Thursday 4 March 2004

**Senior plc**

## Results for the year ended 31 December 2003

| HIGHLIGHTS | Year ended 31 December | |
|---|---|---|
| | **2003** | 2002 |
| **TURNOVER FROM CONTINUING OPERATIONS** | **£354.9m** | £398.7m |
| **OPERATING PROFIT FROM CONTINUING OPERATIONS** | | |
| **- BEFORE GOODWILL AMORTISATION** (1) | **£17.6m** | £23.4m |
| **- AFTER GOODWILL AMORTISATION** | **£12.2m** | £17.6m |
| **PROFIT BEFORE TAXATION** | **£7.7m** | £7.0m |
| **FREE CASH FLOW** (1) | **£20.2m** | £25.2m |
| **NET BORROWINGS** | **£64.2m** | £87.4m |
| **UNDERLYING EARNINGS PER SHARE** (1) | **3.52p** | 4.47p |
| **DIVIDENDS PER SHARE** | **2.00p** | 2.00p |

Note (1) : 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 a resilient performance during 2003 in the face of continued weakness in the commercial aerospace market and programmes ending in the automotive division. The Group has cut costs and implemented improvements in many areas of its business, while once again reducing debt.

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."

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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 12 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, 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.

### 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.

**James Kerr-Muir** Chairman

## CHIEF EXECUTIVE'S REVIEW

The main markets in which the Group operate remained challenging throughout 2003. Accordingly, programmes aimed at operational improvement, cost and working capital reduction and capital expenditure control were aggressively pursued. Group turnover on continuing operations reduced by 11.0%, working capital fell by 9.0% and Group net debt improved by 26.5%. Capital expenditure, at a net £6.9m, was 43% of depreciation.

In the Aerospace Division, costs were trimmed as sales declined throughout 2003. Despite this, substantial design and development effort was maintained, which has resulted in the Division winning £160k per shipset on the new Airbus A380 and £230k per shipset on the Lockheed Martin Joint Strike Fighter (Pratt and Whitney engine). Whilst volume production of both is still some years off, a number of operations are already delivering pre-production and prototype units. Both these programmes are incremental to current business and should result in valuable growth in the future. Capital expenditure has been low because there has been no need for extra capacity in the current market circumstances. However, the Group has continued to invest in its aerospace businesses. At SSP, the Group's aerospace ducting business in Los Angeles, the site is being substantially redeveloped to produce a modern facility that is representative of the capabilities of this market leading business. At another of the Group's North American aerospace businesses, Metal Bellows, the freehold of the existing site was purchased from the landlord in January 2004 to safeguard the future of this valuable operation.

Automotive vehicle production was slightly down in 2003 but, because some North American programmes came to an end, the Division's turnover fell further than the market and capacity in the USA was reduced. However, the North American engineering capability and resource was actually increased. The heavy truck diesel engine market in the USA is changing dramatically as truck manufacturers convert their engines to high-pressure common rail technology to improve economy in use and to meet the new emission standards being introduced in 2007. Senior has significant experience of common rail because of the Group's position in the European diesel market for passenger vehicles. As a result, Senior currently has an unprecedented number of enquiries for new products from the North American heavy diesel engine manufacturers. Nominations for these products are being won and are expected to start production in 2006. Capital expenditure has been low but is likely to be at a much higher level for the next two years. Elsewhere, the establishment of the Czech plant at Olomouc is complete and it is now profitable. The transfer to a new, larger facility in Cape Town, South Africa, was completed successfully in December 2003.

The Group's largest industrial businesses struggled in 2003 with weak markets and, despite the belief that 2004 should be a little better, meeting the challenge to remain competitive is a high priority. Pathway, which manufactures metal and fabric expansion joints, will close its Tennessee plant during 2004 and consolidate manufacturing at its plant in New Braunfels, Texas. Hargreaves enters 2004 with a stronger orderbook having won the ductwork contract for the new Wembley Stadium. No disposals were made in 2003, but it was not for a lack of effort with good progress being made on the disposal of the Group's five industrial hose buinesses. Despite undergoing a protracted and ongoing disposal process, these businesses each improved their performance in 2003 to the great credit of their management and employees.

Product and new programme development are key to the Group's future success and consequently had a high priority during the period with engineering resources being maintained despite the near-term profit pressures.

Irrespective of market conditions, the Group remains committed to the strategy of operational improvement, cost reduction and enhancing the value of the Group through product and process design and development.

**Aerospace**

2003 was a second year of market turmoil following the events of 11 September 2001. The year was filled with schedule changes, volume reductions and increased pricing pressure. This necessitated capacity adjustments and an escalation in the implementation of lean principles.

Towards the end of the year there were tentative signs of stabilisation in the commercial aircraft market, as airlines began to improve profitability and ordering activity on long-term programmes trended higher. Senior Aerospace made large strides on several new programmes in 2003, including the A380 and Joint Strike Fighter ("JSF"), with early development production commencing.

