


## 2 Chairman's Statement

Overall, whilst in the near-term the North American automotive market is likely to remain challenging, the Group's other markets are expected to be generally stable. With the much reduced level of net debt, the recent aerospace programme wins and the ongoing level of automotive diesel product development, the longer-term prospects for the Group are increasingly encouraging.



James Kerr-Muir Chairman



Senior, like many other industrial groups, endured difficult conditions throughout 2003. The Iraq war and the SARS outbreak early in the year adversely impacted business confidence and extinguished any hope of an early recovery in the civil aircraft market. Against this background, the Group reduced costs and implemented improvements across its business. Group net debt fell by 26.5% to £64.2m (2002 – £87.4m), in a year of uncertainty and poor market demand. This debt reduction, helped by currency factors, primarily the weakening of the US\$, emphasises the underlying strength of the Group.

### Financial Results

Group turnover from continuing operations declined by 11.0% to £354.9m (2002 – £398.7m) and operating profit before goodwill amortisation declined to £17.6m (2002 – £23.4m). Group profit before tax increased to £7.7m (2002 – £7.0m) and underlying earnings per share was 3.52p (2002 – 4.47p). The derivation of underlying earnings per share and other non-statutory information is explained in the Finance Director's Review.

Turnover in the Aerospace Division reduced by 12.6% from £164.6m in 2002 to £143.8m in 2003. This was due to the contraction of the commercial aerospace industry where demand for civil aircraft continued to reduce. Demand in the defence and military sector remained steady. Whilst divisional operating profit before goodwill amortisation reduced by 3.9% to £7.3m from £7.6m in 2002, the operating margin before goodwill amortisation increased from 4.6% to 5.1%.

Sales of automotive vehicles declined by 3% in North America and by 2% in Europe, but turnover of the Group's Automotive Division fell by 12.7% from £148.4m in 2002 to £129.6m in 2003. This was primarily due to programmes in North America coming to an end, as expected, when product was designed out of vehicles. Divisional operating profit before goodwill amortisation reduced from £12.3m in 2002 to £7.4m in 2003. The operating margin before goodwill amortisation was 5.7% (2002 – 8.3%).

Turnover in the Specialised Industrial Division reduced by 4.8%, from £86.1m in 2002 to £82.0m in 2003, primarily due to market weakness in the North American power generation and UK office construction markets. Divisional operating profit before goodwill amortisation was £2.9m (2002 – £3.5m) and the operating margin before goodwill amortisation was 3.5% (2002 – 4.1%). Whilst there were no disposals completed during the year, work remains ongoing to secure further disposals from this Division.

### Dividend

The Board is recommending an unchanged final dividend of 1.35p per share in respect of 2003, bringing the total dividend for the year to 2.00p per share (2002 – 2.00p).

### Employees and the Board

Richard Turner, who has been a non-executive Director of the Group for nearly eight years, has indicated that he intends to retire at the AGM in April. The Board would like to thank him for his unstinting enthusiasm and support of the Group during a period of great change, particularly his wise counsel at Board meetings and incisive observations following visits to the operations.

In the middle of the year, Ron Case, previously the CEO of the Group's largest aerospace business, Senior Aerospace Ketema, was promoted to be CEO of the Aerospace Division. He took over from Graham Menzies who had undertaken the role himself since the events of 11 September 2001.

Across the Group our employees have worked with enthusiasm and commitment throughout another year of change, challenge and cost reduction and I would like to thank them for their loyalty and wholehearted contribution during this period.

### Outlook

A more stable market outlook is anticipated for the Group and it is hoped that 2004 will be the bottom of the economic cycle for Senior. Raw material prices are, however, increasing and any continued weakness of the US\$ would have an adverse effect when local results are translated into sterling for reporting purposes.

With some recovery occurring in passenger numbers in the civil market and steady demand being seen in the defence and military sector the outlook for the aerospace industry appears more settled than it has been for the past three years. The near-term outlook for the automotive industry is anticipated to be one of steady consumer demand but continued competitive pressure. In 2004 further automotive programme reductions in North America are expected to be largely offset by volume increases on a number of the Group's European programmes. In the industrial markets there are early signs of a modest recovery in some of the sectors in which we operate.

Overall, whilst in the near-term the North American automotive market is likely to remain challenging, the Group's other markets are expected to be generally stable. With the much reduced level of net debt, the recent aerospace programme wins and the ongoing level of automotive diesel product development, the longer-term prospects for the Group are increasingly encouraging.