

Thursday 3 March 2005

Senior plc

Results for the year ended 31 December 2004

HIGHLIGHTS	Year ended 31 December	
	2004	2003 ⁽¹⁾
TURNOVER FROM CONTINUING OPERATIONS	£306.8m	£322.9m
UNDERLYING PROFIT BEFORE TAX ⁽²⁾	£12.7m	£11.4m
UNDERLYING EARNINGS PER SHARE ⁽²⁾	3.65p	3.13p
(LOSS) ON BUSINESSES SOLD	(£13.3m)	£nil
(LOSS)/PROFIT BEFORE TAXATION	(£5.2m)	£6.4m
BASIC (LOSS)/EARNINGS PER SHARE	(2.25p)	1.50p
FREE CASH FLOW ⁽²⁾	£10.5m	£20.2m
NET BORROWINGS	£50.6m	£64.2m
DIVIDENDS PER SHARE	2.00p	2.00p

Note (1): The comparative figures for 2003 have been restated to reflect the adoption of FRS 17 "Retirement Benefits" and UITF 38 "Accounting for ESOP Trusts".

(2) : See Finance Director's Review for derivation of non-statutory information.

Commenting on the results, James Kerr-Muir, Chairman of Senior plc, said:

"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."

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This announcement, together with other information on Senior plc may be found at: www.seniorplc.com

Note to Editors:

Senior is an international engineering group with operations in 11 countries. Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, automotive and specialised industrial markets.

CHAIRMAN'S STATEMENT

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

CHIEF EXECUTIVE'S REVIEW

The Group remains committed to the strategy of operational improvement, cost reduction and value enhancement through product and process design and development. Operational excellence, impeccable customer service and profitable pricing continue to be core Group objectives.

Senior is a supplier of engineered products to OEM customers. The demands upon its factories are directly linked to the market conditions its customers are experiencing as well as the relative success of their products in their chosen market sectors. Over the past two years, Senior has significantly increased its resources in the development of new products and processes in order to increase sales to the OEM customers and, irrespective of the market conditions, grow the top line sales of the Group. These efforts are beginning to bear fruit.

In Aerospace, the civil aircraft sector continues to recover. Boeing is forecast to build 314 planes in 2005 compared to 285 in 2004. At Airbus, the expectation is for deliveries of 350 aircraft in 2005, up from 320 in 2004. Combined, this 10% increase in high value products – aircraft and engines - demonstrates the ongoing recovery across the industry. The regional jet builders (and their engine suppliers) are not as ambitious because most of their main customers, the big North American hub operators, remain in financial difficulty. Senior's Aerospace Division has around 29% of its turnover in the defence and military sector where demand has been strong, particularly for replacement parts for aircraft serving in active military regions around the world. The Division also contains elements of medical and semi conductor business, both of which saw solid demand in 2004.

Across the Aerospace Division, the total anticipated shipset value for each Airbus A380 aircraft has grown to about £190k. The substantial development costs on the programme are coming to an end and it is anticipated that more than ten shipsets will be delivered in 2005 as production commences. The maiden flight of the A380 is targeted for the first half of 2005. The shipset value on the Lockheed Martin Joint Strike Fighter has also increased (now approximately £300k). Whilst volume production is still some years off, revenue is beginning to be generated with test, prototype and pre-production parts now in manufacture. Being incremental to current production, both these programmes will add future sales and value to the Division.

Other potential incremental programmes of note include the Eurofighter, which has now recommenced assembly, the Boeing 787 and Airbus 350 aircraft, for which tenders are now being sought, and the A400M, a new European military transport aircraft.

Senior's Automotive Division experienced a range of challenges and opportunities during 2004. The market places in North America and Europe are mature and saw little growth in the period. In the USA, however, Asian car companies continued to increase share at the expense of the "Big 3", whose market share declined from 60.2% in 2003 to 58.7% in 2004. Their initiatives to retain market share, and stem the decline, led to continued pressure on the Division's product pricing. The situation was exacerbated by the steep increase in the price of many raw materials, including the stainless steels used in abundance by Senior. During the year, the management time absorbed in dealing with these pricing issues was considerable.

The Group's automotive operation in the USA continued to reduce sales as product programmes came to an end as expected and, together with the raw material issues, it was a challenge to ensure the momentum required in new product development was maintained. Pleasingly, these efforts were rewarded during 2004, with the booking of several new product programmes, mainly associated with commercial diesel engine production.

In Europe, all commercial vehicles and about fifty percent of passenger cars use diesel engines, whereas in North America the number of diesel engines produced is much lower because they are rarely installed in passenger vehicles. New US legislation means that by 2007 all US diesel engines must conform to much tougher emission standards and, to achieve this, all manufacturers of diesel engines are converting to what is known as "common rail" technology.

This technology is already widely used by the European manufacturers to increase power output, reduce noise and vibration, improve fuel consumption and meet the more stringent emissions legislation.

Over the past three years, the product development efforts of Senior Automotive have been increasingly focused on diesel engines both in Europe and the USA and several new incremental programmes were won during 2004. It is planned that the manufacturing capacity needed to put these new products into production will increase overall Group capital expenditure to nearly twice depreciation for 2005.

The planned industrial disposal programme was completed in 2004 with the Industrial Division reducing from eight operations to three, following the sale of the Division's five industrial hose businesses. The market conditions experienced by the remaining three proved to be mixed. Canada's economy continued strongly, which helped, but demand from oil and gas, power generation and UK construction were well below expectation. A substantial cost reduction programme was initiated to improve the future performance of the Division, the benefits of which are expected to be seen in 2005 assisted by some degree of market recovery.