Senior Aerospace Metal Bellows in Boston, Massachusetts, specialises in edge-welded bellows for a variety of applications in the commercial and military aerospace, space, medical, semi-conductor and industrial markets. The company performed satisfactorily in 2003, despite sales declining as the semi-conductor and space applications failed to reach anticipated levels. Several aggressive cost-cutting measures were taken. The company is well positioned to improve performance in 2004.

Senior Aerospace Ketema in San Diego, California, enjoyed a significant performance improvement in 2003, albeit from a relatively low base. Ketema manufactures complex engine fabrications primarily for the military, regional and single aisle commercial markets. The company was re-structured in 2002 and, as a result of overhead cost reductions, factory improvements and increased efficiencies, has become a more profitable and cash generative company. The company has several recently won programmes under development including content on the JSF for both Pratt and Whitney and Rolls-Royce.

Senior Aerospace Jet Products in San Diego, California, reported lower profits in 2003 on sales that, as expected, fell slightly from the prior year. Working capital and on-time delivery improvements were made. The company is well positioned to resume its profitable growth during 2004 as work in the military sector increases.

Senior Aerospace SSP in Los Angeles, California, designs and fabricates high-pressure ducting systems. Whilst factory productivity declined in 2003, order intake was strong. The company is currently streamlining its manufacturing processes through the introduction of cellular manufacturing and improving product flows as a result of its building modernisation. A strong, diverse orderbook, heavy focus on operational improvements, and an industry leading engineering team, leave SSP well positioned for the future.

Senior Aerospace BWT, in the UK, manufactures lightweight flexible composite ducting for airframe manufacturers. 2003 was a year of significant new product introduction, with work increasing on the Airbus A380 cockpit ducting, Embraer ERJ170/190 flexible ducting, and several other programmes. With the high engineering activity, and the Group's policy of expensing such costs as incurred, profitability was well below historic levels. Performance is expected to recover as engineering ends and the parts go into production.

Senior Aerospace Composites in Wichita, Kansas, produces rigid composite ducting that is often combined with components from other Senior facilities to form lightweight ducting sub-systems. Composites, which entered the system design and test environment for the first time in 2003, is playing a major role in the fabrication of the A380 system being delivered to Airbus by BWT.

Senior Aerospace Bird Bellows, in the UK, increased its business with Airbus as a result of winning the contract to design and manufacture gimbals for the A380 wing ducting systems. Bird had a solid year in terms of sales, operating profit and cash flow. Its business base, increasingly focused on aerospace, continues to grow. The company is in the process of implementing lean techniques throughout the factory to meet the continuing challenges of its customers.

Senior Aerospace Bosman, in Holland, saw its traditional aerospace repair business revert back to the airlines. Bosman began outsourcing parts to low cost countries and developing new technologies for use in high-pressure ducting systems. This, combined with the ability to engineer high technology metal fabrications, should enable Bosman to enter new markets in the future.

Senior Aerospace Ermeto, in France, benefited from the operational efficiencies of a first full year of production in its new premises but suffered from reductions in the Eurofighter build rate. The company is seeking additional business to fit its existing capabilities.

Senior Aerospace Calorstat, in France, performed poorly and underwent a management change mid-year. The new leadership substantially reorganised the business, successfully introducing new Airbus A380 parts in the process. Operational improvements give the business a brighter future.

Overall 2003 was a challenging year for the Aerospace Division. All companies aggressively pursued process improvements and the operating margins before goodwill amortisation increased from 4.6% to 5.1% despite falling sales. The strengthened management teams and continuous improvement through lean principles will help Senior Aerospace achieve its future goals.

**Automotive**

Senior Automotive manufactures a variety of products primarily for customers in North America and Europe. It specialises in the manufacture of thin walled stainless steel tubing, flexible metal bellows, high-pressure diesel fuel lines, and aluminium tubing for air conditioning and heating systems.

Production volumes in North America declined 3% in 2003 and the Division's major customers at the "Big 3" continued to lose market share despite the liberal usage of customer incentives. The OEM's heavy reliance upon incentives to support demand continues to create significant cost reduction pressure upon all suppliers. European demand softened with the number of new vehicle registrations declining 2% in 2003. However, Senior's volumes in Europe grew because of the greater demand for diesel engines upon which many of our European products are used.

Senior Automotive Bartlett, in Chicago, Illinois, had a difficult year as several major programmes came to an end with the deletion of secondary AIR and EGR systems from General Motors' engines. Further programmes will end during 2004. The business reacted quickly and reduced costs accordingly. Good progress continues to be made in developing new products and the first order for a common rail diesel fuel system has been secured, with many more projects in the development stage. Whilst there is no doubt that common rail will come to North America for heavy trucks, there is an increasing belief that diesels will eventually be introduced in the passenger car and light truck markets. Such an outcome would clearly be beneficial to the Group.

