Chairman's Statement

The Group has delivered an excellent set of results with adjusted profit before tax 33.8% ahead of the prior year. Aerospace Manufacturing Technologies, Inc. ("AMT") and Sterling Machine Co., Inc. ("Sterling Machine"), the two North American aerospace businesses acquired during 2006, both delivered strong performances. Their full year contribution, combined with the continuing growth in build rates of commercial aircraft and the production ramp up of the Group's new heavy duty diesel engine products, mean prospects for the Group are very encouraging. Consequently, the Board is pleased to recommend a 5% increase in the full year dividend, the first increase for seven years.

Financial Results

It is pleasing to be able to report progress on all aspects of financial performance with significant advances being made in top and bottom line growth.

During 2006, Group revenue increased by 14.6% to £387.9m (2005 – £338.6m) and operating profit increased by 25.0% to £24.5m (2005 – £19.6m) largely due to increasing build rates of civil aircraft, strong energy markets and the two acquisitions completed in the year.

Adjusted profit before tax, the measure which the Board believes best reflects the true underlying performance of the business, increased by 33.8% to £19.8m (2005 – £14.8m). Adjusted profit before tax is before the loss on sale of fixed assets of £0.4m (2005 – £0.2m) and a £1.3m (2005 – £nil) charge for amortisation of intangible assets acquired on acquisition.

Adjusted earnings per share increased by 21.7% to 4.65p (2005 – 3.82p restated for the bonus element of the rights issue) despite an increased tax charge of 17.7% (2005 – 16.9%) on adjusted profit before tax.

Year-end net debt increased to £96.7m (2005 – £62.4m) largely as a consequence of the acquisitions, which were funded by debt as well as new equity, and the ongoing investment in the manufacturing capacity and capability of the Senior Group. The majority of the debt is designated in US dollars, with the level of year-end debt benefiting from the weakening of the US dollar against the UK pound during 2006.

Dividend

The Board is recommending an increase in the dividend, the first for seven years. It is proposed that the final dividend to be paid for 2006 is 1.381p per share (2005 – 1.286p restated for the bonus element of the rights issue) an increase of 7.4%. When added to the restated 0.619p interim dividend, this will bring the full year dividend to 2.000p, an increase of 5.0% over the restated 1.905p for 2005. The final dividend, if approved, will be paid on 31 May 2007 to shareholders on the register at close of business on 4 May 2007. With encouraging prospects for the Group, the Board anticipates following a progressive dividend policy going forward.

Acquisitions

During 2006, Senior acquired two businesses to add to its existing aerospace interests. Both were privately owned and located in the USA. These acquisitions met certain key criteria namely: aerospace by preference; good growth prospects in existing markets; profitable and immediately enhancing to Group earnings per share without the need to assume synergistic benefits. Both the acquired businesses have performed in line with expectations during their time within the Group.

Sterling Machine was purchased by Senior at the end of January 2006 for £21.5m. The company is a machine shop working in titanium, nickel and magnesium alloys that manufactures flight critical components primarily for the Sikorsky Aircraft Corporation. It is located in Enfield, Connecticut, USA, and is a well invested business housed in a facility built in 2003. Sikorsky, a builder of mainly military helicopters, is outsourcing more of its component manufacture as it increases its build rate to meet a strong order book. Increasing numbers of helicopters are flying in various operational roles and the result is a growing demand for spares. Sterling Machine continues to be focused on growing its level of business service to Sikorsky and, following its acquisition, new machining centres have been ordered to increase capacity and the factory floor space increased by 50%. We anticipate that Sterling Machine will continue to maintain its growth momentum.

Aerospace Manufacturing Technologies, Inc. ("AMT") was acquired at the end of October 2006 for £60.0m. The business is located in Arlington, Washington State, USA, in the Seattle area. AMT is a machine shop, working almost exclusively in the manufacture of aluminium structural parts for Boeing civil aircraft. It has substantial content on current Boeing production aircraft – the 737, 777 and 747. The company is exceptionally well invested with a substantial number of state-of-the-art four and five-axis computer controlled machining centres. AMT is set to continue to grow as a result of increases in the build rates of Boeing's existing aircraft and also the launch of the new, highly successful, Boeing 787 ("Dreamliner") on which AMT has substantial content. As a result, capacity expansion has been sanctioned with new machining centres being ordered. Additional land, adjacent to the existing facility, has already been purchased and plans for new factory space are currently under consideration.