Aerospace Division

The civil aerospace market began to show signs of progressive recovery in 2004, following the market turmoil experienced in 2002 and 2003 as a result of the events of 9/11. Further recovery is expected in 2005.

Amongst the larger civil aircraft manufacturers, Airbus is expected to deliver 350 planes in 2005, a 15% increase over the 305 planes delivered in 2003 and a 9% increase over the 320 planes delivered in 2004. By contrast, Boeing is moving from 281 deliveries in 2003 and 285 in 2004 to an expected 314 deliveries in 2005 – a 12% increase over the three years. In the regional jet sector, Bombardier delivered 242 planes in 2003 but only 195 in 2004, a reduction of 19%. The other major regional jet manufacturer, Embraer, increased its deliveries by 47% from 101 in 2003 to 148 in 2004. The engine manufacturers' demands upon our operations mirrored the changes in the mix of demand for the aircraft.

Demand for military and defence products remained at around 29% of divisional sales. This continued to help Senior Aerospace SSP, in Los Angeles, which designs and fabricates high pressure ducting systems. The company moved ahead strongly on all fronts during the year and completed its factory modernisation programme. It now has a manufacturing facility that truly reflects its world leading product design capability.

Senior Aerospace Metal Bellows in Sharon, Massachusetts, specialises in edge-welded bellows products. It benefited from the recovery in civil aircraft build rates, the demand for spares as more aircraft returned to the sky, and from the military and defence sector remaining strong. The cost reductions implemented in 2002 and 2003 also helped the company's profitability during 2004.

Senior Aerospace BWT, in the UK, made little progress in 2004. This company has a technical leadership position in ultra low weight passenger cabin ducting with its biggest customer being Bombardier to whom it sells in US dollars – hence the dual challenges in 2004 of declining demand and a declining sterling selling price. There are a variety of initiatives and new product programmes in development to help mitigate this situation in the future.

Senior Aerospace Composites is located in Wichita, Kansas, and manufactures composite ducting, but to a different specification to BWT. This company has borne very significant start-up costs on the Airbus A380, but these are now declining as the A380 programme starts production. Recovery in demand for business jets at its biggest customer, Cessna, will also help the business to move ahead.

In France, Senior Aerospace Ermeto was the main operation in the Group affected by the pause in production of the Eurofighter. This programme is scheduled to recommence during 2005. Ermeto supplies pipework and associated components for the hydraulic systems on the Eurofighter and other aircraft. Product development and production improvements are helping its recovery. At Senior Aerospace Calorstat, also in France, 2004 was a year of significant progress, helped by new leadership of the business and demand being ahead of expectations at a number of its customers.

Senior Aerospace Bird Bellows has a leading position in the supply of flexible high pressure metallic ducting components. Airbus's increasing build rate is helping Bird to grow turnover with the business also benefiting from the offload work being outsourced by Airbus, as it prepares for increased volumes and the ramp up in production of the much larger A380.

Senior Aerospace Bosman, in Holland, made significant progress in securing new business with OEMs as its traditional repair business declined. Product detail manufacture is being outsourced to lower cost countries and the business is planning to move to a smaller facility incorporating design, final assembly and testing only. New business, both in aerospace and power generation, is in discussion.

In San Diego, USA, the Group has two aerospace operations. Senior Aerospace Jet Products began to see some recovery in 2004 as the build rate of the Boeing 737 increased. At Senior Aerospace Ketema, an improved result was helped by higher levels of demand on a range of programmes. However, the operation will experience a significant mix change in 2005 as new business from Goodrich, Rolls-Royce and Pratt & Whitney goes into production to replace reduced demand from the regional jet engine manufacturers. This will entail further investment in the complex machining equipment necessary to meet the stringent manufacturing demands required by the new generation of aircraft engines.

Overall, the Aerospace division made healthy progress during 2004 with improved operating profits and an increase in operating margin. 2004 was a typical year for capital expenditure with £4.1m invested (75% of depreciation). The focus on lean manufacturing remains as strong as ever and this should help further progress to be made as the aerospace market continues its recovery.

Automotive Division

The Group's main automotive markets, the USA and Europe, were flat in 2004. Within them, however, the trend of the Asian brands winning market share from the regional brands continued. In the USA, the "Big 3" market share declined again, whilst Toyota and Nissan made further inroads. In Europe, BMW had a good year, Fiat a poor one and Toyota again advanced its market position.

Volume was not the primary challenge in 2004 for Senior Automotive. The major challenge was, and still is, raw materials with some genuine shortages, suppliers demanding huge price rises and the vehicle manufacturers resisting component price increases because of the impact on their own limited profitability.

The worst impact was at Senior Automotive Bartlett, in the USA, where some of its products were designed out of customers' vehicles and some legacy products moved to lower cost countries. The operation got through the year, with huge management effort, and with very substantial progress made in securing incremental business with new customers for new products. These products, all for diesel engine applications, include high pressure fuel lines, common rails and exhaust gas recycling coolers. Test facilities are being substantially upgraded and manufacturing capacity installed ready for production starting in late 2006, in order that the customers' diesel engines will meet the new 2007 emissions legislation. Capital expenditure at this plant will be substantially higher in 2005 and 2006 as a result. The ongoing enquiry rate associated with this

legislation change still remains high. The recovery in Bartlett's financial performance should start in 2006.