At Senior Automotive Blois, France, the strategy to rationalise the product line and focus upon high-pressure diesel fuel products was completed. By the end of the year, 81% of Blois sales were diesel fuel products. Efforts continue to reduce costs and improve performance. Operational metrics have improved greatly, but higher than expected demand for diesel components required the use of excess labour with an adverse effect on profitability. Additional manufacturing capacity is due to be commissioned in the first quarter of 2004.

Senior Automotive Olomouc, Czech Republic, grew substantially during the year following the relocation of aluminium tubes and water tubes from Blois. Several new projects were also successfully launched and the site moved into profit in the fourth quarter as volumes increased. Olomouc is a low-cost site and is well positioned to grow substantially in the coming years.

Senior Berghöfer GmbH, Germany, operated in a difficult environment. Its main industrial markets, such as solar and heating, were weak as was the German economy. However, cost reductions and a focus upon cost management produced a significant improvement in operating performance compared to the prior year. The first nominations for heavy truck components were secured and good progress was made on other potential automotive components.

Senior Automotive Sao Paulo, Brazil, had a difficult year, caused by high consumer interest rates, as a result of which automotive demand was disappointingly low. Several large orders for industrial expansion joints and spring hangers together with good cost management allowed the site to remain profitable. New automotive projects should lead to growth in the next couple of years.

Senior Automotive New Delhi, India, had another solid year. Although slightly below the prior year, due to a destocking programme at a major aftermarket customer in the UK, sales increased to the North American exhaust aftermarket and domestic industrial metal hose customers. The site is well managed and poised for growth across a range of markets in the near future.

Senior Automotive Crumlin, South Wales, encountered a difficult year and, with the completion of the transfer of its flexible exhaust bellows work to Cape Town, the site is now focused upon the exhaust flex aftermarket, exhaust gas recycling and turbo oil drain markets. New product development is a priority with some good progress being made.

Senior Automotive Cape Town, South Africa, struggled to keep up with demand in the first quarter mostly due to the late delivery of raw materials from key suppliers. This resulted in the offloading of some work to Crumlin and Bartlett. On-time delivery was quickly restored once raw materials arrived according to schedule and additional employees were added. Manufacturing efficiencies improved greatly throughout the year. Given the export nature of the business, profitability was adversely affected by a strengthened local currency. The business successfully relocated to a larger facility at the year-end to provide the additional capacity necessary to meet the volume growth scheduled for the next few years.

Senior Automotive is known for its innovative engineering solutions and superior customer service. The ever-increasing demand for new technologies to meet future emission laws and the continued growth of diesel engines, combined with low-cost manufacturing sites in the Czech Republic, India, Brazil and South Africa, position the business well for longer-term growth.

**Specialised Industrial**

The Specialised Industrial Division is made up of eight operations, of which the five industrial hose companies are in the process of being sold. The remaining three businesses, Pathway, Senior Hargreaves and Senior Flexonics Canada accounted for some 62% of the Division's turnover in 2003.

Pathway is a world leader in the manufacture of metal and fabric expansion joints for the power generation and petrochemical industries. In 2003 it experienced a slight reduction in turnover, mainly due to the slowdown in sales of land based turbines for power generation. New construction and planned maintenance work was also sluggish although emergency repair work was much stronger than expected, helping to maintain operating margins. Pathway operates from two facilities, one in Texas and one in Tennessee and, because of the changing nature of the mix of work, the decision has been taken to close the Tennessee facility during 2004 with all manufacturing being consolidated onto the New Braunfels, Texas site. The cost is anticipated to be £0.9m in new capital assets and £0.3m in closure costs. The consolidation will lead to improved future profitability.

Senior Hargreaves, a UK market leader in the manufacture and installation of air conditioning ducting, experienced reduced profitability in 2003 as a result of two difficult contracts. Towards the year end a number of new contracts, including Wembley Stadium and Channel Tunnel extension work at St Pancras Station, were won and Senior Hargreaves starts 2004 with a healthy orderbook.

Senior Flexonics Canada manufactures and sells bulk and fabricated metal hose assemblies, slip pack joints, metal expansion joints, and cryogenic assemblies. Working in conjunction with other Group companies it offers a wide range of products to the Canadian market. Sales and profits remained flat year on year, a creditable performance given the slowing economy.

Senior Flexonics Hose Division operates from facilities in Illinois and Texas. In 2003, it increased sales, in a competitive market place, with a consequent improvement in profitability. After a slow start the semi-conductor market began to improve with several customers returning to the market and sales improving through the course of the year. The focus on rebuilding the fluoroplastic hose market and providing customers with a quick turnaround service also began to produce results.

The three European metal hose operations, a manufacturing site in the UK and distribution facilities in Holland and France, collectively reported improved profitability on unchanged turnover, largely as a result of the cost reduction measures taken in the previous year. Further improvements in the performance of these businesses will depend, to a large extent, on the strength of the upturn in the European economy.

