating profit per Financial Statements	59.8	41.5
Loss on sale of fixed assets	-	0.7
Release of provision set up on acquisition	-	(0.5)
Amortisation of acquisition intangible assets	4.7	3.3
Adjusted operating profit	64.5	45.0

The Group benefited from particularly strong market demand in the first half of the year in all product lines. However, demand weakened significantly in automotive and truck markets in the final quarter and, in wide-bodied aerospace markets, demand was adversely impacted as Boeing machinists were on strike for two months. Demand conditions in other markets, including industrial components and other aerospace markets, remained robust all year. As a result, Group revenue increased by 19% in 2008 (10% excluding the impact of foreign exchange). Adjusted operating profit increased significantly by 43% (33% excluding the impact of foreign exchange) due to acquisitions and further encouraging improvements in organic operations' profitability achieved in both Divisions. Operating margins increased significantly to 11.5% (2007 - 9.6%).

The Group's free cash flow and net debt for 2008 and the prior year were:

	2008	2007
	£m	£m
Free cash flow	52.4	18.5
Net debt	174.5	94.8

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

	2008	2007
	£m	£m
Net cash from operating activities	74.6	35.3
Interest received	1.7	0.8
Proceeds on disposal of tangible fixed assets	0.6	1.9
Purchases of tangible fixed assets	(23.8)	(19.0)
Purchases of intangible assets	(0.7)	(0.5)
Free cash flow	52.4	18.5

Despite a significant increase in free cash flow, net debt increased to £174.5m (2007 - £94.8m). This was principally due to the acquisition of Capo Industries (£44.1m) and foreign exchange losses of £79.5m, which arose due to a 28% increase in the value of the US dollar against Sterling in the fourth quarter of 2008.

Revenue

Group revenue increased by £91.7m (19%) to £562.4m (2007 - £470.7m) including a full year contribution of £6.9m from Absolute Manufacturing, which was acquired on 10 December 2007, and £19.9m from Capo Industries, which was acquired on 25 January 2008. If the effect of acquisitions and a year-on-year beneficial exchange impact of £39.6m are excluded then underlying revenue grew by 5% on a constant currency basis. In 2008, 64% of Group sales originated from North America, 18% from the rest of Europe, 11% from the United Kingdom and 7% from the Rest of the World.

Operating profit

Group operating profit increased by 44% to £59.8m (2007 - £41.5m), primarily due to increased profitability in organic operations and acquisition contributions. Adjusted operating profit increased by £19.5m (43%) to £64.5m (2007 - £45.0m). Adjusted operating profit is that before loss on disposal of fixed assets of £nil (2007 - £0.7m), amortisation of intangible assets arising on acquisitions of £4.7m (2007 - £3.3m) and the release of provision originally set up on a previous acquisition of £nil (2007 - £0.5m). If the effects of the acquisitions (an increase in reported operating profit of £3.3m) and foreign currency effects (£3.5m benefit) are excluded, then underlying adjusted operating profit increased by 26% on a constant currency basis.

Finance costs

Finance costs, net of investment income of £2.7m (2007 - £1.0m), increased to £8.5m (2007 - £7.2m). This was due to an increase in interest costs on borrowings to £6.8m (2007 - £6.4m) as the average level of the Group's debt increased following the acquisition of Capo Industries in January 2008. Pension related charges also increased, to £1.7m in 2008 (2007 - £0.8m), principally as a result of higher interest costs relating to the unwinding of discounted liabilities in the Group's pension schemes.

Profit before tax

Adjusted profit before tax increased by 48% to £56.0m (2007 - £37.8m). Reported profit before tax increased to £51.3m (2007 - £34.3m).

Tax charge

The total tax charge increased to £12.1m (2007 - £6.4m) due to the increase in the Group's taxable profits. Net tax benefits, arising on the loss on sale of fixed assets (applicable to 2007 only), amortisation of intangible assets from acquisitions and the release of the provision originally set up on a previous acquisition (applicable to 2007 only), totalled £1.9m (2007 - £1.4m). If these are added back then the resultant tax charge of £14.0m (2007 - £7.8m) represented an underlying rate of 25.0% (2007 - 20.6%) on the adjusted profit before tax of £56.0m (2007 - £37.8m). The increase in the underlying tax rate was mainly due to the increased proportion of the Group's profits being generated in the USA, where the Group's effective tax rate is approximately 36%.

Earnings per share

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, increased to 395.0 million (2007 - 389.0 million). Adjusted earnings per share increased by 38% to 10.63p (2007 - 7.71p). Basic earnings per share increased by 38% to 9.92p (2007 - 7.17p).

Dividends

A final dividend of 1.70 pence per share is proposed for 2008 (2007 final dividend - 1.70p) which would cost £6.8m (2007 final dividend cost £6.7m). This would bring the full year dividend to 2.60 pence per share, an 8% increase over the prior year's 2.40 pence per share. The cash outflow incurred in 2008, in respect of the final dividend for 2007 and the interim dividend for 2008, was £10.3m (2007 - £8.1 m).

Research and development

The Group's expenditure on research and development increased to £8.6m during 2008 (2007 - £8.2m). Expenditure was mainly incurred on designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production.

Capital expenditure

The Group increased its investment in capital expenditure in 2008 to £24.5m (2007 - £19.5m) principally to increase capacity to meet demand in aerospace markets. Disposal of assets no longer required raised £0.6m (2007 - £1.9m). A lower level of capital expenditure is anticipated for 2009, as the Group is now sufficiently capitalised for its near-term growth programmes.

Capital structure

The Group's Consolidated Balance Sheet at 31 December 2008 may be summarised as follows:

	Assets	Liabilities	Net Assets
	£m	£m	£m
Property, plant and equipment	138.4	-	138.4
Goodwill and intangible assets	201.6	-	201.6
Current assets and liabilities	193.8	(125.9)	67.9
Other non-current assets and liabilities	3.7	(9.7)	(6.0)
Post-retirement obligations	-	(51.2)	(51.2)
Total before net debt	537.5	(186.8)	350.7
Net debt	11.9	(186.4)	(174.5)
Total at 31 December 2008	549.4	(373.2)	176.2
Total at 31 December 2007	393.1	(243.2)	149.9

Net assets increased by 18% in the year to £176.2m (2007 - £149.9m), in the main as a result of retained profits and an appreciation of the US dollar and the Euro against Sterling in 2008, and net assets per share increased by 15% to 44.2p (2007 - 38.4p). There were 398.3 million ordinary shares in issue at the end of 2008 (2007 - 390.8 million).