Senior Automotive Crumlin has also been focused on product development whilst, like Bartlett, it has suffered migration of legacy products to lower cost operations. Diesel engines are in widespread use in passenger cars in Europe and Crumlin has designed, developed and tested a new exhaust gas recycling cooler that is lighter and more efficient than anything else on the market. Substantial prototype and application engineering work is in progress with three high volume European diesel engine manufacturers.

At Senior Automotive Blois, in France, 2004 turned out to be a year of great challenge. Its financial performance deteriorated as a result of unexpectedly high volume increases, a key production plant supplier going into receivership and a key supplier failing to consistently maintain supplies at the required level. However, additional raw material sources have now been commissioned with new machine capacity, from a different equipment supplier, shortly due for installation. Recovery is expected in 2005.

Senior Automotive Kassel, in Germany, moved ahead in 2004, helped by the cost reduction actions taken in 2003 and by stronger demand from its traditional customers. The company has many new product applications in discussion and further progress is expected.

Senior Automotive Olomouc, a greenfield site in the Czech Republic, remained profitable throughout 2004 having moved into profit for the first time at the end of 2003. Its products had been relocated from the Group's Blois facility in France over the previous two years. It is anticipated that further expansion will take place at this site in due course.

Senior Automotive Sao Paulo, in Brazil, also moved ahead in 2004. A more stable local economy and steadier market demand helped its automotive business. A higher level of demand was seen for its industrial products.

Senior's operation in India, Senior Automotive New Delhi, grew strongly, winning new business for its domestic OEM automotive market as well as serving the growing European automotive aftermarket. As a result, plans are in place to increase the floorspace of the factory during 2005 and to install additional manufacturing capacity. Further growth in this business is anticipated.

Senior Automotive Cape Town, in South Africa, had a successful year, beginning with the move into a much larger factory, the installation of new manufacturing equipment and the start of production on a series of new product lines. The Automotive Division's key legacy product, for which Senior has a substantial market position, is the exhaust flex for front wheel drive cars. This historically migrated from Bartlett in the USA and Crumlin in the UK to Cape Town as customers took advantage of the weak local currency. More recently, the South African Rand has strengthened so stemming the flow. Nonetheless, unit volumes on existing programmes continue to grow.

Whilst 2004 was a challenging year for Senior Automotive, the Division is now beginning to see the fruits of the effort and resource that has gone into new product development over the past two years. As a consequence, the performance of the Division is expected to improve in the coming years.

Industrial Division

The final planned disposal was completed during 2004, leaving turnover at the remaining three operations at £44.9m in 2004 (2003 - £50.0m). The five industrial hose operations that left the Group in August 2004 had sales for the seven months prior to disposal of £19.1m (£32.0m for the full year in 2003). The financial details of the disposal are contained in the Finance Director's Review.

Of the three remaining businesses, Canada did well, helped by a supportive economy, continued attention to its cost base and the development of a more cost-effective supply base.

At Pathway, in the USA, the factory in Tennessee was closed and the factory in Texas expanded. All production operations are now in the Texan facility. Pathway is a world leader in the design, fabrication and installation of large expansion joints for process plant, oil and gas and power generation applications but, during 2004, the market demand for its products remained at a low level. A recovery in demand has become evident at the start of 2005 and this, together with the management and cost base overhaul now being implemented, should result in the performance of Pathway improving.

Senior Hargreaves is the market leader in the design, fabrication and installation of ventilation ductwork but new construction in the UK has recently been in the doldrums. The business underwent a strategic review in 2004 with the result that, in future, a greater emphasis will be placed on higher specification applications and the retail side of the business. Hargreaves is expected to start to make progress in 2005 with the new strategy in place and the completion of the ongoing Wembley Stadium contract.

The three industrial businesses are all in shape to improve their performance in 2005 and continue to progress thereafter.

Graham Menzies Chief Executive

FINANCE DIRECTOR'S REVIEW

Financial Performance

The Group fully implemented Financial Reporting Standard 17 "Retirement Benefits" and Urgent Issues Task Force 38 "Accounting for ESOP Trusts" in the period. The comparative figures for 2003 have been restated with underlying earnings per share for 2003 being restated to 3.13p from the previously reported 3.52p.

The Chairman has commented on the Group's headline results in his statement. For a second consecutive year, the reported results were significantly impacted by adverse currency movements with the average rate of the US dollar weakening by 10.4% (US\$ 1.83 : £ in 2004 compared to US\$ 1.64 : £ in 2003). Overall, on translation, currency movements reduced turnover of continuing operations by £19.8m (6.1%) and operating profit from continuing operations before goodwill amortisation by £1.5m (8.6%) when compared to 2003.

Hence, when stated on a constant currency basis, Group turnover from continuing activities increased by 1.2% to £306.8m (2003 - £303.1m using 2004 average exchange rates) and the Group's operating profit from continuing operations before goodwill amortisation increased by 3.1% to £16.4m (2003 - £15.9m). The operating profit of the Aerospace Division improved by 32.9% to £9.3m (2003 - £7.0m), the Automotive Division declined by 7.0% to £6.6m (2003 - £7.1m) and the Industrial Division, heavily impacted by the restructurings at Pathway and Hargreaves, declined to £0.5m (2003 - £1.8m).

The Group's operating profit is reported after £1.7m (2003 - £1.3m) of reorganisation and restructuring costs. The main reasons for the 2004 charge were: the consolidation of Pathway's manufacturing onto a single site (£0.4m); the outsourcing of component manufacture at Senior Aerospace Bosman (£0.4m) and the business restructurings at Senior Automotive Blois and Senior Hargreaves (each £0.3m).