Habia, in Sweden, manufactures fluoroplastic hoses and hose assemblies, PTFE lined pipe systems and PTFE machined parts. An improvement in turnover during 2003 resulted in increased, albeit still modest, levels of profits and cash generation. Project opportunities are being pursued to improve its performance still further.

Two long-standing CEOs, Brian Ward at Senior Hargreaves and Wim Bogaard at Senior Flexonics B.V., in Holland, are due to retire in the first half of 2004 and the Group wishes them both the very best for a long and happy retirement. Internal candidates have been promoted to fill their positions.

**Graham Menzies** Chief Executive

## FINANCE DIRECTOR'S REVIEW

### Financial Performance

The Group's headline results have already been commented on by the Chairman in his statement. With the Group's operations being largely based in the USA, these results have been adversely impacted by the effects of currency movements. The US$ weakened significantly in 2003 such that the average rate of US$ 1.64: £ was 8.5% worse than 2002 (US$ 1.50 : £). Overall, on translation, currency movements reduced Group turnover by £13.1m (3.3%) and operating profits before goodwill amortisation by £1.6m (6.8%) when compared to 2002.

On a constant currency basis, Group operating profit before goodwill amortisation fell by £4.2m to £17.6m (2002 - £21.8m using 2003 exchange rates e.g. $1.64) with the Aerospace Division up £0.3m to £7.3m, the Automotive Division down £4.1m to £7.4m and the Specialised Industrial Division down £0.4m to £2.9m.

The end of February exchange rate of US$ 1.86 : £ represents a further decline of 11.8% over the 2003 average rate. Whilst such a weakening is likely to help bolster the North American economy, with a consequent benefit to the Group, it will nevertheless have a further adverse effect on the translation of local results into sterling. It is estimated that, if February 2004 month end exchange rates had been in effect throughout 2003 then, on translation, the reported 2003 Group turnover would have been adversely impacted by around £26m and Group operating profit before interest, tax and goodwill amortisation by around £1.8m. Conversely, the 2003 interest charge would have benefited by around £0.5m.

Operating profit is reported after £1.3m (2002 - £1.3m) of reorganisation and restructuring costs. Note 1 provides the segmental split of these costs. In both years, the charges arose from the implementation of cost reduction measures necessary for the Group to remain competitive. Total employee numbers for continuing business reduced by 380 (7%) during 2003.

The goodwill amortisation charge reduced to £5.4m (2002 - £5.8m) as a result of the prior year's disposals and the effect of exchange rate movements.

### Interest Charge

The net interest charge fell by 26% to £4.9m (2002 - £6.6m) due to the combination of lower interest rates, reduced borrowings and generally beneficial exchange rate movements, particularly the weakening US $ in which the majority of the Group's borrowings are denominated. Interest cover, calculated on operating profits before goodwill amortisation, was 3.6 times (2002 – 3.5 times).

### Taxation

The Group's effective tax rate for 2003, measured on profit before goodwill amortisation and the effect of the disposal of operations and fixed assets, was 14.9% (2002 – 18.5%). The overall charge of £1.9m comprised £2.4m relating to ordinary activities, a net benefit of £0.4m relating to prior years and a net reduction in deferred tax liabilities of £0.1m. The net cash paid in respect of taxes during 2003 was £0.8m (2002 - £0.3m recovery).

### Earnings and Dividends per Share

Basic earnings per share was 1.89p (2002 – 1.29p). Underlying earnings per share (before goodwill amortisation and the effect of the disposal of operations and fixed assets) was 3.52p (2002 – 4.47p). An unchanged final dividend of 1.35p per share is proposed to be paid on 27 May 2004 to shareholders on the register on 30 April 2004. Total dividends paid in respect of 2003 are therefore 2.00p (2002 – 2.00p).

### Cash Flow

| | **2003** **£m** | 2002 £m |
|---|---|---|
| Operating profit | **12.2** | 17.6 |
| Goodwill amortisation | **5.4** | 5.8 |
| Depreciation | **16.1** | 17.8 |
| Net capital expenditure | **(6.9)** | (11.7) |
| Working capital movement | **(0.8)** | 2.7 |
| Net interest paid | **(5.0)** | (7.3) |
| Tax (paid)/recovered | **(0.8)** | 0.3 |
| **Free cash flow** | **20.2** | 25.2 |
| Disposals and acquisitions | **0.4** | 2.2 |
| Dividends paid | **(6.1)** | (2.5) |
| Effect of exchange rates | **8.7** | 10.4 |
| **Reduction in net borrowings** | **23.2** | 35.3 |
| **Net borrowings** | **64.2** | 87.4 |

Free cash flow was £20.2m (2002 - £25.2m). Net capital expenditure was only 43% of depreciation. The free cash flow was principally used to fund dividends to shareholders of £6.1m and to further reduce the Group's borrowings. 2004 is anticipated to see a number of new programmes moving from the engineering and design stage to prototyping and testing such that capital expenditure spend is expected to be much closer to the level of depreciation.