Post-retirement obligations increased to £51.2m (2007 - £36.3m), with the increase in deficit arising principally due to a decrease in returns on invested assets, which was partially offset by the benefit of a higher rate of 6.4% being used to discount the UK Pension Scheme liabilities (2007 - 5.9%).

Cash flow

The Group's free cash flow, whose derivation is set out in the table below, increased significantly by 183% to £52.4m (2007 - £18.5m). The increased inflow of £33.9m was largely driven by a combination of increased operating profits of £59.8m, which were £18.3m ahead of last year, and net inflows from working capital of £12.2m which were £22.5m ahead of last year (2007 - outflow of £10.3m). Net capital expenditure of £23.9m (2007 - £17.6m) remained ahead of the depreciation level of £18.7m (2007 - £14.6m), excluding £4.7m (2007 - £3.3m) of amortisation of intangible assets acquired on acquisition.

	2008	2007
	£m	£m
Operating profit	59.8	41.5
Depreciation and amortisation	23.4	17.9
Working capital movement	12.2	(10.3)
Pension payments above service cost	(5.2)	(3.0)
Other items	1.7	2.4
Cash generated from operations	91.9	48.5
Interest paid (net)	(6.8)	(6.2)
Tax paid	(8.8)	(6.2)
Capital expenditure	(24.5)	(19.5)
Sale of fixed assets	0.6	1.9
Free cash flow	52.4	18.5
Dividends	(10.3)	(8.1)
Acquisitions and disposals	(43.6)	(8.1)
Share issues	1.3	0.2
Foreign exchange variations	(79.5)	(0.8)
Non-cash movements	-	0.2
Opening net debt	(94.8)	(96.7)
Closing net debt	(174.5)	(94.8)

Net debt

Net debt increased by £79.7m in the year to £174.5m (2007 - £94.8m), despite the Group's very strong free cash flow performance in 2008. The principal reasons for the increase in net debt were the acquisition of Capo Industries (£44.1m), and foreign exchange losses of £79.5m. These foreign exchange losses occurred, in the main, in the fourth quarter of the year when the US dollar appreciated against Sterling by 28%, impacting foreign currency borrowings and forward exchange contracts that are used to hedge the Group's net balance sheet exposure. At the year-end, net debt comprised gross borrowings of £150.8m (with around 85% of the Group's gross borrowings in US dollars (31 December 2007 - 75%)), unrealised losses on forward exchange contracts of £33.9m, finance lease commitments of £1.7m, and cash and cash equivalents of £11.9m.

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

Liquidity

As at 31 December 2008, the Group's gross borrowings were £150.8m (2007 - £99.8m). The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows:

	Gross ⁽¹⁾ Borrowings	Committed Facilities
	£m	£m
Within one year	1.2	-
In the second year	-	-
In years three to five	20.2	96.0
After five years	129.4	128.5
	<hr/> 150.8	<hr/> 224.5

⁽¹⁾ Gross borrowings include the use of bank overdrafts, other loans and committed facilities, but exclude finance leases and unrealised losses on forward foreign exchange contracts.

On 8 October 2008 the Group issued \$120m (£83.3m at year-end exchange rates) of new loan notes through a private placement offer. The issuance consisted of three tranches of loan notes: \$25m maturing in October 2015; \$75m maturing in October 2018; and \$20m maturing in October 2020. The new loan notes carry a weighted average fixed coupon rate of 6.77% per annum. The new funds were used to repay \$75m of loan notes, which matured on 22 October 2008, and also to reduce the level of borrowings under the Group's £80m revolving credit facility. At the year-end the Group had committed facilities of £224.5m, with a weighted average maturity of 6.4 years. The Group is in a strong funding position with the next material refinancing now not due until July 2012.

Going concern basis

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

The Group meets its day-to-day working capital and other funding requirements through a combination of long-term funding, in the form of revolving credit and private placement facilities, and short-term overdraft lending. At 31 December 2008 approximately 85% of the Group's net debt was financed via revolving credit and private placement facilities, with an average maturity of 6.8 years, and 15% of the Group's net debt was financed via short-term overdraft facilities which are due for renewal within 12 months. The Group is well funded, having concluded a successful refinancing in October 2008 and now has no major borrowing facility renewal before 2012.

However, current economic conditions create uncertainty particularly over the level of demand for the Group's products (most notably in land vehicle markets) and the exchange rate between Sterling and the US dollar, given that around 75% of the Group's profits in 2008 were earned in the US and 85% of its gross borrowings at 31 December 2008 were denominated in US dollars. For these reasons, a sensitivity analysis has been performed on the Group's forecasts and projections, to take account of reasonably possible changes in trading performance together with foreign exchange fluctuations under the hedging policies that are in place. This analysis shows that the Group will be able to operate within the level of its current committed borrowing facilities and banking covenants. As a consequence, and after making relevant other enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Group's Annual Report & Accounts 2008.

Changes in accounting policies

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

Divisional Review

The Group consists of two Divisions, Aerospace and Flexonics, whose performances are discussed below. It should be noted that the results for 2007 have been translated at constant currency using 2008 average exchange rates in order to make appropriate comparisons at constant currency.

Aerospace Division

	2008	2007	Change
	£m	£m	
Revenue	312.9	265.8 ⁽¹⁾	+18%
Adjusted operating profit	44.3	35.8 ⁽¹⁾	+24%
Operating margin	14.1%	13.5%	-

⁽¹⁾ 2007 results translated using 2008 average exchange rates.