Interest Charge

The net interest charge fell by 41% to £2.9m (2003 - £4.9m) due to a £0.8m interest receipt, received in connection with the recovery of the US tax overpaid in prior periods, as well as the combination of lower interest rates, reduced borrowings and the weaker US dollar. Interest cover, calculated on operating profit before goodwill amortisation less the net finance cost in respect of retirement benefits, was 5.4 times (2003 - 3.3 times).

Net Finance Cost – retirement benefits

The net finance cost in respect of retirement benefits fell to £1.2m (2003 - £2.2m). This cost, which was reported for the first time in 2004 following the full implementation of FRS 17, arises from the difference between the expected return on pension assets and the interest on pension scheme liabilities.

Taxation

The overall tax charge for 2004 was £1.7m (2003 - £1.8m) with £0.2m (2003 - £nil) relating to the profit on sale of fixed assets. The Group's effective tax rate for 2004, measured on profit before goodwill amortisation and the effect of the disposal of operations and fixed assets, was 11.8% (2003 - 15.8%). The low 2004 effective tax rate benefited from £0.9m of adjustments in respect of prior years. During the year, cash refunds of £4.0m were received in respect of US tax overpaid in prior periods such that, overall, the Group recovered a net £2.7m in respect of taxes in 2004 compared to the £0.8m paid during 2003.

Disposals

The Group disposed of its five industrial hose businesses (located in the UK, France, Holland, Sweden and the USA) in August. The consideration was discharged by way of £5.8m of cash at completion and the issue of a £2.5m convertible loan note and £2.5m in convertible preference shares. In calculating the total anticipated consideration of £8.3m, on a debt-free/cash-free basis, full provision was made against the carrying value of the convertible preference shares. A loss on

disposal of £13.3m was recorded after taking account of the £0.6m of disposal costs, £1.3m of goodwill held on the Group's balance sheet and £8.7m of goodwill previously written-off directly to reserves.

Earnings and Dividends per Share

As a result of the loss on disposal of the industrial hose businesses, the Group reported a basic loss per share of 2.25p (2003 – earnings per share of 1.50p). Underlying earnings per share, before goodwill amortisation and the effect of the disposal of operations and fixed assets, was 3.65p (2003 – 3.13p).

An unchanged final dividend of 1.35p per share is proposed to be paid on 27 May 2005 to shareholders on the register on 29 April 2005. This will bring the total dividends paid in respect of 2004 to 2.00p (2003- 2.00p).

Cash Flow

	2004	2003
	£m	£m
Operating profit	11.7	13.1
Goodwill amortisation	5.1	5.4
Depreciation	13.3	16.1
Net capital expenditure ⁽¹⁾	(9.7)	(6.9)
Pension payments above service cost	(4.0)	(1.3)
Working capital movement	(5.7)	(0.4)
Net interest paid	(2.9)	(5.0)
Tax recovered / (paid)	2.7	(0.8)
Free cash flow	10.5	20.2
Net disposals and acquisitions	4.5	0.4
Dividends paid	(6.1)	(6.1)
Effect of exchange rates	4.7	8.7
Reduction in net borrowings	13.6	23.2
Net borrowings	50.6	64.2

⁽¹⁾ Includes finance leased capital expenditure of £0.4m (2003 - £nil).

Free cash flow was £10.5m (2003 - £20.2m). The year-on-year reduction was largely due to £4.0m (2003 - £1.3m) of pension payments in excess of service cost and an adverse working capital movement of £5.7m (2003 - £0.4m). This was primarily due to changes in customer mix, year-end development inventory for the Joint Strike Fighter, which was due for shipment in early 2005, and a higher level of contract debtors at Senior Hargreaves, a significant portion of which has already been recovered in 2005. Net capital expenditure increased to 73% of depreciation (2003 – 43%).

Funding and Liquidity

Net borrowings for the Group fell by £13.6m in the year to end at £50.6m, with exchange rate movements, principally the weakening US dollar (from \$1.79 : £ to \$1.92 : £), accounting for £4.7m of the reduction. Gross debt at the year-end was £57.3m (2003 - £79.1m) of which 92% was in US dollars as a policy hedge against the Group's US dollar assets. Gearing, at the year-end, was 67% (2003 – 81%) measured on total shareholders' funds and 43% (2003 – 52%) measured on net assets before retirement benefit liabilities.

The Group primarily finances its borrowings through the US private placement market and two revolving credit facilities. During the year, the term of the smaller, US\$25m, revolving credit facility was extended by 12 months to May 2007. At the end of 2004 the Group had total facilities of £130.4m, of which £73.1m was unused. £111.1m of the total facilities were committed for more than one year.

Financial Risk Management

The main financial risks faced by the Group continue to be movements in interest rates and foreign currency exchange rates as well as funding and liquidity risks. All such risks are managed

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

The Group is exposed to movements in exchange rates for both foreign currency transactions and the translation of net assets and profit and loss accounts of overseas operations. The Group has a policy of hedging its net investment in overseas operations through currency denominated loans and forward contracts but it does not hedge the effects of currency movements on the translation of its overseas earnings into sterling. Transaction exposures are, however, normally hedged through forward exchange contracts on a rolling 12 month basis.

It is Group policy to have the majority of its gross borrowings subject to fixed rates of interest. This is achieved through having a mixture of fixed and variable rate borrowings and by entering into interest rate swaps. At the year-end 66% (2003 – 62%) of gross borrowings were subject to fixed rates.

Pensions

The Group operates a number of defined benefit pension plans, with the largest being the UK scheme, as well as a number of geographically based defined contribution and government sponsored arrangements. The Group fully implemented FRS 17 "Retirement Benefits" during the year.