### Funding and Liquidity

The Group's net borrowings fell by £23.2m to £64.2m (2002 - £87.4m) during 2003. Gross debt at the year-end, being net borrowings of £64.2m adjusted for cash of £11.6m and foreign exchange forward contract gains of £3.3m as set out in Note 4 (c), was £79.1m (2002 - £101.1m) of which 74% was in US $, as a policy hedge against the Group's US $ assets. The weakening US $ (from $1.61 : £ to $1.79 : £) together with other exchange rate movements accounted for £8.7m (2002 - £10.4m) of the year's reduction in net borrowings. Gearing, on shareholders' funds, at the year-end was 53% (2002 – 72%).

The Group finances its borrowings at Group level through the US private placement market and revolving credit facilities. In addition it has a number of other local banking facilities. Group policy is to ensure that all projected borrowing requirements are covered by committed facilities. The Group repaid its £70m multi-bank revolving credit facility in October, nine months early, and replaced it with two revolving credit facilities: a US $25m (£14.0m) single bank three year facility to May 2006 and a £46.0m multi-bank three year facility to October 2006. At the end of 2003 the Group had total facilities of £137.9m (including £115.9m committed for more than one year) of which £58.8m was unused. The maturity profile of the gross borrowings and committed facilities at the end of 2003 was:

| £m | 2004 | 2005 | 2006 | 2007 | 2008+ | Total |
|---|---|---|---|---|---|---|
| Group borrowings | 6.2 | 0.3 | 14.9 | 14.1 | 43.6 | 79.1 |
| Committed facilities | - | | 60.0 | 14.0 | 41.9 | 115.9 |

### 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 Group 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 Group Treasury Committee meeting once a year. All treasury 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. Transactions 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 62% (2002 – 78%) of gross borrowings were subject to fixed rates.

**Pensions**

The Group has continued to account for retirement benefits in accordance with SSAP24. In 2003 the Group charged £3.0m (2002 - £2.7m) in respect of its defined benefit schemes and £2.7m (2002 - £3.3m) in respect of its defined contribution schemes. The total cash funding of £3.2m (2002 - £1.8m) made to defined benefit schemes included a discretionary £0.9m payment in respect of the UK scheme. Whilst the valuation on 6 April 2001 showed the UK defined benefit scheme to be fully funded, it is anticipated that the next valuation (effective 6 April 2004) will show a significant deficit. Accordingly, the Group is planning to further increase the discretionary funding of this scheme, as well as making increased payments to the three small US schemes, such that total cash contributions in respect of all defined benefit schemes are anticipated to rise to around £7.5m in 2004. Following a recent review, employee contributions for the UK defined benefit scheme are to increase from 5.0% to 7.5% of pensionable salary from April 2004.

Although the full implementation of FRS17 (Retirement Benefits) has been deferred pending the introduction of International Accounting Standards in 2005, certain disclosures are still required. These disclosures show that, at 31 December 2003, there were total pension deficits, net of deferred tax, of £28.0m (2002 - £27.6m). Had the Group adopted FRS17 in 2003 then the charge to the profit and loss account would have been £4.1m (2002 - £2.2m).

**International Accounting Standards**

Work is ongoing to ensure that the Group is in a position to make the transition to International Accounting Standards with effect from 1 January, 2005. Whilst detailed modifications and disclosures will be required in a number of areas the principal impact to the Group is expected to be the incorporation of the net pension deficit onto the balance sheet.

**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 earnings per share – this indicates the overall performance of the Group before the effect of goodwill amortisation and the disposal of assets and discontinued operations. Note 3 reconciles this to basic earnings per share.
- 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 report explains its derivation.

**Mark Rollins** Finance Director

**Senior plc**

## Group Profit and Loss Account
for the year ended 31 December 2003

| | Notes | 2003 £m | 2002 £m |
|---|---|---|---|
| **Turnover** | | | |
| Total continuing operations | | **354.9** | 398.7 |
| Discontinued operations | | **-** | 5.7 |
| | 1 | **354.9** | 404.4 |
| **Operating profit** | | | |
| Continuing operations before amortisation of goodwill | | **17.6** | 23.4 |
| Amortisation of goodwill | | **(5.4)** | (5.8) |
| Total continuing operations | | **12.2** | 17.6 |
| Discontinued operations | | **-** | - |
| | 1 | **12.2** | 17.6 |
| Profit/(loss) on sale of fixed assets - continuing operations | | **0.4** | (0.5) |
| Loss on disposal of discontinued operations | | **-** | (3.5) |
| **Profit on ordinary activities before interest and taxation** | | **12.6** | 13.6 |
| Other interest receivable and similar income | | **1.2** | 1.1 |
| Interest payable and similar charges | | **(6.1)** | (7.7) |
| **Profit on ordinary activities before taxation** | | **7.7** | 7.0 |
| Tax on profit on ordinary activities | | **(1.9)** | (3.1) |
| **Profit for the financial year** | | **5.8** | 3.9 |
| **Dividends** | 2 | **(6.1)** | (6.1) |
| **Loss for the year** | | **(0.3)** | (2.2) |
| **Earnings per share** | 3 | | |
| Basic | | **1.89p** | 1.29p |
| Diluted | | **1.88p** | 1.29p |
| Underlying | | **3.52p** | 4.47p |
| **Dividends per share** | 2 | **2.00p** | 2.00p |