The revenue of the Aerospace Division grew by £47.1m (18%) to £312.9m (2007 - £265.8m at constant currency). The year-on-year effect of acquisitions was £26.8m at constant currency, with Absolute Manufacturing acquired in December 2007 and Capo Industries acquired in January 2008. Organic revenue therefore increased by 8%.

Demand in wide-bodied aerospace markets (namely Boeing, Airbus and the associated engine builders), which accounts for 38% of this Division's sales, was strong for the majority of the year. Total aircraft deliveries by Boeing and Airbus were 858 aircraft this year (2007 – 894), a good increase in underlying delivery rates after taking account of a significant reduction in Boeing deliveries in the second half of the year due to a two month Boeing machinists' strike which reduced its total deliveries for the full year by around 70 aircraft. Of equal importance, the 2008 net order intake was 1,439 aircraft, over one and a half times the level of deliveries, and the combined Boeing and Airbus order book stood at 7,429 aircraft at the year end. This represents over 8 years of deliveries at current build rates and continues to represent a solid foundation for the Group's future.

The regional jet market was strong for the majority of 2008. Combined deliveries of 280 aircraft by the principal regional jet manufacturers, Embraer (166 aircraft) and Bombardier (114 aircraft), were 9% higher than the combined total of 258 achieved in 2007. The business jet market was also strong for most of the year, with 1,315 deliveries being some 16% higher than in 2007 (1,138 deliveries), although demand levels began to soften late in the year due to the impact of the global financial crisis. Military markets remained robust overall, with increased volumes of helicopter parts delivered to Sikorsky, and stable demand in other US Government programmes.

The Aerospace Division's adjusted operating profit (before profit/loss on disposal of fixed assets and amortisation of intangible assets arising on acquisitions) increased strongly by £8.5m (24%) to £44.3m (2007 - £35.8m at constant currency) with acquisitions accounting for £3.3m of this increase. Excluding acquisitions, organic adjusted operating profit improved by 15% compared to 2007. The Division's operating margin increased by 0.6 percentage points to 14.1% (2007 - 13.5%). These increases were driven by further operational improvements across the Division but were tempered, in the fourth quarter, by the impact of the Boeing strike.

Capital expenditure for the Aerospace Division increased to £17.1m in 2008 (2007 - £10.9m), as production capacity and increased capability were added to meet the demands of both existing and future major programmes, such as the C130 military transport plane, the Boeing 787 Dreamliner and the Joint Strike Fighter. Total capital expenditure in this Division represented 1.9x depreciation (2007 - 1.6x).

Flexonics Division

	2008	2007	Change
	£m	£m	
Revenue	250.1	245.0 ⁽¹⁾	+2%
Adjusted operating profit	25.9	18.6 ⁽¹⁾	+39%
Operating margin	10.4%	7.6%	-

⁽¹⁾ 2007 results translated using 2008 average exchange rates.

Revenue for the Flexonics Division increased by £5.1m (2%) to £250.1m (2007 - £245.0m at constant currency). The Division benefited from sustained strength in industrial markets (oil refining, power generation and chemical processing) with the Group's industrial operations based in Texas and Germany performing well all year. Industrial markets accounted for almost half of this Division's sales in 2008 and order books remain healthy going into 2009. However, gains in the industrial operations were largely offset by an overall reduction in the Group's principal land vehicle markets, in particular in medium/heavy duty trucks in North America and light vehicles in both North America and Europe. Despite satisfactory volumes in the first half of the year, these markets declined rapidly in the fourth quarter. Sales of medium/heavy duty trucks in North America were 298,000 in 2008, a decline of 20% compared to the 371,000 sold in 2007. Light vehicle sales in North America fell by 2.9 million vehicles (18%) to 13.2 million and in Europe were down by 1.3 million vehicles (8%) to 15.0 million. The decline in the seasonally adjusted annual rate of sales of light vehicles in North America in December 2008 was even more marked at 10.3 million vehicles, a reduction of 36% compared to 16.1 million vehicles in December 2007. Similar falls were also seen in most other geographic regions.

Despite the increasingly difficult land vehicle markets, the Flexonics Division's adjusted operating profit for 2008 increased by an excellent 39% to £25.9m (2007 - £18.6m at constant currency). All of the growth was organic, as no acquisitions have been undertaken in this Division in recent years. The improved performance was achieved through additional volumes in the industrial operations, a continuing improvement in contribution from the heavy duty diesel products, improved factory performances across the Division and the mitigating impact of prompt action taken in all land based vehicle operations, in the fourth quarter, to reduce both direct and indirect costs as demand levels fell. Profit preservation plans were implemented at all seven land vehicle operations, at a cost of £1.9m, including a reduction in workforce of 380 people representing 13% of the Division's employees. Savings of £5.3m will be realised from this initiative in 2009. In total, the operating margin of the Flexonics Division for 2008 increased by a very satisfactory 2.8 percentage points to 10.4% (2007 - 7.6 %).

Capital expenditure for the Division decreased to £7.4m or 0.8x depreciation in 2008 (2007 - £8.5m or 1.1x depreciation), reflecting weakening market conditions and the fact that capital expenditure levels in recent years, in particular in the land based vehicle operations, have been well above depreciation.

Outlook

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

Demand conditions are strongest in the military and defence aerospace sector and in the Group's industrial markets. Large commercial aircraft build rates are stable. However, demand for regional and business jets has weakened and land vehicle markets are very weak and are expected to remain so for the foreseeable future. In response, the Group has implemented profit preservation plans in affected operations, and by the end of April 2009 it is anticipated that total headcount will have fallen by around 1000 employees (17% of the workforce), of which approximately 130 are UK based.

Against this backdrop the Group concluded a successful refinancing in October 2008, remains cash generative, is operating well within bank covenants and does not have to renew any major banking facilities until 2012. Going forward, the Group is well funded with healthy long-term prospects.

Risks and uncertainties

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

Global credit crisis

The current global financial crisis presents significant challenges to the Group, principally the level of market demand in key aerospace, industrial and land vehicle markets and also the need to ensure that the Group is adequately financed and hence able to settle its financial liabilities as they fall due. The potential market demand and related customer risks are discussed in more detail directly below. The Group's financing position is set out in the Financial Review above, and the way the Group manages its capital structure, foreign exchange, interest rate, liquidity and other financial risks is set out below.