At the end of 2004, total FRS 17 pension and post-retirement liabilities were £41.2m (2003 - £44.0m) with £33.5m (2003 - £35.5m) being in respect of the UK scheme. The triennial actuarial valuation of the UK scheme was carried out during 2004 with the past service deficit being confirmed as £18.5m. This is to be funded by additional Company contributions of £2.6m per annum. During 2004 an additional contribution of £1.4m was made in respect of the UK scheme in anticipation of the outcome of the actuarial valuation and a supplementary payment of £2.4m made in respect of the three US defined benefit schemes to improve their funding position. The actuarial deficit for the UK scheme is lower than the FRS 17 deficit primarily due to the different discount rates used to value the liabilities.

In total, £2.0m (2003 - £2.0m) was charged to the profit and loss account during 2004 for defined benefit schemes, in addition to the net finance costs described earlier. The total charge for defined contribution schemes was £2.2m (2003 - £2.7m).

International Accounting Standards

Senior will be reporting its financial results in accordance with International Financial Reporting Standards (IFRS) from 1 January 2005. The conversion project is on-going and the Auditors are due to report to the Audit Committee in May 2005. It is considered that the standards potentially having the most significant effect on the Group are:

IFRS 2 Share-based Payments – IFRS 2 requires all options granted since 7 November 2002 to be valued at the date of the grant and the value amortised through the profit and loss account over the likely life of the option. The Group only granted such options on 12 March 2003. Under IFRS 2 the expense, calculated on the basis of the fair value at the date of the award using the Black-Scholes pricing model, is estimated at less than £0.1m for each of 2004 and 2005.

IFRS 3 Business Combinations – Under IFRS, goodwill is no longer amortised but is instead held at its carrying value on the balance sheet and tested annually for impairment. The transitional arrangements contained in IFRS do not require this standard to be applied to acquisitions made prior to 1 January 2004 and the Group intends to take this option. Under UK GAAP, the goodwill amortisation charge for 2004 was £5.1m and hence Group profit before tax would be expected to have been a similar amount higher if 2004 results had been reported under IFRS.

IAS 19 Employee Benefits – IAS 19 is similar to FRS 17, which was adopted by the Group during 2004. The Group intends to follow the “FRS 17” option under IAS 19 of immediately recognising all actuarial gains and losses through reserves. Accordingly, the introduction of IAS 19 is not expected to result in any material differences to either the Group’s consolidated balance sheet or profit and loss account for 2004.

IAS 38 Research and Development – Under UK GAAP, research costs must be written-off immediately as incurred whereas development costs may either be capitalised and amortised or written-off as incurred. Historically, Senior has written-off development costs as incurred. IAS 38 requires development expenditure meeting certain criteria to be capitalised, amortised and subjected to an annual impairment review. Much of the Group’s development expenditure results in incremental, rather than significant, improvements to existing products and processes and capitalisation under such circumstances is unlikely. Where development expenditure does result in new or significantly improved products or processes, it will only be capitalised where its carrying value can be validated with reasonable certainty. Overall, the adoption of IAS 38 is not anticipated to have a significant effect on the Group’s results.

IAS 32 and 39 Financial Instruments – IFRS requires most financial assets and liabilities and all financial instruments, to be recognised at fair value at the balance sheet date with changes in their value taken through the profit and loss account. Unless hedge accounting is used, this could introduce significant volatility to a company’s profit. Senior intends to apply the hedge accounting provisions of IAS 39, to minimise future volatility, to the extent practically and economically appropriate to do so. Comparative figures for 2004 are not required and, whilst unlikely to have a material effect on the Group’s net assets or profit before tax, it is not possible to exactly predict the impact of IAS 32 and 39 on the future results.

Non-Statutory Information

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

- ◆ Operating profit before goodwill amortisation – this is used to illustrate the underlying trading performance of the Group. The Group Profit and Loss Account provides the information to reconcile this to operating profit with segmental detail provided in Note 1.
- ◆ Underlying profit before tax and underlying earnings per share – these indicate the overall performance of the Group before the effect of goodwill amortisation and the disposal of businesses and fixed assets. Note 3 reconciles these to the reported results.
- ◆ Free cash flow – this highlights the total net cash generated by the Group prior to corporate activity such as acquisitions, disposals and dividend payments. A table earlier in this review explains its derivation.

Mark Rollins Finance Director

Senior plc

Group Profit and Loss Account

for the year ended 31 December 2004

	2004	2003 restated
Notes	<u>£m</u>	<u>£m</u>
Turnover		
Total continuing operations	306.8	322.9
Discontinued operations	19.1	32.0
	1	
	<u>325.9</u>	<u>354.9</u>
Operating profit		
Continuing operations before amortisation of goodwill	16.4	17.4
Amortisation of goodwill	(5.1)	(5.3)
	11.3	12.1
Total continuing operations	11.3	12.1
Discontinued operations	0.4	1.0
	1	
	<u>11.7</u>	<u>13.1</u>
Profit on sale of fixed assets - continuing operations	0.5	0.4
Loss on disposal of discontinued operations (including £8.7m of goodwill previously written off directly to reserves)	(13.3)	-
	(1.1)	13.5
(Loss)/profit on ordinary activities before interest and taxation	(1.1)	13.5
Other interest receivable and similar income	2.2	1.2
Interest payable and similar charges	(5.1)	(6.1)
Other net finance cost – retirement benefits	(1.2)	(2.2)
	(5.2)	6.4
(Loss)/profit on ordinary activities before taxation	(5.2)	6.4
Tax on (loss)/profit on ordinary activities	(1.7)	(1.8)
	(6.9)	4.6
(Loss)/profit for the financial year	(6.9)	4.6
Dividends	(6.1)	(6.1)
	(13.0)	(1.5)
Loss for the year	(13.0)	(1.5)
(Loss)/earnings per share		
	3	
Basic	(2.25)p	1.50p
Diluted	(2.25)p	1.49p
Underlying	3.65p	3.13p
	2	
Dividends per share	2.00p	2.00p

The comparative figures for the year ended 31 December 2003 have been restated to reflect the adoption of Financial Reporting Standard No. 17 "Retirement Benefits" and UITF 38 "Accounting for ESOP Trusts". See Note 6 for details.