**Senior plc**

## Group Balance Sheet
At 31 December 2003

| | Notes | **2003 £m** | 2002 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets – goodwill | | **76.7** | 85.8 |
| Tangible assets | | **79.1** | 89.7 |
| Investments | | **0.3** | 0.2 |
| | | **156.1** | 175.7 |
| **Current assets** | | | |
| Stocks | | **40.1** | 46.3 |
| Debtors: Amounts falling due after more than one year | | **2.5** | 2.4 |
| Debtors: Amounts falling due within one year | | **66.9** | 73.8 |
| Cash at bank and in hand | | **11.6** | 9.6 |
| | | **121.1** | 132.1 |
| **Creditors:** Amounts falling due within one year | | **(79.0)** | (86.3) |
| **Net current assets** | | **42.1** | 45.8 |
| **Total assets less current liabilities** | | **198.2** | 221.5 |
| **Creditors:** Amounts falling due after more than one year | | **(73.4)** | (97.5) |
| **Provisions for liabilities and charges** | | **(2.7)** | (2.7) |
| **Net assets** | | **122.1** | 121.3 |
| **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 | | **70.2** | 69.4 |
| **Equity shareholders' funds** | 5 | **122.1** | 121.3 |

## Group Statement of Total Recognised Gains and Losses
for the year ended 31 December 2003

| | **2003 £m** | 2002 £m |
|---|---|---|
| **Profit for the financial year** | **5.8** | 3.9 |
| Currency translation differences on overseas net investments Including goodwill | **0.5** | (2.3) |
| Tax benefits on foreign exchange losses | **0.6** | 0.7 |
| **Total recognised gains and losses relating to the year** | **6.9** | 2.3 |

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

**Senior plc**

## Group Cash Flow Statement
for the year ended 31 December 2003

| | Notes | **2003 £m** | **2003 £m** | 2002 £m | 2002 £m |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 4a) | | **32.9** | | 43.9 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | **1.2** | | 0.6 | |
| Interest paid | | **(6.2)** | | (7.9) | |
| Net cash outflow from returns on investments and servicing of finance | | | **(5.0)** | | (7.3) |
| **Taxation** | | | | | |
| UK corporation tax recovered | | **-** | | 0.1 | |
| Net overseas tax (paid)/recovered | | **(0.8)** | | 0.2 | |
| Net cash (outflow)/inflow from taxation | | | **(0.8)** | | 0.3 |
| **Capital expenditure and financial investments** | | | | | |
| Purchase of tangible fixed assets | | **(8.0)** | | (11.6) | |
| Sale of property, plant and equipment | | **1.1** | | 1.4 | |
| Net cash outflow from capital expenditure and financial investments | | | **(6.9)** | | (10.2) |
| **Acquisitions and disposals** | | | | | |
| Purchase of subsidiary undertakings – deferred consideration | | **(0.3)** | | (0.6) | |
| Sale of subsidiary undertakings | | **0.7** | | 2.8 | |
| Net cash inflow from acquisitions and disposals | | | **0.4** | | 2.2 |
| **Dividends paid on ordinary shares** | | | **(6.1)** | | (2.5) |
| **Net cash inflow before financing** | | | **14.5** | | 26.4 |
| **Financing** | | | | | |
| New loans initiated by Group | | **18.4** | | 5.2 | |
| Repayments of existing loans | | **(33.5)** | | (37.5) | |
| Cash inflow on forward exchange contracts | | **4.5** | | 0.2 | |
| | | | **(10.6)** | | (32.1) |
| **Increase/(decrease) in cash in the period** | 4b) | | **3.9** | | (5.7) |

## Senior plc

## 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. 2002 discontinued operations reflect the turnover and operating results of Senior Flexonics Bredan A/S, BHC a.s., Senior Flexonics Polska Spolka zo.o and the UK Expansion Joints Division of Senior UK Limited, all of which were sold during 2002.