Markets and customers

Long-term growth in demand in the Group's major markets is an essential foundation for future growth. The Group is well positioned in this respect in its key aerospace and industrial markets, and in the emission related sectors of land based vehicle markets where increasingly stringent legislation will ensure that long-term demand for the Group's land vehicle based products remains high. However, the Group has already experienced a contraction in demand in land vehicle markets in the latter part of 2008, and has implemented rationalisation plans to preserve profitability levels that include a reduction in personnel of 480 across the Group, representing approximately 8% of the Group's total workforce. The short-term outlook in land vehicle markets remains depressed, and a further significant contraction in these or the Group's other key markets could potentially have a material impact on the Group's profitability.

In addition, the Group maintains close relationships with key customers in both Divisions. Superior customer service, in particular the provision of innovative customer solutions and quality products delivered on time and fully in line with specifications, are critical components of customer value that ensure continued participation in existing and future development programmes. Provision of superior customer value is a top priority within the Group.

The Group derived 56% of its sales in 2008 from the aerospace market with the most significant element attributable to the large commercial aircraft sector which accounted for 21% of Group sales. Whilst the commercial aerospace market is expected to remain buoyant in the long term, and build rates for wide-bodied commercial aircraft are anticipated to remain stable in 2009, should this not be the case, the Group's financial performance would be adversely affected, as was the case in 2001 following the events of "9/11".

The Group has a relatively balanced portfolio of aerospace customers, nearly all of whom are financially strong with the largest, Boeing, representing only 7% of 2008 Group sales. The immediate and total loss of such a customer is considered to be highly improbable given that many parts are typically supplied by a number of Senior's operations to a range of customer locations, with many products on long-term agreements.

The Group's industrial markets are diverse, fragmented and generally healthy, with the largest single customer representing only 1% of 2008 Group sales. The failure of any single industrial customer is, therefore, unlikely to have a material effect on the Group.

The economic viability of North American and European automotive manufacturers remains uncertain. Whilst funds have been made available by the French government to support the Group's major European automotive customers, and in the US the new US Presidential administration has indicated its intention to ensure that an appropriate long-term rescue package is provided, the details of this rescue package are uncertain. It is therefore possible that one of the larger US automotive manufacturers may seek protection from its creditors (known as going into Chapter 11 in the US), which in turn could result in some of its suppliers seeking similar creditor protection. In this event the Group may not recover all of the amounts owed to it. However, production of vehicles, and hence sales of the Group's relevant products would likely continue, albeit at a lower level, so rendering the impact to be of a one-off, rather than ongoing, nature. The largest manufacturer accounted for around 4% of 2008 Group sales, both to the manufacturer directly and/or to its supplier base.

Competitors

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

In the Flexonics Division, the industrial markets in which the Group operates (47% of 2008 divisional sales) are diverse both geographically and in nature, with engineering skills, technical qualifications and service levels the key to success for most of them. Again the markets are competitive but no single competitor represents a material threat to the Group. In the automotive markets, products like heavy duty diesel engine products are similar in nature to those produced in the Aerospace Division, in that engineering support and process engineering are very important to the customers' choice of supplier, and the Group therefore maintains appropriate resources close to customers' locations in these cases. However, there are other automotive products where competition is fiercer and price more the defining factor. Where this is the case, the Group is increasingly manufacturing products in its lower cost operations in the Czech Republic, South Africa, Brazil and India, rather than in its North American and European operations.

Defined benefit pension plans

The Group operates a number of defined benefit pension plans, with the largest being a UK scheme, as well as a number of geographically based defined contribution and government sponsored arrangements. The primary liability for funding the UK defined benefit pension scheme rests with the participating employer. The Group's combined pension deficits at 31 December 2008 were £51.2m (31 December 2007 £36.3m). A 10 year funding plan was approved by the UK Pensions Regulator, based on the actuarial valuation of the UK scheme undertaken in April 2007. Under this funding plan the Group is committed to contributing an additional £5m per annum above service cost into this scheme for 10 years. The Group also plans to make additional voluntary contributions to the smaller US schemes, of approximately £1m, in 2009 to preserve their funding positions. These funding plans may be subject to change depending on future changes in the level of scheme deficits.

By virtue of legislation, there may be additional risks for the Group in relation to its pension schemes. These are largely generic risks associated with the operation of UK defined benefit pension schemes (including the imposition of more onerous employer contribution/funding requirements by the Pensions Regulator, the requirement to fund the winding-up of pension schemes by trustees on a "buy-out basis" and the provision of funding guarantees where required by the Pensions Regulator). Should the Pensions Regulator impose any of these requirements, it could have an adverse effect on the results of the Group's operations. In order to mitigate some of these risks the Group closed the UK defined benefit scheme to new employees from April 2008, and has implemented a liability-driven investment strategy to reduce the risk from the scheme.

Capital risk management

The Group manages its capital structure to safeguard its ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the balance between debt and equity. In considering the appropriate level of net debt the Group pays close attention to its level as compared to the cash generation potential of the Group, measured by adjusted profit before interest, tax, depreciation and amortisation ("EBITDA"). The Group also monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total of bank and other loans, obligations under finance leases, forward exchange contract losses less cash and cash equivalents and forward exchange contract gains (as shown in Note 11c). Total capital is the equity shown in the Consolidated Balance Sheet.

All of the Group's external borrowing facilities have a requirement for the ratio of net debt to EBITDA to be less than 3.0x. Internally the Group aims for this ratio to not exceed 2.5x. At 31 December 2008 net debt was 2.1x the Group's level of EBITDA (31 December 2007 – 1.6x). In addition, all borrowing facilities contain the requirement for EBITDA interest cover (the number of times net interest is covered by the Group's EBITDA) to be in excess of 3.5x. At 31 December 2008 EBITDA was 12.0x the level of net interest (31 December 2007 – 9.3x).