Trading

Senior's operations are organised into two similar sized operating divisions – Aerospace with 12 operating subsidiaries and Flexonics with 11. Both Divisions are focused on manufacturing components and systems for the original equipment manufacturers. There is little aftermarket content and the Group's operations generally deliver to the required production schedules of their customers. All products are engineered for specific applications, so levels of demand are essentially driven by the success, or otherwise, of customers' individual product lines.

Aerospace

In Aerospace, the civil market, particularly for large commercial aircraft (35% of Divisional sales) and business jets (9%), continued to be very strong. Whilst 2005 had been a memorable year for order intake by the large civil aircraft builders and their engine suppliers, 2006 turned out to be almost as good, with Boeing delivering 398 civil airliners and booking new orders for 1,044, and Airbus delivering 434 and booking 790. The result is that both aircraft manufacturers currently have around six year order books, at 2006 delivery rates.

The Aerospace Division has substantial exposure to the new highly successful Boeing 787, due into service in late 2008, both on the aircraft itself and its engines, but only limited exposure to the large Airbus A380, which has suffered extensive production delays.
The defence and military sector (27% of Divisional sales in 2006) was relatively stable throughout the year.

The two acquisitions made in 2006 immediately contributed positively to the fortunes of the Division. In addition to the investment in the newly acquired businesses, capital expenditure is running at a higher rate than in recent years throughout the Aerospace Division, as build rates increase throughout the industry and new aircraft programmes ramp up.

The result of all this activity was an increase in the Aerospace Division's sales of 27.1% to £197.0m (2005 – £155.0m at constant currency i.e. 2005 results translated using 2006 average exchange rates) and an adjusted operating profit increase of 48.8% to £19.2m (2005 – £12.9m at constant currency).

Flexonics

In Flexonics, the automotive markets in which the Group operates showed little change in demand. In North America, 16.0 million light vehicles were produced in 2006 compared to 16.4 million in 2005. In Western Europe, 18.4 million light vehicles were built compared to 18.0 million in 2005. Consequently, the Group's automotive volumes remained at about the same level in 2006 as in 2005, but with the manufacturing base continuing to move away from the US, UK and France, to the Czech Republic, South Africa, Brazil and India.

An important stage in the business development of this Division has been reached. Following nearly four years of product development and two years of production process development and capital investment, sales of the new products for North American built heavy duty diesel engines have commenced. This is incremental business for the Division's North American operation and takes the Division into a new market sector where demand is being driven by the need for lower engine emissions from 2007 onwards. This market sector continues to offer good opportunities for future growth.

Energy markets (power generation, oil and gas and process plant) were rewarding in 2006, driven by the industrialisation of China and India and the high demand for many basic commodities. As 2006 ended, the Group saw continued development of these energy markets, the return of some nuclear market activity, and completion of the site work on the troublesome Wembley Stadium ducting contract.

Overall, Flexonics reported sales growth of 5.1% to £191.5m (2005 – £182.2m at constant currency). Adjusted operating profits increased by 8.3% to £11.8m (2005 – £10.9m at constant currency). The increases were achieved despite the flat automotive markets, as a number of new automotive programmes were won, the new heavy duty diesel products commenced production in the final quarter of the year, energy markets were strong and the site-work on Wembley was completed.

Employees and the Board

I would like to extend a warm welcome to all the new employees joining Senior, as well as thanking the Group's employees for another year of unstinting effort and commitment, a year in which their endeavours have resulted in a significant step forward in the performance and the value of the Senior Group. It is particularly important that the Group has the right people in the right roles, given the geographical diversity of the Group and its lean structure, and I am pleased that the Group has made significant progress in this area over recent years.

Having been on the Board of Senior for 10 years, the past six as Chairman, I am planning to retire sometime during 2007. I am delighted that Martin Clark, a non-executive Director of six years, has agreed to become Chairman when I leave. The recruitment of a new non-executive Director is well advanced with an appointment anticipated prior to my retirement.

I am proud of the advances Senior has made whilst I have been Chairman, but most of all I am proud of the achievements of the Group's employees.

Outlook

The Senior Group enters 2007 with almost universally larger order books across its operations than it had a year ago. Demand from customers continues at an encouraging level.

The aerospace industry continues to thrive, the Group's new heavy duty diesel products are in production and energy markets are strong. The challenges of recruiting the necessary skills to grow our business, the availability and pricing of raw materials and the fluctuations in the major currencies in which Senior trades are all still present. These are not, however, new challenges for Senior or its management.

Trading in the first two months of 2007 has been in line with the Board's expectations and I expect that 2007 will deliver further meaningful growth.

James Kerr-Muir
Chairman