a) By class of business

| | **Turnover 2003 £m** | Turnover 2002 £m | **Operating profit 2003 £m** | Operating profit 2002 £m | **Net assets 2003 £m** | Net assets 2002 £m |
|---|---|---|---|---|---|---|
| Aerospace | **143.8** | 164.6 | **3.8** | 4.0 | **114.9** | 128.4 |
| Automotive | **129.6** | 148.4 | **6.7** | 11.4 | **46.9** | 43.6 |
| Specialised Industrial | **82.0** | 86.1 | **1.7** | 2.2 | **35.2** | 39.2 |
| Total | **355.4** | 399.1 | **12.2** | 17.6 | **197.0** | 211.2 |
| Inter-segment sales | **(0.5)** | (0.4) | **-** | - | **-** | - |
| Total continuing operations | **354.9** | 398.7 | **12.2** | 17.6 | **197.0** | 211.2 |
| Discontinued operations | **-** | 5.7 | **-** | - | **(2.6)** | (3.3) |
| | **354.9** | 404.4 | **12.2** | 17.6 | **194.4** | 207.9 |

Operating profits shown above are stated after charging £1.3 million (2002 - £1.3 million) of reorganisation and restructuring costs and £5.4 million (2002 - £5.8 million) of goodwill amortisation. These are attributed to the segments as follows:

| | Reorganisation and restructuring | | Goodwill amortisation | |
|---|---|---|---|---|
| | **2003 £m** | 2002 £m | **2003 £m** | 2002 £m |
| Aerospace | **0.7** | 0.8 | **3.5** | 3.6 |
| Automotive | **0.5** | 0.4 | **0.7** | 0.9 |
| Specialised Industrial | **0.1** | 0.1 | **1.2** | 1.3 |
| Total continuing operations | **1.3** | 1.3 | **5.4** | 5.8 |
| Discontinued operations | **-** | - | **-** | - |
| | **1.3** | 1.3 | **5.4** | 5.8 |

b) By geographical market

| | **Turnover by destination 2003 £m** | Turnover by destination 2002 £m | **Turnover by origin 2003 £m** | Turnover by origin 2002 £m | **Operating profit by origin 2003 £m** | Operating profit by origin 2002 £m | **Net assets 2003 £m** | Net assets 2002 £m |
|---|---|---|---|---|---|---|---|---|
| North America | **189.4** | 237.2 | **198.5** | 252.5 | **10.8** | 15.8 | **96.5** | 119.7 |
| United Kingdom | **55.0** | 54.2 | **67.7** | 68.0 | **(0.3)** | 1.7 | **57.8** | 61.7 |
| Rest of Europe | **96.2** | 91.9 | **76.0** | 68.4 | **0.5** | (1.7) | **35.2** | 24.6 |
| Rest of World | **20.4** | 22.9 | **18.8** | 17.3 | **1.2** | 1.8 | **7.5** | 5.2 |
| Total | **361.0** | 406.2 | **361.0** | 406.2 | **12.2** | 17.6 | **197.0** | 211.2 |
| Inter-segment sales | **(6.1)** | (7.5) | **(6.1)** | (7.5) | **-** | - | **-** | - |
| Total continuing operations | **354.9** | 398.7 | **354.9** | 398.7 | **12.2** | 17.6 | **197.0** | 211.2 |
| Discontinued operations | **-** | 5.7 | **-** | 5.7 | **-** | - | **(2.6)** | (3.3) |
| | **354.9** | 404.4 | **354.9** | 404.4 | **12.2** | 17.6 | **194.4** | 207.9 |

**Senior plc**

**Notes:**

### 1 Segment Information continued

Operating profits shown above are stated after charging £1.3 million (2002 - £1.3 million) of reorganisation and restructuring costs and £5.4 million (2002 - £5.8 million) of goodwill amortisation. These are attributed to the segments as follows:

| | Reorganisation and restructuring | | Goodwill amortisation | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | **£m** | £m | **£m** | £m |
| North America | **0.7** | 0.5 | **2.7** | 2.9 |
| United Kingdom | **0.3** | 0.2 | **2.4** | 2.4 |
| Rest of Europe | **0.3** | 0.6 | **0.1** | 0.1 |
| Rest of World | **-** | - | **0.2** | 0.4 |
| Total continuing operations | **1.3** | 1.3 | **5.4** | 5.8 |
| Discontinued operations | **-** | - | **-** | - |
| | **1.3** | 1.3 | **5.4** | 5.8 |

| c) Net assets reconciliation | **2003** | 2002 |
|---|---|---|
| | **£m** | £m |
| Net assets, as above | **194.4** | 207.9 |
| Unallocated (liabilities)/assets, net | **(8.1)** | 0.8 |
| Net borrowings | **(64.2)** | (87.4) |
| Net assets, per Balance Sheet | **122.1** | 121.3 |

### 2 Dividends

The proposed final dividend is at the rate of 1.35p per share (2002 – 1.35p) making 2.00p for the year (2002 – 2.00p) and, if approved, will be payable on 27 May 2004 to shareholders on the register at the close of business on 30 April 2004.

# Senior plc

## 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. This category has a dilutive effect of 2.4m shares (2002 – 0.3m shares).