The Group's strategy in respect of gearing is to target a long-term gearing ratio within the range of 60% to 80%. Ratios outside this range may still be considered to be acceptable, in certain circumstances. The gearing ratio for the Group at the end of 2008 was 99% (2007 – 63%). The increase in 2008 is attributable to the acquisition of Capo Industries (£44.1m) in January 2008, together with foreign translation losses (£79.5m) incurred as Sterling weakened significantly against most major currencies in the fourth quarter of 2008.

Financial risk management

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

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

Foreign exchange risk management

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

Translation risk

The Group derived 89% of its revenue from businesses outside the United Kingdom, of which 64% related to operations in North America. Fluctuations in the value of the US dollar and other currencies in relation to the Pound Sterling have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pound Sterling. The Group has decided not to hedge this translation risk. A 10% appreciation (or depreciation) of the US dollar against Pound Sterling would have increased (or decreased) 2008 Group operating profit by £4.8m.

The majority of shareholder funds are denominated in foreign currency, particularly in US dollars. In order to match the Group's net asset exposures, to comply with a bank covenant relating to the Group's consolidated net worth that expired in 2008, hedges were previously put in place through a combination of borrowings in the same currencies and foreign exchange forward contracts. Given that this bank covenant attached only to borrowings that matured during 2008, and hence no longer exists under the replacement facilities, the Group will not replace the forward contracts (which all expire during 2009) and will instead hedge its remaining foreign exchange exposure by seeking to match borrowings in the same currencies and proportions as EBITDA is generated. This change will provide an improved hedge for the Group's foreign exchange exposure in relation to its remaining bank covenants.

At the end of 2008, the achieved cover of the Group's net assets, including goodwill, denominated in currencies other than Pound Sterling were: US dollar at 83% (2007 – 76%), Euro at 46% (2007 – 94%), Czech Crown at 32% (2007 – 110%) and Canadian Dollar at 86% (2007 – 57%). Net assets denominated in Indian Rupees, South African Rand, and Brazilian Real were not hedged in 2008 and 2007. A 10% appreciation of all other currencies against Pound Sterling would have increased net equity by £8.8m, £5.0m of which would have been due to the US dollar movement.

Transaction risk

The Group has a number of transaction-related foreign currency exposures; particularly the Euro with the South African Rand, and the US dollar with Pound Sterling. The Group seeks to hedge between 80% and 100% of transaction-related exposures for 15 months forward by applying hedge accounting where the forwards can be designated in a qualifying cash flow hedge relationship. Based on the net of the annual sales and purchase-related exposures after hedging, a 10% appreciation (or depreciation) of the Euro against the Rand would have increased (or decreased) operating profit by £0.2m, and a 10% appreciation (or depreciation) of the US dollar against Pound Sterling would have increased (or decreased) operating profit by £0.4m. All other transaction-related foreign currency exposures after hedging are immaterial. Any impact on profit would be spread over the following 12 months and on cash flow over the following 15 months. The impact on net equity is determined by the unrecognised portion of open forward contracts at the year end. A 10% appreciation (or depreciation) of the Euro against the Rand and of the US dollar against Pound Sterling would have decreased (or increased) net equity by £0.6m and £2.7m, respectively.

Interest rate risk management

On occasion the Group enters into interest rate swaps to mitigate the risk of rising interest rates and to balance the borrowing structure between fixed and variable debt. The following sensitivity analysis of the Group's and the Company's exposure to interest rate risk at the reporting date has been determined based on the exposure to interest rates at the beginning of the financial year, and held constant throughout the reporting period with all other variables held constant (such as foreign exchange rates). The Group has a policy of maintaining approximately 60% of its borrowing costs at fixed rates. The Group generally borrows long term in fixed rates, but may occasionally borrow at floating rates and swap into fixed. The Group has a policy of applying cash flow hedging in this instance. Occasionally a portion of the fixed debt interest is swapped into floating rates, when the Group would apply fair value hedging.

The Group is exposed to interest rate movements, particularly on US dollar denominated debt. If variable interest rates had been 0.5% lower (or higher), the Group's and Company's net profit would have increased (or decreased) by £0.3m. Any fixed interest debt is held up to maturity and not fair value adjusted through profit and loss. An increase (or decrease) of 0.5% in the US dollar market interest rate for the fixed rate debt held up to maturity would have decreased (or increased) the fair value of the Group's borrowings by £3.7m. The Group's and Company's sensitivity to interest rates has decreased during the current period mainly due to the increased proportion of fixed debt.

Credit risk management

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

Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's and Company's maximum exposure to credit risk.

Liquidity risk management

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

The global credit crisis presents a potential risk to the Group's funding status, and steps already taken in relation to changes in market conditions and in respect of the long-term financing of the Group have been discussed earlier in this OFR. In summary, the Group has incurred costs of £1.9m in 2008 in rationalising various land vehicle operations, and has reduced the total workforce by 8% in the fourth quarter of 2008. In addition, a successful major refinancing was completed in October 2008. As a result, the Group is currently in a very well-funded position with significant headroom and no major renewal of borrowing facilities now due until 2012. Group management is prepared to take further action to rationalise operations as necessary to mitigate the impact of any further downturn in market demand, wherever this may occur. The Group has an experienced management team that was also substantially in place during the market downturn that occurred after "9/11", a period during which the Group generated significant positive free cash flow. It is considered unlikely that the Group will face any significant funding issues in the foreseeable future.

Resources

Employees

The key resource of the Group is its employees who have extensive knowledge of the Group's key markets, customers, product technology and manufacturing processes. The average number of employees employed in the Group during 2008 was 5,822 (2007 – 5,684). Of these 4,984 were in production related roles, 61 in distribution, 309 in sales and 468 in administration. Senior is a global group operating in 11 countries. At the end of 2008 the Group employed a total of 5,457 people with 52% located in North America, 17% in the United Kingdom, 20% in the rest of Europe and 11% in the Rest of the World.

Manufacturing technology

A key strength of the Group is in its manufacturing technology and production processes which help maximise production efficiency and product quality. This in turn maintains and enhances the Group's reputation for delivering quality added-value products to its customers on time and at a competitive price. During 2008 the Group spent £24.5m (2007 – £19.5m) on capital expenditure to add to the Group's manufacturing capability, as well as its production capacity. This was 1.3x the depreciation level (2007 – 1.3x).

