



Martin Clark, Chairman

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The Group has delivered an outstanding set of results, with adjusted profit before tax 91% ahead of the prior year and free cash flow 263% better. AMT and Sterling Machine, the two North American aerospace businesses which were acquired during 2006, both delivered very strong performances in 2007. The new heavy duty diesel products for the North American market went into full production in the year and made an increasing contribution as the year progressed. Demand in the energy sector continued at an exceptional level. Two further aerospace companies, Absolute Manufacturing, Inc. (“Absolute”) and Capo Industries, Inc. (“Capo”) joined the Group in December 2007 and January 2008, respectively. This backdrop, together with the record order books of the civil aircraft manufacturers, means prospects for the Group are very encouraging and, consequently, the Board is pleased to recommend a 20% increase in the full year dividend.

Financial Results

Significant progress was made in almost all aspects of performance during 2007 with revenue, profit and cash flow all showing very healthy increases over 2006.

Group revenue increased by 21% to £470.7m (2006 – £387.9m) and operating profit increased by 69% to £41.5m (2006 – £24.5m), largely due to the increased build rates for civil aircraft, strong energy markets, the new heavy duty diesel products going into production, and full year contributions from AMT and Sterling Machine. Group revenue increased by 18% and adjusted operating profit increased by 57%, on a constant currency basis and before the benefit of acquisitions.

Adjusted profit before tax, the measure which the Board believes best reflects the true underlying performance of the business, increased by 91% to £37.8m (2006 – £19.8m). Adjusted profit before tax is before the loss on sale of fixed assets of £0.7m (2006 – £0.4m), a £3.3m (2006 – £1.3m) charge for the amortisation of intangible assets acquired on acquisitions and the benefit of the release of a provision of £0.5m (2006 – £nil) originally set up on a previous acquisition.

Adjusted earnings per share increased by 66% to 771p (2006 – 4.65p), after an increased underlying tax charge of 20.6% (2006 – 17.7%).

Year-end net debt reduced to £94.8m (2006 – £96.7m), despite the acquisition of Absolute, for £7.0m, and the ongoing investment in increased manufacturing capacity and capability across the Group.

Dividend

In 2006, the Board sanctioned the first dividend increase for seven years and signalled its intention to adopt a progressive dividend policy. Given the excellent results in 2007 and encouraging future prospects, the Board is recommending a further increase in the dividend. It is proposed that the final dividend for 2007 be 1.70 pence per share (2006 – 1.381p), an increase of 23%. When added to the 0.70p interim dividend, this will bring the full year dividend to 2.40p, an increase of 20% over

the 2.00p for 2006. The final dividend, if approved, will be paid on 30 May 2008 to shareholders on the register at close of business on 2 May 2008.

Acquisitions

The key criteria considered by Senior for any acquisition are: compatible products in familiar markets, healthily profitable with good growth prospects, a strong management team and Group earnings enhancing prior to any synergistic benefits. In 2006, two companies, both meeting these criteria, joined the Group. Sterling Machine, a key supplier to Sikorsky, grew full year revenue by 20% in 2007. AMT was purchased towards the end of 2006 and grew full year revenue by 29% in 2007. AMT is a key supplier of machined parts for Boeing civil aircraft.

In early December 2007, Absolute was purchased for \$14.4m from its private owners. Absolute specialises in high tolerance, high surface finish parts for aircraft tyre pressure monitoring systems, flap and door movement sensor housings, and laser guidance housings both for commercial applications and night vision defence industry equipment. The company is a machine shop working in aluminium, titanium and a variety of stainless steels and is located in Arlington, Washington State, USA. Absolute is a well invested and fast growing business and is managed by Andy Lubresky, one of its founders and former owners.

At the end of January 2008, Capo was purchased for \$85.0m from its private owners, David and Karen Felch. David continues to head the business now that it is part of Senior. The company's high performance components are used primarily in auxiliary power units for large civil airliners and for propulsion engines for business jets. Located near Los Angeles, California, USA, Capo is a well invested machine shop specialising in the 5-axis machining of titanium and steel alloys. Prospects for the business are very encouraging.

I welcome their respective managements and employees to the Group.

Trading

The Group is organised into two divisions – Aerospace, now with 14 operations, and Flexonics with 11. Both Divisions are focused on manufacturing components and systems for original equipment manufacturers. There is little aftermarket content and the Group's operations generally deliver to the required production schedules of its customers. Products are normally single sourced and engineered for specific applications.