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

| | **Earnings per share 2003 pence** | Earnings per share 2002 pence | **Earnings 2003 £m** | Earnings 2002 £m |
|---|---|---|---|---|
| Basic profit on ordinary activities after taxation | **1.89** | 1.29 | **5.8** | 3.9 |
| Adjust: | | | | |
| Amortisation of goodwill | **1.77** | 1.88 | **5.4** | 5.8 |
| (Profit)/loss arising on sale of fixed assets | **(0.14)** | 0.16 | **(0.4)** | 0.5 |
| Loss on disposal of discontinued operations | **-** | 1.14 | **-** | 3.5 |
| Underlying earnings | **3.52** | 4.47 | **10.8** | 13.7 |

| | | **2003** | 2002 |
|---|---|---|---|
| Weighted average number of shares | - basic | **306.5m** | 306.5m |
| | - diluted | **308.9m** | 306.8m |
| | - underlying | **306.5m** | 306.5m |
| Earnings per share | - basic | **1.89p** | 1.29p |
| | - diluted | **1.88p** | 1.29p |
| | - underlying | **3.52p** | 4.47p |

### 4 Group Cash Flow Statement

| a) Reconciliation of operating profit to net cash inflow from operating activities | **2003 £m** | 2002 £m |
|---|---|---|
| Group operating profit | **12.2** | 17.6 |
| Depreciation of tangible fixed assets | **16.1** | 17.8 |
| Amortisation of goodwill | **5.4** | 5.8 |
| Decrease in stocks | **6.2** | 3.9 |
| Decrease in debtors | **5.7** | 3.2 |
| Decrease in creditors | **(10.4)** | (1.1) |
| Working capital currency variations | **(2.3)** | (3.3) |
| Net cash inflow from operating activities | **32.9** | 43.9 |

The net cash inflow from operating activities includes an inflow of £nil (2002 - £0.1 million inflow) in respect of discontinued activities.

## Senior plc

## Notes:

### 4 Group Cash Flow Statement continued

| b) Reconciliation of net cash flow to movement in net debt | **2003** | 2002 |
|---|---|---|
| | **£m** | £m |
| Increase/(decrease) in cash in the period | **3.9** | (5.7) |
| Decrease in loans | **15.1** | 32.3 |
| Net cash inflow on forward contracts | **(4.5)** | (0.2) |
| Change in net debt resulting from cash flows | **14.5** | 26.4 |
| Non cash items | **-** | (1.5) |
| Currency variations on net borrowings | **8.7** | 10.4 |
| Movement in net debt in the period | **23.2** | 35.3 |
| Net debt at 1 January | **(87.4)** | (122.7) |
| Net debt at 31 December | **(64.2)** | (87.4) |

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| c) Analysis of net debt | **At 1 January 2003** | **Cashflow** | **Non cash items** | **Exchange movement** | **At 31 December 2003** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Cash | **9.6** | **2.0** | **-** | **-** | **11.6** |
| Overdrafts | **(2.0)** | **1.9** | **-** | **-** | **(0.1)** |
| | **7.6** | **3.9** | **-** | **-** | **11.5** |
| Debt due within one year | **(2.4)** | **(0.5)** | **(3.0)** | **0.1** | **(5.8)** |
| Debt due after one year | **(94.6)** | **15.3** | **3.0** | **5.1** | **(71.2)** |
| Finance leases | **(2.1)** | **0.3** | **-** | **(0.2)** | **(2.0)** |
| Forward exchange contract gains | **4.1** | **(4.5)** | **-** | **3.7** | **3.3** |
| Total | **(87.4)** | **14.5** | **-** | **8.7** | **(64.2)** |

Debt due within one year shown above includes short-term bank borrowings of £3.0m (2002 - £nil).

The forward exchange contract gains are included within prepayments and accrued income falling due within one year.

### 5 Reconciliation of Movements in Shareholders' Funds

| **Group** | **Share capital** | **Share premium** | **Other reserves** | | | **Profit and loss account** | **Total** |
|---|---|---|---|---|---|---|---|
| | | | **Revaluation** | **Special** | **Total** | | |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| At 1 January 2003 | **30.7** | **3.5** | **0.7** | **17.0** | **17.7** | **69.4** | **121.3** |
| Profit for the financial year | **-** | **-** | **-** | **-** | **-** | **5.8** | **5.8** |
| Dividends | **-** | **-** | **-** | **-** | **-** | **(6.1)** | **(6.1)** |
| Currency variations | **-** | **-** | **-** | **-** | **-** | **1.1** | **1.1** |
| At 31 December 2003 | **30.7** | **3.5** | **0.7** | **17.0** | **17.7** | **70.2** | **122.1** |

### 6 Status of Financial Information

The financial information set out above does not constitute the Group’s statutory accounts for the years ended 31 December 2003 or 2002 but is derived from those accounts. Statutory accounts for 2002 have been delivered to the Registrar of Companies, and those for 2003 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.