Financial

The Group funds its activities through a mixture of equity and debt financing. It obtains its equity financing from a wide range of non-related institutional investors who trade the Company's shares on the London Stock Exchange. The largest holder has an interest in around 8% of the shares of the Company. As at 31 December 2008, the Company's share price was 39.0p, giving it a market capitalisation of around £155.3m. In respect of debt financing, at the end of 2008, the Group had committed borrowing facilities totalling £224.5m of which £174.5m was being utilised. The committed facilities at this time consisted of \$35m (£24.3m) of loan notes due in 2014, \$25m (£17.4m) of loan notes due in 2015, \$30m (£20.8m) of loan notes due in 2017, \$75m (£52.1m) of loan notes due in 2018, \$20m (£13.9m) of loan notes due in 2020, an £80.0m multi-currency revolving credit facility maturing in 2012 and a \$23m (£16.0m) bilateral facility maturing in 2011.

Corporate Responsibility

The policy of the Board is to seek to enhance shareholder value in an ethical and socially responsible manner, taking into account the wishes of all stakeholders, and with a particular focus on health and safety and preserving the environment. Two of the Group's six KPIs, namely reductions in carbon dioxide emissions and lost time injuries, are targeted at this area. Extensive details of the Group's corporate and social responsibility principles and performance indices are set out in a separate "Corporate Social Responsibility Report" in the Annual Report & Accounts 2008.

Directors' Responsibility Statement

We confirm to the best of our knowledge:

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

By order of the Board

Mark Rollins
Group Chief Executive
27 February 2009

Simon Nicholls
Group Finance Director

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Consolidated Income Statement

For the year ended 31 December 2008

	Notes	Year ended 2008 £m	Year ended 2007 £m
Continuing operations			
Revenue	3	<u>562.4</u>	<u>470.7</u>
Trading profit		59.8	42.2
Loss on sale of fixed assets		<u>-</u>	<u>(0.7)</u>
Operating profit ⁽¹⁾	3	59.8	41.5
Investment income		2.7	1.0
Finance costs		<u>(11.2)</u>	<u>(8.2)</u>
Profit before tax ⁽²⁾		51.3	34.3
Tax	5	<u>(12.1)</u>	<u>(6.4)</u>
Profit for the period		<u>39.2</u>	<u>27.9</u>
Attributable to:			
Equity holders of the parent		<u>39.2</u>	<u>27.9</u>
Earnings per share			
Basic	7	<u>9.92p</u>	<u>7.17p</u>
Diluted	7	<u>9.78p</u>	<u>7.00p</u>
⁽¹⁾ Adjusted operating profit	4	64.5	45.0
⁽²⁾ Adjusted profit before tax	4	56.0	37.8

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Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Year ended 2008 £m	Year ended 2007 £m
(Losses)/gains on cash flow hedges	(9.0)	0.5
Losses on revaluation of financial instruments	(44.4)	(2.6)
Exchange differences on translation of foreign operations	59.9	3.2
Actuarial losses on defined benefit pension schemes	(15.0)	(0.8)
Tax on items taken directly to equity	0.5	2.1
Net (expense)/income recognised directly in equity	(8.0)	2.4
Amounts transferred to profit or loss on cash flow hedges	3.2	(0.4)
Profit for the period	39.2	27.9
Total recognised income and expense for the period	34.4	29.9
Attributable to:		
Equity holders of the parent	34.4	29.9

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Consolidated Balance Sheet

As at 31 December 2008

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

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Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	Year ended 2008 £m	Year ended 2007 £m
Net cash from operating activities	11a)	<u>74.6</u>	<u>35.3</u>
Investing activities			
Interest received		1.7	0.8
Disposal of subsidiary		0.1	0.1
Proceeds on disposal of property, plant and equipment		0.6	1.9
Purchases of property, plant and equipment		(23.8)	(19.0)
Purchases of intangible assets		(0.7)	(0.5)
Acquisition of Capo Industries	10	(44.1)	-
Acquisition of Sterling Machine		0.4	-
Acquisition of AMT, net of cash acquired		-	(1.2)
Acquisition of Absolute Manufacturing		-	(7.0)
Net cash used in investing activities		<u>(65.8)</u>	<u>(24.9)</u>
Financing activities			
Dividends paid		(10.3)	(8.1)
Repayment of borrowings		(85.9)	(61.0)
Repayments of obligations under finance leases		(0.2)	(0.2)
Share issues		1.3	0.2
New loans raised		103.4	55.9
Net cash (outflow)/inflow on forward contracts		(13.0)	0.4
Net cash used in financing activities		<u>(4.7)</u>	<u>(12.8)</u>
Net increase/(decrease) in cash and cash equivalents		4.1	(2.4)
Cash and cash equivalents at beginning of period		4.9	7.0
Effect of foreign exchange rate changes		1.7	0.3
Cash and cash equivalents at end of period	11a)	<u>10.7</u>	<u>4.9</u>

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Notes to the above Financial Statements

For the year ended 31 December 2008

1. General Information

These results for the year ended 31 December 2008 are an excerpt from the forthcoming Annual Report & Accounts 2008 and do not constitute the Group's statutory accounts for 2008 or 2007. Statutory accounts for 2007 have been delivered to the Registrar of Companies, and those for 2008 will be delivered following the Company's Annual General Meeting. The Auditors have reported on both those accounts; their reports were unqualified and did not contain statements under Sections 237(2) or (3) of the Companies Act 1985.

2. Accounting policies

Whilst the financial information included in this Annual Results Release has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the Annual Report & Accounts 2008 which is available at www.seniorplc.com, copies of which will be distributed on or soon after 13 March 2009.

The accounting policies adopted are consistent with those followed in the preparation of the Group's Annual Report & Accounts 2008 which are unchanged from those adopted in the Group's Annual Report & Accounts 2007.

