

CHAIRMAN'S STATEMENT

Board of Directors

Directors' Report

Financial information

Other information

MARTIN CLARK
NON-EXECUTIVE
CHAIRMAN



The Group has delivered an excellent set of results for 2008, with adjusted profit before tax 48% ahead of the prior year and free cash flow nearly three times the level achieved in 2007. This strong foundation, combined with the successful long-term refinancing of the Group undertaken during 2008, means Senior is well placed to deal with the uncertainty being seen in markets across the world today.

FINANCIAL RESULTS

2008 saw the Group achieve record levels of operating profit and cash generation from operations.

Group revenue increased by 19% to £562.4m (2007 – £470.7m) and, with margins improving strongly, operating profit increased by 44% to £59.8m (2007 – £41.5m). Capo Industries, acquired in January 2008, and Absolute Manufacturing, acquired in December 2007, both made positive contributions in their first year within the Group. Excluding the beneficial effects of acquisitions and foreign exchange movements, revenue grew by 5% and operating profit by 26%, with the industrial and aerospace businesses the key contributors, along with a much improved performance from the heavy duty diesel products in North America.

Adjusted profit before tax (as defined on page 1), the measure which the Board believes best represents the true underlying performance of the business, increased by 48% to £56.0m (2007 – £37.8m). Adjusted earnings per share increased by 38% to 10.63 pence (2007 – 7.71 pence).

Operating profit and adjusted profit before tax are stated after £1.9m of costs associated with reducing the Group's headcount by 480 people (8% of total Group employees) in the final quarter of the year, of which 35 were UK-based employees. Savings of £7.0m are anticipated in 2009 as a result of this reduction in employee numbers. The reductions arose mainly in those businesses providing parts for the land vehicle markets.

In the current global economic climate, cash generation is very important to the future well-being of every business and, therefore, the £52.4m (2007 – £18.5m) of free cash flow for the year was particularly pleasing, driven by the increase in profitability and strong inflows from working capital. This clearly demonstrates the strongly cash generative nature of the Group.

FINANCING

The Group's year-end net debt stood at £174.5m (2007 – £94.8m), as the strong operational cash flows were offset by £79.5m in adverse foreign exchange movements and the acquisition, in January 2008, of Capo Industries for £44.1m. At the end of December 2008, the Group had committed facilities of £224.5m, so providing £50.0m of headroom, and is operating comfortably within its banking covenants.

In early October 2008, the Group issued \$120m of new loan notes through a private placement offer. The notes mature after 7, 10 and 12 years. This significant, and timely, refinancing means that no material funds are now due for repayment before July 2012.

DIVIDEND

The Board is recommending an unchanged final dividend of 1.70 pence per share (2007 – 1.70 pence), bringing the total dividend for the year to 2.60 pence, an increase of 8% over the 2.40 pence for 2007. The size of the increase reflects the fact that the Group is strongly cash generative and is financed for the long term whilst, at the same time, acknowledging the uncertainty underlying many of the Group's markets. At the level recommended, the full year dividend would be covered 4.1 times (2007 – 3.2 times) by adjusted underlying earnings per share. The final dividend, if approved, will be paid on 29 May 2009 to shareholders on the register at close of business on 1 May 2009.

OPERATIONS

Senior reports as two Divisions – Aerospace, consisting of 14 operating entities and representing 56% of Group revenue, and Flexonics, consisting of 11 operations and representing 44% of Group revenue. The Aerospace Division was split into two sub-sectors, Aerostructures and Fluid Systems, during 2008 in order to enhance management oversight, improve market presence and aid best practice sharing. All of Senior's operations are focused on manufacturing components and systems for original equipment manufacturers. The Group's products are typically single sourced, highly engineered and difficult to manufacture.

AEROSPACE

Production of civil aircraft (63% of divisional sales) was generally strong throughout 2008. In the commercial large aircraft sector (38% of divisional sales), Boeing and

CHAIRMAN'S STATEMENT

3

CHAIRMAN'S STATEMENT

Board of Directors

Directors' Report

Financial information

Other information

Airbus reported combined net order intake of 1,439 aircraft, well ahead of aircraft deliveries (858 aircraft; 2007 – 894) such that their combined order book grew by 8% during the year to 7,429 aircraft (2007 – 6,848 aircraft). Boeing, the Group's largest customer, suffered a two month strike in the second half of the year which reduced its aircraft deliveries by around 70 aircraft in 2008. The combined order book of Boeing and Airbus now represents eight times current annual deliveries. This is a healthy backlog going into 2009 when deliveries are expected to show a modest increase over 2008, as Boeing recovers from its strike, but net order intake is expected to be lower than the rate of aircraft deliveries for the first time since 2004.