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Group Balance Sheet

At 31 December 2004

	Notes	2004 £m	2003 restated £m
Fixed assets			
Intangible assets – goodwill		68.0	76.7
Tangible assets		70.0	79.1
		<u>138.0</u>	<u>155.8</u>
Current assets			
Stocks		38.4	40.1
Debtors: Amounts falling due after more than one year		3.8	1.0
Debtors: Amounts falling due within one year		60.0	66.9
Cash at bank and in hand		7.4	11.6
		<u>109.6</u>	<u>119.6</u>
Creditors: Amounts falling due within one year		<u>(76.1)</u>	<u>(77.8)</u>
Net current assets		<u>33.5</u>	<u>41.8</u>
Total assets less current liabilities		<u>171.5</u>	<u>197.6</u>
Creditors: Amounts falling due after more than one year		<u>(54.7)</u>	<u>(73.4)</u>
Provisions for liabilities and charges		<u>(0.3)</u>	<u>(0.7)</u>
Net assets before retirement benefit liabilities		<u>116.5</u>	<u>123.5</u>
Retirement benefit liabilities		<u>(41.2)</u>	<u>(44.0)</u>
Net assets		<u>75.3</u>	<u>79.5</u>
Capital and reserves			
Called-up share capital		30.7	30.7
Share premium		3.5	3.5
Other reserves		17.7	17.7
Profit and loss account		24.7	28.9
Investment in own shares		<u>(1.3)</u>	<u>(1.3)</u>
Equity shareholders' funds	5	<u>75.3</u>	<u>79.5</u>

Group Statement of Total Recognised Gains and Losses for the year ended 31 December 2004

	2004 £m	2003 restated £m
(Loss)/profit for the financial year	<u>(6.9)</u>	4.6
Currency translation differences on overseas net investments including goodwill	(0.5)	1.1
Tax benefits on foreign exchange losses	0.9	0.6
Actuarial variations on post-retirement benefits	<u>(0.3)</u>	-
Total recognised gains and losses relating to the year	<u>(6.8)</u>	<u>6.3</u>
Prior year adjustment	<u>(42.3)</u>	
Total recognised gains and losses since previous Annual Report	<u>(49.1)</u>	

There is no material difference between the profits as reported and those profits restated on an historical cost basis.

The comparative figures for the year ended 31 December 2003 have been restated to reflect the adoption of Financial Reporting Standard No. 17 "Retirement Benefits" and UITF 38 "Accounting for ESOP Trusts". See Note 6 for details.

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Group Cash Flow Statement

for the year ended 31 December 2004

	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Net cash inflow from operating activities	4a)		20.4		32.9
Returns on investments and servicing of finance					
Interest received		2.5		1.2	
Interest paid		<u>(5.4)</u>		<u>(6.2)</u>	
Net cash outflow from returns on investments and servicing of finance			(2.9)		(5.0)
Taxation					
UK corporation tax (paid)/recovered		-		-	
Net overseas tax recovered/(paid)		<u>2.7</u>		<u>(0.8)</u>	
Net cash inflow/(outflow) from taxation			2.7		(0.8)
Capital expenditure and financial investments					
Purchase of tangible fixed assets		(10.0)		(8.0)	
Sale of property, plant and equipment		<u>0.7</u>		<u>1.1</u>	
Net cash outflow from capital expenditure and financial investments			(9.3)		(6.9)
Acquisitions and disposals					
Purchase of subsidiary undertakings – deferred consideration		(0.2)		(0.3)	
Sale of subsidiary undertakings		5.2		0.7	
Net cash balances disposed with subsidiaries		<u>(0.5)</u>		<u>-</u>	
Net cash inflow from acquisitions and disposals			4.5		0.4
Dividends paid on ordinary shares			(6.1)		(6.1)
Net cash inflow before financing			9.3		14.5
Financing					
New loans initiated by Group		-		18.4	
Repayments of existing loans		(19.2)		(33.5)	
Cash inflow on forward exchange contracts		<u>4.5</u>		<u>4.5</u>	
			(14.7)		(10.6)
(Decrease)/increase in cash in the period	4b)		(5.4)		3.9

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Notes:

1 Segment Information

Group turnover, operating profit and net assets are analysed below. The reconciliation of operating profit to profit before taxation is shown in the Group Profit and Loss Account. The reconciliation of net assets to the balance sheet is shown in part c) of this note. In both cases the reconciling items are considered to be of a Group nature and not directly attributable to individual segments. Discontinued operations record the results of the five industrial hose operations that were disposed of in August 2004. These were Senior Flexonics Limited, Flexonics SAS, Senior Flexonics B.V., Habia Teknofluor A.B. and the trade and assets of the US Hose Division of Senior Operations Inc.