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3. 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 and Flexonics. 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.

a) Business segments

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

	Eliminations/ Central costs			Total	Eliminations/ Central costs			Total
	Aerospace Year ended 2008 £m	Flexonics Year ended 2008 £m	Year ended 2008 £m	Year ended 2008 £m	Aerospace Year ended 2007 £m	Flexonics Year ended 2007 £m	Year ended 2007 £m	Year ended 2007 £m
External revenue	312.4	250.0	-	562.4	245.9	224.8	-	470.7
Inter-segment revenue	0.5	0.1	(0.6)	-	0.3	0.2	(0.5)	-
Total revenue	312.9	250.1	(0.6)	562.4	246.2	225.0	(0.5)	470.7
Adjusted operating profit (see note 4)	44.3	25.9	(5.7)	64.5	33.4	17.4	(5.8)	45.0
Loss on sale of fixed assets	-	-	-	-	(0.3)	(0.4)	-	(0.7)
Release of provision from previous acquisition	-	-	-	-	-	0.5	-	0.5
Amortisation of intangible assets from acquisitions	(4.7)	-	-	(4.7)	(3.3)	-	-	(3.3)
Operating profit	39.6	25.9	(5.7)	59.8	29.8	17.5	(5.8)	41.5
Investment income				2.7				1.0
Finance costs				(11.2)				(8.2)
Profit before tax				51.3				34.3
Tax				(12.1)				(6.4)
Profit after tax				39.2				27.9

3. Segmental analysis (continued)

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

	Assets Year ended 2008 £m	Liabilities Year ended 2008 £m	Additions to PPE & intangibles Year ended 2008 £m	Depn and amort Year ended 2008 £m	Assets Year ended 2007 £m	Liabilities Year ended 2007 £m	Additions to PPE & intangibles Year ended 2007 £m	Depn and amort Year ended 2007 £m
Aerospace	374.4	56.8	17.1	13.8	237.4	35.4	10.9	10.1
Flexonics	156.1	53.0	7.4	9.5	140.5	47.7	8.5	7.7
Sub total continuing operations	530.5	109.8	24.5	23.3	377.9	83.1	19.4	17.8
Unallocated corporate amounts	18.9	263.4	-	0.1	15.2	160.1	0.1	0.1
Total	<u>549.4</u>	<u>373.2</u>	<u>24.5</u>	<u>23.4</u>	<u>393.1</u>	<u>243.2</u>	<u>19.5</u>	<u>17.9</u>

b) 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 values 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 2008 £m	Segment assets Year ended 2008 £m	Additions to PPE and intangibles Year ended 2008 £m	Sales revenue Year ended 2007 £m	Segment assets Year ended 2007 £m	Additions to PPE and intangibles Year ended 2007 £m
North America	338.4	376.1	16.2	267.3	235.8	13.1
UK	55.8	63.2	1.1	50.3	61.4	1.7
Rest of Europe	128.7	71.8	5.6	115.5	58.7	3.4
Rest of World	39.5	19.4	1.6	37.6	22.0	1.2
Sub total continuing operations	562.4	530.5	24.5	470.7	377.9	19.4
Unallocated corporate amounts	-	18.9	-	-	15.2	0.1
Total	<u>562.4</u>	<u>549.4</u>	<u>24.5</u>	<u>470.7</u>	<u>393.1</u>	<u>19.5</u>

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

4. Adjusted operating profit and adjusted profit before tax

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

	Year ended 2008 £m	Year ended 2007 £m
Operating profit	59.8	41.5
Loss on sale of fixed assets	-	0.7
Release of provision from previous acquisition	-	(0.5)
Amortisation of intangible assets from acquisitions	4.7	3.3
Adjustments to operating profit	4.7	3.5
Adjusted operating profit	64.5	45.0
Profit before tax	51.3	34.3
Adjustments to profit as above before tax	4.7	3.5
Adjusted profit before tax	56.0	37.8

5. Tax charge

	Year ended 2008 £m	Year ended 2007 £m
Current tax:		
Foreign tax	9.8	5.6
Adjustments in respect of prior periods	(0.2)	(0.1)
	9.6	5.5
Deferred tax:		
Current year	3.6	1.9
Adjustments in respect of prior periods	(1.1)	(1.0)
	2.5	0.9
	12.1	6.4

UK Corporation tax is calculated at an effective rate of 28.5% (2007 - 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. Dividends

	Year ended 2008 £m	Year ended 2007 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2007 of 1.700p (2006 - 1.381p) per share	6.7	5.4
Interim dividend for the year ended 31 December 2008 of 0.900p (2007 - 0.700p) per share	3.6	2.7
	10.3	8.1
Proposed final dividend for the year ended 31 December 2008 of 1.700p (2007 - 1.700p) per share	6.8	6.6

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.

7. Earnings per share

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

	Year ended 2008	Year ended 2007
	m	m
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	395.0	389.0
Effect of dilutive potential ordinary shares: Share options	6.0	9.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>401.0</u>	<u>398.5</u>

Earnings and earnings per share	Year ended 2008		Year ended 2007	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period	39.2	9.92	27.9	7.17
Adjust:				
Loss on sale of fixed assets net of tax of £nil (2007 - £0.3m)	-	-	0.4	0.10
Release of provision from acquisition net of tax of £nil (2007 - £0.2m)	-	-	(0.3)	(0.08)
Amortisation of intangible assets from acquisitions net of tax of £1.9m (2007 - £1.3m)	<u>2.8</u>	<u>0.71</u>	<u>2.0</u>	<u>0.52</u>
Adjusted earnings after tax	<u>42.0</u>	<u>10.63</u>	<u>30.0</u>	<u>7.71</u>
Earnings per share				
- basic		9.92p		7.17p
- diluted		9.78p		7.00p
- adjusted		10.63p		7.71p
- adjusted and diluted		10.47p		7.53p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2007 - £nil).

The denominators used for all basic, diluted and adjusted earnings per share are as detailed in the "Number of shares" table above.

The provision of an adjusted earnings per share, derived in accordance with the table above, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of the following items:

- gains or losses arising from the sale of fixed assets
- release of provision from previous acquisition
- amortisation of intangible assets acquired on acquisitions.