Following substantial delays, Boeing is finally expected to launch its 787 aircraft during 2009. This platform is a significant opportunity for the Group, as it is expected to represent Senior's largest ever ship-set value (between £420k and £775k per aircraft, dependent upon the chosen engine). Boeing has around 880 orders for the aircraft and anticipates ramping up production to at least 120 aircraft per year. The aircraft is currently scheduled to fly for the first time during the second quarter of 2009, and to be delivered to customers starting in the first quarter of 2010. Senior has already installed most of the production capacity required to meet this increased demand.

Deliveries of regional and business jets, whose markets represented 25% of divisional sales, were good during 2008. The combined regional jet deliveries of the two largest manufacturers, Bombardier and Embraer, increased by 9% to 280 aircraft (2007 – 258) and business jet deliveries increased by 16% to 1,315 aircraft (2007 – 1,138). The military and defence sectors (23% of divisional sales) were strong throughout the year, with significantly higher content being won on the growing C130 military transporter programme.

Capo Industries, acquired in January 2008, and Absolute Manufacturing, acquired in December 2007, both contributed positively in their first year with the Group, achieving combined sales of £26.8m and adjusted operating profit of £3.3m, a 12.3% operating margin.

Healthy markets, improved operational efficiencies, acquisitions, new programme wins and beneficial currency

movements, resulted in a 27% increase in the Aerospace Division's sales to £312.9m (2007 – £246.2m) and an increase in adjusted operating profit of 33% to £44.3m (2007 – £33.4m). The divisional operating margin increased for the fifth consecutive year to 14.1% (2007 – 13.6%).

FLEXONICS

Land vehicle markets accounted for 53% of divisional sales in 2008, with the remaining 47% of sales being made to industrial markets such as the petrochemical, power generation, heating and ventilation, and medical markets.

After a satisfactory first half of 2008, all land vehicle markets fell steeply at various times during the second half of the year. In North America, sales of light vehicles were 13.2 million units in 2008 (2007 – 16.1 million), with the annualised sales run rate in the fourth quarter being only 10.3 million units. Sales of medium and heavy duty trucks in North America fell by 20% to 298 thousand units (2007 – 371 thousand). In Europe, sales of light vehicles fell to 15.0 million units (2007 – 16.3 million) as volumes declined markedly in the final quarter of the year.

Senior's industrial markets remained strong throughout 2008 and the operations most exposed to these markets performed excellently. Senior Flexonics Pathway, the Group's largest industrial operation, delivered record results in 2008 on the back of strong petrochemical and power generation markets. Elsewhere, Senior's industrial businesses moved ahead strongly, benefiting from new programmes, increased volumes of products for the solar power generation market, and securing a £16m contract for the nuclear industry for delivery in 2010 and 2011.

As a result of falling demand for land vehicles, swift action was taken and costs reduced at every operation having exposure to these markets, with 16% of the workforce of these operations (380 employees) leaving the Group in the fourth quarter of 2008. Other actions such as reduced working weeks, overtime bans and wage restrictions were also implemented. Headcount has remained relatively stable in the industrial operations as these end markets generally continue at satisfactory levels.

Strong industrial markets, the decisive action taken to reduce the cost base in the land vehicle businesses, a significant operational improvement in the production

CHAIRMAN'S STATEMENT

Board of Directors

Directors' Report

Financial information

Other information

of heavy duty diesel products in North America and currency benefits, resulted in sales for the Flexonics Division increasing by 11% to £250.1m (2007 – £225.0m) and adjusted operating profit improving by 49% to £25.9m (2007 – £17.4m). As a result, the Division's operating margin was 10.4%, 2.7 percentage points higher than the 7.7% reported for 2007 and at its highest level since 2000. Given the marked slowdown across the world in the Group's land vehicle markets, the Division's financial performance for the year was particularly pleasing and is reflective of the quality of the businesses and the prompt action taken by the Group.