a) By class of business

	Turnover	Turnover	Operating profit	Operating profit	Net assets	Net assets
	2004	2003	2004	2003	2004	2003
				restated		restated
	£m	£m	£m	£m	£m	£m
Aerospace	139.6	143.8	5.9	4.2	107.7	115.4
Automotive	122.9	129.6	5.9	7.0	48.5	50.8
Industrial	44.9	50.0	(0.5)	0.9	23.5	24.4
Total	307.4	323.4	11.3	12.1	179.7	190.6
Inter-segment sales	(0.6)	(0.5)	-	-	-	-
Total continuing operations	306.8	322.9	11.3	12.1	179.7	190.6
Discontinued operations	19.1	32.0	0.4	1.0	0.4	8.2
	325.9	354.9	11.7	13.1	180.1	198.8

Operating profits shown above are stated after charging £1.7m (2003 - £1.3m) of reorganisation and restructuring costs and £5.1m (2003 - £5.4m) of goodwill amortisation. These are attributed to the segments as follows:

	Reorganisation and restructuring		Goodwill amortisation	
	2004	2003	2004	2003
	£m	£m	£m	£m
Aerospace	0.7	0.7	3.4	3.5
Automotive	0.3	0.5	0.7	0.7
Industrial	0.7	0.1	1.0	1.1
Total continuing operations	1.7	1.3	5.1	5.3
Discontinued operations	-	-	-	0.1
	1.7	1.3	5.1	5.4

b) By geographical market

	Turnover by destination	Turnover by destination	Turnover by origin	Turnover by origin	Operating profit by origin	Operating profit by origin	Net assets	Net assets
	2004	2003	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	restated £m	£m	restated £m
North America	161.7	178.6	168.4	190.2	8.0	11.0	87.8	96.5
United Kingdom	44.9	47.6	53.8	54.9	0.6	(0.3)	48.8	51.9
Rest of Europe	89.2	82.6	67.1	63.1	(0.3)	0.1	35.1	34.7
Rest of World	17.5	18.2	24.0	18.8	3.0	1.3	8.0	7.5
Total	313.3	327.0	313.3	327.0	11.3	12.1	179.7	190.6
Inter-segment sales	(6.5)	(4.1)	(6.5)	(4.1)	-	-	-	-
Total continuing operations	306.8	322.9	306.8	322.9	11.3	12.1	179.7	190.6
Discontinued operations	19.1	32.0	19.1	32.0	0.4	1.0	0.4	8.2
	325.9	354.9	325.9	354.9	11.7	13.1	180.1	198.8

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Notes:

1 Segment Information continued

Operating profits shown above are stated after charging £1.7m (2003 - £1.3m) of reorganisation and restructuring costs and £5.1m (2003 - £5.4m) of goodwill amortisation. These are attributed to the segments as follows:

	Reorganisation and restructuring		Goodwill amortisation	
	2004	2003	2004	2003
	£m	£m	£m	£m
North America	0.5	0.7	2.4	2.7
United Kingdom	0.5	0.3	2.3	2.3
Rest of Europe	0.7	0.3	0.1	0.1
Rest of World	-	-	0.3	0.2
Total continuing operations	1.7	1.3	5.1	5.3
Discontinued operations	-	-	-	0.1
	<u>1.7</u>	<u>1.3</u>	<u>5.1</u>	<u>5.4</u>

c) Net assets reconciliation

	2004	2003 restated
	£m	£m
Net assets, as above	180.1	198.8
Net pension deficits	(41.2)	(44.0)
Net other unallocated assets/(liabilities)	(13.0)	(11.1)
Net borrowings	(50.6)	(64.2)
Net assets, per Balance Sheet	<u>75.3</u>	<u>79.5</u>

2 Dividends

The proposed final dividend is at the rate of 1.35p per share (2003 – 1.35p) making 2.00p for the year (2003 – 2.00p) and, if approved, will be payable on 27 May 2005 to shareholders on the register at the close of business on 29 April 2005.

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Notes:

3 Earnings per Share

The calculations of basic earnings per share and underlying earnings per share are shown below and have been based on the weighted average number of ordinary shares in issue and ranking for dividend during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares, being those share options granted where the exercise price is less than the average price of the Company's ordinary shares during the year. In 2004, the effect of these share options is anti-dilutive and has therefore been excluded from the calculation of diluted weighted average number of shares. In 2003, these share options had a dilutive effect of 2.4m shares.

The provision of an underlying earnings per share has been included to identify the performance of operations before amortisation of goodwill, profit on sale of fixed assets and loss on disposal of discontinued operations.

	Earnings per share 2004	Earnings per share 2003 restated	Earnings 2004	Earnings 2003 restated
	pence	pence	£m	£m
Basic (loss)/profit on ordinary activities after taxation	(2.25)	1.50	(6.9)	4.6
Adjust:				
Amortisation of goodwill	1.66	1.77	5.1	5.4
Profit on sale of fixed assets net of tax of £0.2m (2003 – £nil)	(0.10)	(0.14)	(0.3)	(0.4)
Loss on disposal of discontinued operations	4.34	-	13.3	-
Underlying earnings after taxation of £1.5m (2003 - £1.8m)	3.65	3.13	11.2	9.6
Underlying earnings before taxation			12.7	11.4
Weighted average number of shares - basic			306.5m	306.5m
- diluted			306.5m	308.9m
- underlying			306.5m	306.5m
(Loss)/earnings per share - basic			(2.25)p	1.50p
- diluted			(2.25)p	1.49p
- underlying			3.65p	3.13p

4 Group Cash Flow Statement

a) Reconciliation of operating profit to net cash inflow from operating activities	2004	2003 restated
	£m	£m
Group operating profit	11.7	13.1
Depreciation of tangible fixed assets	13.3	16.1
Amortisation of goodwill	5.1	5.4
(Increase)/decrease in stocks	(4.4)	6.2
(Increase)/decrease in debtors	(3.3)	5.7
Increase/(decrease) in creditors	3.0	(10.0)
Pension payments in excess of service cost	(4.0)	(1.3)
Working capital currency variations	(1.0)	(2.3)
Net cash inflow from operating activities	20.4	32.9

The net cash inflow from operating activities includes an outflow of £1.2m (2003 - £2.7m inflow) in respect of discontinued activities.