8. Goodwill

Goodwill increased by £69.7m during the year to £184.0m (2007 - £114.3m). The increase represents £29.8m recognised upon the acquisition of Capo Industries during the year (see Note 10), £0.1m adjustment in respect of Absolute Manufacturing acquired in December 2007 and £39.8m of exchange translation differences. No impairment charges were recognised in 2008 (2007 - £nil).

9. Property, Plant and Equipment

During the period, the Group spent £23.8m (2007 - £19.0m) on the acquisition of property, plant and equipment. The Group also disposed of machinery with a carrying value of £0.6m (2007 - £2.6m) for proceeds of £0.6m (2007 - £1.9m).

10. Acquisitions

Capo Industries, Inc.

On 25 January 2008, the Group acquired 100% of the issued share capital of Capo Industries, Inc., a manufacturer of highly engineered, complex super-alloy components primarily for the aero-engine market, based in Chino near Los Angeles, California, USA. The cash consideration was £44.6m, including costs, of which £0.5m is payable in 2009. The acquisition was funded by the Group's existing debt facilities and a new £20.0m short-term facility.

Set out below is a summary of the net assets acquired and details of the fair value adjustments translated at the acquisition date exchange rate:

	Carrying values pre-acquisition £m	Fair value £m
Intangible assets	-	5.1
Property, plant and equipment	5.4	6.2
Inventories	3.8	3.8
Trade and other receivables	1.9	1.9
Trade and other payables	(2.2)	(2.2)
Net assets acquired	<u>8.9</u>	14.8
Goodwill		<u>29.8</u>
Total consideration		<u>44.6</u>
Consideration satisfied by:		
Cash		44.0
Directly attributable costs		<u>0.1</u>
Net cash outflow		44.1
Deferred consideration		<u>0.5</u>
Total consideration		<u>44.6</u>

The intangible assets acquired as part of the acquisition relate to customer contracts, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows. The excess of the total consideration over the fair value of the net assets acquired is recognised as goodwill and represents the premium paid in anticipation of future profitability from assets that are not capable of being separately identified and separately recognised such as the assembled workforce.

Capo Industries contributed £19.9m revenue and £2.6m (before £0.3m inventory mark-up) to the Group's operating profit from the date of acquisition to 31 December 2008.

If the above acquisition had been completed on 1 January 2008, Group revenue for the year ended 2008 would have been £563.7m and Group operating profit would have been £59.9m.

11. Notes to the cash flow statement

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

	Year ended 2008 £m	Year ended 2007 £m
Operating profit from continuing operations	59.8	41.5
Adjustments for:		
Depreciation of property, plant and equipment	18.1	14.1
Amortisation of intangible assets	5.3	3.8
Share options	0.9	1.5
Loss on disposal of property, plant and equipment	-	0.7
Release of provision from previous acquisition	-	(0.5)
Pension payments in excess of service cost	(5.2)	(3.0)
Operating cash flows before movements in working capital	78.9	58.1
Decrease/(increase) in inventories	7.6	(8.7)
Decrease/(increase) in receivables	10.0	(10.0)
(Decrease)/increase in payables	(5.4)	8.4
Working capital currency movements	0.8	0.7
Cash generated by operations	91.9	48.5
Income taxes paid	(8.8)	(6.2)
Interest paid	(8.5)	(7.0)
Net cash from operating activities	<u>74.6</u>	<u>35.3</u>
Cash and cash equivalents comprise:		
Cash	11.9	8.7
Bank overdrafts	(1.2)	(3.8)
Total	<u>10.7</u>	<u>4.9</u>

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

b) Free cash flow

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

	Year ended 2008 £m	Year ended 2007 £m
Net cash from operating activities	74.6	35.3
Interest received	1.7	0.8
Proceeds on disposal of property, plant and equipment	0.6	1.9
Purchases of property, plant and equipment - cash	(23.8)	(19.0)
Purchase of intangible assets	(0.7)	(0.5)
Free cash flow	<u>52.4</u>	<u>18.5</u>

11. Notes to the cash flow statement (continued)

c) Analysis of net debt

	At 1 January 2008 £m	Cash flow £m	Exchange movement £m	At 31 December 2008 £m
Cash	8.7	1.0	2.2	11.9
Overdrafts	(3.8)	3.1	(0.5)	(1.2)
Cash and cash equivalents	4.9	4.1	1.7	10.7
Debt due within one year	(37.7)	42.7	(5.0)	-
Debt due after one year	(58.3)	(60.2)	(31.1)	(149.6)
Finance leases	(1.5)	0.2	(0.4)	(1.7)
Forward exchange contract losses	(2.2)	13.0	(44.7)	(33.9)
Total	<u>(94.8)</u>	<u>(0.2)</u>	<u>(79.5)</u>	<u>(174.5)</u>

The forward exchange contract losses shown above are reported as £33.9m (2007 - £2.7m) in current liabilities within trade and other payables and £nil (2007 - £0.5m) in current assets within trade and other receivables.

On 8 October 2008, the Group issued \$120m (£83.3m at year end exchange rates) of new loan notes through a private placement offer. The issuance consisted of three tranches of loan notes: \$25m maturing in October 2015; \$75m maturing in October 2018; and \$20m maturing in October 2020. The new loan notes carry a weighted average fixed coupon rate of 6.77% per annum. The new funds were used to repay \$75m of loan notes, which matured on 22 October 2008 and also to reduce the level of borrowings under the Group's £80m revolving credit facility.

12. Retirement benefit schemes

Defined Benefit Schemes

Aggregate post-retirement benefit liabilities are £51.2m (2007 - £36.3m). The primary components of this liability are the Group's UK pension plan and US pension plans, with deficits of £37.3m (2007 - £30.5m) and £9.3m (2007 - £2.0m) respectively. These values have been assessed by an independent actuary using current market values and discount rates. The increase in the liability from £36.3m at 31 December 2007 to £51.2m at 31 December 2008 is primarily due to lower returns on plan assets than assumed, offset partially by increasing the UK plan discount rate assumption to 6.4% (2007 - 5.9%), in line with increases in market yields of high quality corporate bonds.