

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 marketplaces 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 50% 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 in 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.