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Notes:

4 Group Cash Flow Statement continued

	2004	2003
	£m	£m
b) Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the period	(5.4)	3.9
Decrease in loans	19.2	15.1
Net cash inflow on forward contracts	(4.5)	(4.5)
Change in net debt resulting from cash flows	9.3	14.5
Non cash items	(0.4)	-
Currency variations on net borrowings	4.7	8.7
Movement in net debt in the period	13.6	23.2
Net debt at 1 January	(64.2)	(87.4)
Net debt at 31 December (Note 4c)	(50.6)	(64.2)

	At 1 January 2004	Cash flow	Non cash items	Exchange movement	At 31 December 2004
	£m	£m	£m	£m	£m
c) Analysis of net debt					
Cash	11.6	(4.0)	-	(0.2)	7.4
Overdrafts	(0.1)	(1.4)	-	-	(1.5)
	11.5	(5.4)	-	(0.2)	5.9
Debt due within one year	(5.8)	4.6	-	0.1	(1.1)
Debt due after one year	(71.2)	14.3	-	4.3	(52.6)
Finance leases	(2.0)	0.3	(0.4)	-	(2.1)
Forward exchange contract gains/(losses)	3.3	(4.5)	-	0.5	(0.7)
Total	(64.2)	9.3	(0.4)	4.7	(50.6)

Debt due within one year shown above includes short-term bank borrowings of £1.1m (2003 - £3.0m).

The forward exchange contract losses are included within other creditors and accruals.

5 Reconciliation of Movements in Shareholders' Funds

Group	Share capital	Share premium	Other reserves	Profit and loss account	Invest- ment in own shares	2004 Total	2003 Total restated
	£m	£m	£m	£m	£m	£m	£m
At 1 January as previously reported	30.7	3.5	17.7	70.2	-	122.1	121.3
Restatement (Note 6b)	-	-	-	(41.3)	(1.3)	(42.6)	(42.0)
At 1 January as restated	30.7	3.5	17.7	28.9	(1.3)	79.5	79.3
(Loss)/profit for the financial year	-	-	-	(6.9)	-	(6.9)	4.6
Dividends	-	-	-	(6.1)	-	(6.1)	(6.1)
Goodwill	-	-	-	8.7	-	8.7	-
Pension actuarial loss	-	-	-	(0.3)	-	(0.3)	-
Currency variations	-	-	-	0.4	-	0.4	1.7
At 31 December	30.7	3.5	17.7	24.7	(1.3)	75.3	79.5

Other reserves include a revaluation reserve of £0.7m (2003 - £0.7m) and a special reserve of £17.0m (2003 - £17.0m).

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Notes:

6 Restatement of comparative information

During the year 2004 the Group has fully adopted Financial Reporting Standard No. 17 "Retirement Benefits", and has also applied UITF38 "Accounting for ESOP Trusts". These two changes in accounting policy have necessitated the restatement of the results as previously reported in the 2003 Annual Report and Accounts. The detail of these restatements is as follows:

a) Group Profit and Loss Account

	<u>£m</u>	<u>£m</u>
Profit for the financial year 2003 as previously reported		5.8
Operating profit impact		
(a) FRS17 - reverse SSAP24 cost (£3.0m) and charge FRS17 pension cost (£2.0m)	1.0	
(b) UITF38 - reverse revaluation credit taken in 2003	<u>(0.1)</u>	
Net change in operating profit (£13.1m restated less £12.2m previously reported)		0.9
Less: net finance cost – retirement benefits		(2.2)
Less: tax impact of above		<u>0.1</u>
Restated profit for the financial year 2003		<u>4.6</u>

Had SSAP 24 been retained for 2004, the loss for the year would have been in the region of £1.7m higher.

b) Group Balance Sheet

	<u>£m</u>	<u>£m</u>
Net assets as at 31 December 2003 as previously reported		122.1
less: SSAP24 prepayment in debtors	(1.5)	
add: post retirement balances in creditors : amounts falling due within one year	1.2	
add: post retirement balances in provisions for liabilities and charges	1.7	
add: deferred tax liability derecognised	0.3	
less: FRS17 net deficit as at 31 December 2003	<u>(44.0)</u>	
Aggregate impact of pension related changes	(42.3)	
Restatement of investment in own shares to cost	<u>1.0</u>	
Net impact on Group retained profit and loss account (Note 5)		(41.3)
less: investment in own shares transferred to shareholders' funds at original cost of £1.3m		<u>(1.3)</u>
Restated net assets as at 31 December 2003		<u>79.5</u>

7 Status of Financial Information

The financial information set out above does not constitute the Group's statutory accounts for the years ended 31 December 2004 or 2003 but is derived from those accounts. Statutory accounts for 2003 have been delivered to the Registrar of Companies, and those for 2004 will be delivered following the Company's Annual General Meeting. The Auditors have reported on those accounts; their reports were unqualified and did not contain statements under Sections 237(2) or (3) of the Companies Act 1985.