

# Chairman's Statement



"Senior has delivered an encouraging set of results, achieving an increase in underlying earnings per share and a reduction in debt despite the adverse effects of the weakening US dollar and significant raw material price increases. The Group's recent automotive diesel programme wins, scheduled to start production in late 2006, combined with the ongoing recovery in the civil aerospace market, mean Senior has an excellent base for profitable growth in the medium-term."

Senior made further progress during 2004 in building the foundations for an improved future performance. The ongoing focus on better production efficiency, process improvement and enhanced product development are all targeted at delivering profitable organic growth for the future. It is particularly encouraging to report that, in the latter part of 2004, the Group secured a number of automotive programmes for new products developed over the past two years. The year's main operating challenge was the significant rise in raw material prices. Profits were also adversely impacted by the translation effect of the continued weakening of the US dollar. Against this background, the Group reported an improvement in underlying earnings per share and a further reduction in net debt.

## Financial Results

Largely because of the weaker US dollar and the disposals completed in the year, Group turnover declined by 8.2% to £325.9m (2003 – £354.9m) and operating profit before goodwill amortisation by 9.2% to £16.8m (2003 – £18.5m). A much reduced charge for interest and lower net finance charges for retirement benefits resulted in underlying profit before taxation increasing to £12.7m (2003 – £11.4m). Underlying earnings per share increased by 16.6% to 3.65p (2003 – 3.13p restated for the full implementation in 2004 of Financial Reporting Standard 17 "Retirement Benefits" and Urgent Issues Task Force 38 "Accounting for ESOP Trusts"). The derivation of underlying earnings per share and other non-statutory information is explained in the Finance Director's Review.

The loss on disposal of businesses was £13.3m (2003 – £nil) such that the Group reported a loss after tax of £6.9m (2003 – £4.6m profit). The basic loss per share was 2.25p (2003 – 1.50p earnings per share).

In the Aerospace Division, the reported turnover reduction of 2.9% to £139.6m (2003 – £143.8m) was entirely due to the weaker US dollar. Underlying demand

improved and this, together with a continued focus on manufacturing efficiency and the benefit of prior year cost reductions, resulted in operating profit before goodwill amortisation increasing by 20.8% to £9.3m (2003 – £7.7m). The recovery in the civil sector gained momentum throughout the year and demand in the defence and military sector remained steady. The operating margin was 6.7% (2003 – 5.4%).

Sales of automotive vehicles were flat in both North America and Europe. However, turnover in the Group's Automotive Division declined by 5.2% to £122.9m (2003 – £129.6m), primarily due to adverse exchange rate movements and some North American product programmes coming to an end. In Europe and the Rest of the World the Group's automotive turnover increased. Impacted by adverse exchange rate movements, raw material price increases and supplier problems in France, Divisional operating profit before goodwill amortisation declined by 14.3% to £6.6m (2003 – £7.7m) resulting in an operating margin of 5.4% (2003 – 5.9%).

In the Industrial Division, the sale of the five industrial hose businesses, for a total consideration of £8.3m, was completed in August bringing the Group's ongoing disposal programme to an end. The turnover of the three remaining industrial businesses declined by 10.2% to £44.9m (2003 – £50.0m) and the operating profit before goodwill amortisation to £0.5m (2003 – £2.0m). The reductions were the result of poor market conditions and the costs of the major rationalisation exercises undertaken at two of the three operations.

Net debt at the end of 2004 was £50.6m, a 21% reduction from the 2003 year-end debt of £64.2m.

## Dividend

The Board is recommending an unchanged final dividend of 1.35p per share in respect of 2004, bringing the total dividend for the year to 2.00p per share (2003 – 2.00p).

## Employees and the Board

Gordon Campbell joined the Group as a non-executive Director in July 2004 and I would like to welcome him to the Board. Having been appointed to the Board during the year he will stand for re-election by the shareholders at the forthcoming Annual General Meeting.

The Group's employees have once again worked with enthusiasm and commitment whilst dealing with the many challenges our economies, industries and customers presented to us. I would like to thank them for their wholehearted contribution during 2004.

## Outlook

The recovery in the aerospace industry is well underway with demand for large civil aircraft increasing and, whilst automotive market demand remains steady, new programme wins in the diesel sector, in Europe and more particularly in North America, augur well for the future. The new automotive products go into production from mid 2006 onwards and, as previously stated, capital investment is expected to increase significantly during 2005 as production capacity is installed to meet the growth in demand.

The Group's disposal programme, which commenced in 2000, is at an end and most of the planned plant rationalisations have been completed. The US dollar has been relatively stable against other major currencies since the year-end but raw material prices show few signs of declining. Trading in the first two months of 2005 has been satisfactory.

As a result, the Group can anticipate a challenging but less volatile environment in 2005 with encouraging prospects thereafter as the new automotive programmes go into production and the aerospace market continues to grow.

**James Kerr-Muir**  
Chairman