Aerospace

The market for civil aircraft continues to be very strong both for large commercial airliners (43% of divisional sales) and business jets (9%). Regional jets (11%) also began to strengthen during 2007. 2007 was an outstanding year for order intake of large civil aircraft. Airbus and Boeing together booked net orders for 2,754 new aircraft (2006 – 1,834), delivered 894 (2006 – 832) and ended the year

with an order book of 6,848 aircraft (31 December 2006 – 4,988). At current build rates this equates to a seven-and-a-half year order book. Overall, the military aerospace market, representing 22% of divisional sales, was stable with increasing shipments to Sikorsky offset by a reduction in the level of US Government spares.

The Aerospace Division has exposure to a wide range of customers in the industry. It has substantial work on the Airbus A380 (now in service) and whilst demand in 2007 was low, due to its well documented production delays, schedules in 2008 are now increasing. The new Boeing 787 (the "Dreamliner") has also experienced delays. Whilst it is not due into service until 2009, the aircraft is very much in demand, with Boeing having booked 817 orders for the Dreamliner by the end of 2007. This aircraft represents the largest ever individual programme for Senior Aerospace, so substantial growth can be anticipated as its production rate gathers momentum during 2008 and beyond.

Demand from customers almost universally increased during 2007. Capital expenditure of £10.9m (2006 – £7.6m) was incurred to increase capacity and capability and to bring new products into production. Sterling Machine and AMT both made outstanding contributions in their first full year in the Group. Absolute made an inaugural contribution in the last month of the year and we expect it, and Capo, to contribute positively to the Division's performance throughout 2008.

The result of this strong activity was an increase of 25% in the Aerospace Division's sales to £246.2m (2006 – £197.0m) and an increase in adjusted operating profit of 74% to £33.4m (2006 – £19.2m). The divisional operating margin increased by nearly four full percentage points to 13.6% (2006 – 9.7%).

Flexonics

The markets serviced by this Division were generally healthy during 2007. The energy sector was particularly buoyant and the Group's world leading position in the design, manufacture and installation of expansion joints, as used in most process plant pipeline systems, proved to be highly beneficial. Currently at a modest level, sales into the renewable energy market increased markedly, particularly for solar farms.

The new heavy duty diesel products, developed over the previous three years, went into full production in 2007 as tighter emission legislation came into effect in the USA. Although the level of demand for heavy trucks was subdued, this new market is incremental business for Senior and proved to be an increasingly valuable contributor as the year progressed. Having put the new diesel products into production in late 2006, the Division's capital expenditure reduced to £8.5m (2006 – £13.0m) but remained above depreciation. The new diesel components provide a solid platform for further generations of products and market penetration in the future. The passenger car sector was slightly better than expected for Senior, despite flat markets in Europe and USA.

The Flexonics Division, without making any acquisitions during the year, increased annual sales by 17% to £225.0m (2006 – £191.5m) and increased adjusted operating profit by 47% to £17.4m (2006 – £11.8m). The operating margin for the Division increased to 7.7% (2006 – 6.2%). The contributing factors to this organic growth largely remain in place as we enter 2008.

Employees and the Board

As well as warmly welcoming all new employees to Senior, I would like to thank everyone for another year of unstinting effort, commitment, energy and initiative. Without the endeavours of its employees, the Group would not have made such a dramatic step forward in 2007.

It is important that Senior has the right people in the right roles, especially given the lean nature of its organisation and its semi-autonomous subsidiaries. This is particularly key in executive Board positions, so I am pleased to congratulate Mark Rollins on his appointment as the new Group Chief Executive, effective 17 March 2008. Mark has been an exceptional Executive Director for the past eight years and I look forward to working alongside him in the future. Recruitment of his replacement, as Group Finance Director, is making good progress.

Finally, I would like to extend sincere thanks to Graham Menzies, who retires from Senior at the forthcoming AGM after eight successful years as its Group Chief Executive. Throughout this period, Graham has provided determined, skilful and energetic leadership, transforming the Group into a much better business than the one he inherited. He leaves with the Group in terrific shape, and the Board and his colleagues wish him a long, healthy and happy retirement.

Outlook

The commercial aerospace market (63% of the Senior Aerospace Division's sales) goes from strength to strength with Boeing and Airbus increasing the rate of production of their aircraft, on the back of record order books. The military aerospace market remains healthy. Absolute and Capo are now making their first contributions to Group profitability.

The industrial markets of the Flexonics Division, such as power generation and oil and gas, have remained strong going into 2008 and prospects are good for another excellent year. The heavy duty diesel products continue to improve their contribution with our customers anticipating volume growth towards the end of the year.

2008 can, therefore, be expected to deliver further meaningful growth. Trading in the first two months of 2008 has been ahead of the Board's expectations.

Martin Clark