EMPLOYEES AND THE BOARD

The Group's employees worked exceptionally hard throughout 2008 and I would like to thank them for the significant contribution they each made to the year's excellent performance. Despite the global uncertainty, it is encouraging to witness, as I visit Senior's operations, the generally high level of morale and commitment exhibited by Senior's workforce. Such an attitude bodes well for the future success of the Group. It was, therefore, with reluctance that headcount levels were reduced towards the end of the year at a number of operations. However, with the sudden and steep fall in some global markets, particularly for land vehicles, such action was necessary to maintain a healthy business for the future.

As previously announced, Mark Rollins took over as Group Chief Executive from Graham Menzies during March 2008, having been Group Finance Director for the previous eight years. The transition has been smooth, with Mark's detailed knowledge of the Group proving advantageous in the current climate. Simon Nicholls was appointed as the Group Finance Director on 1 May 2008, joining Senior from Hanson plc, where he had worked for nine years, latterly as Group Financial Controller and the Chief Financial Officer for Hanson's North American operations. Simon has made a strong start with the Group.

Aerospace markets now account for the majority of the Group's revenue and, cognisant of this fact, the Board added expertise in this area with the appointment of Michael Steel as a non-executive Director on 1 May 2008. Michael had previously worked in an executive capacity for GE Aviation Systems (formerly Smiths Aerospace) for 17 years, and his knowledge and experience of the industry are proving to be beneficial to Senior.

OUTLOOK

The combined order book of Boeing and Airbus represents eight times current annual deliveries. Within this, Airbus has recently announced a modest 6% reduction in build rates of their narrow-bodied aircraft from October 2009, so providing good visibility for the year, whilst Boeing's current forecast is to continue at existing production rates throughout 2009. Boeing's 787 aircraft is expected to ramp up production starting in 2010, providing significant revenue for Senior and partial mitigation for any further decline in

the build rates of existing aircraft. The near-term outlook for the regional and business jet manufacturers has weakened significantly, with many manufacturers seeing large reductions in demand whilst only a few, typically those making the larger business jets, are maintaining production levels for the time being. The military and defence market remains strong and, in the medium term, this market is expected to become increasingly important to Senior, as production rates of the C130 military transporter increase, the Joint Strike Fighter moves from testing and development to full production and the A400M goes into service.

Senior's industrial markets, the largest being power and energy, remain generally healthy and the Group's industrial businesses had strong order books going into 2009. Much of the power generation business is driven by tightening emission requirements for coal-fired generating units and this business looks strong for the foreseeable future. However, demand in the land vehicle markets remains very weak, with the Group's customers typically seeing sales of finished vehicles down 30% to 40% on a year ago. No immediate recovery is anticipated and volumes are expected to remain near to current levels for the foreseeable future. The continuing significant reduction in vehicle sales across the globe is now causing severe financial hardship to automotive vehicle manufacturers, with the governments of many countries stepping in to provide financial support to the industry during the current economic crisis.

As a result of the continuing poor land vehicle markets and also the weakness being seen in some of the regional and business jet markets, the Group is reducing headcount by a further 500 people during the first four months of 2009, of which 95 are expected to be UK-based employees. This headcount reduction is expected to cost around £0.8m and be spread evenly between the Aerospace and Flexonics Divisions. 220 people left the Group in January as part of this programme. When combined with the reduction undertaken in the final quarter of 2008, nearly 1,000 employees (17% of the workforce) will have left the Group by the end of April 2009, a cost reduction of £19m for 2009.

Senior has no material refinancing need until 2012, is strongly cash generative and is operating comfortably within its bank covenants. Whilst the Group's end markets are expected to be challenging, for the foreseeable future, this financial position combined with the decisive actions taken by management to reduce the Group's cost base and the content it has on future growth programmes, such as Boeing's 787 and Lockheed's Joint Strike Fighter aircraft, gives the Board confidence in the long-term future prospects for the Group. 2009 has started satisfactorily, with adjusted profit before tax of £4.7m in January and the level of net debt reducing by £3.4m during the month.

MARTIN CLARK
Chairman