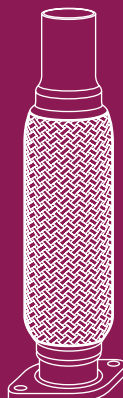
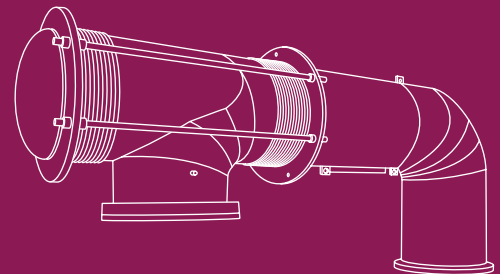


Aerospace



Automotive



Specialised Industrial

# Corporate Profile

Senior is an international manufacturing 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.

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Engine structures and mountings, fluid control systems, metallic high-pressure ducting, composite low-pressure ducting

41% of Group turnover

Flexible exhaust connectors, engine emission pipework, diesel fuel systems, air conditioning/turbo charger pipework

36% of Group turnover

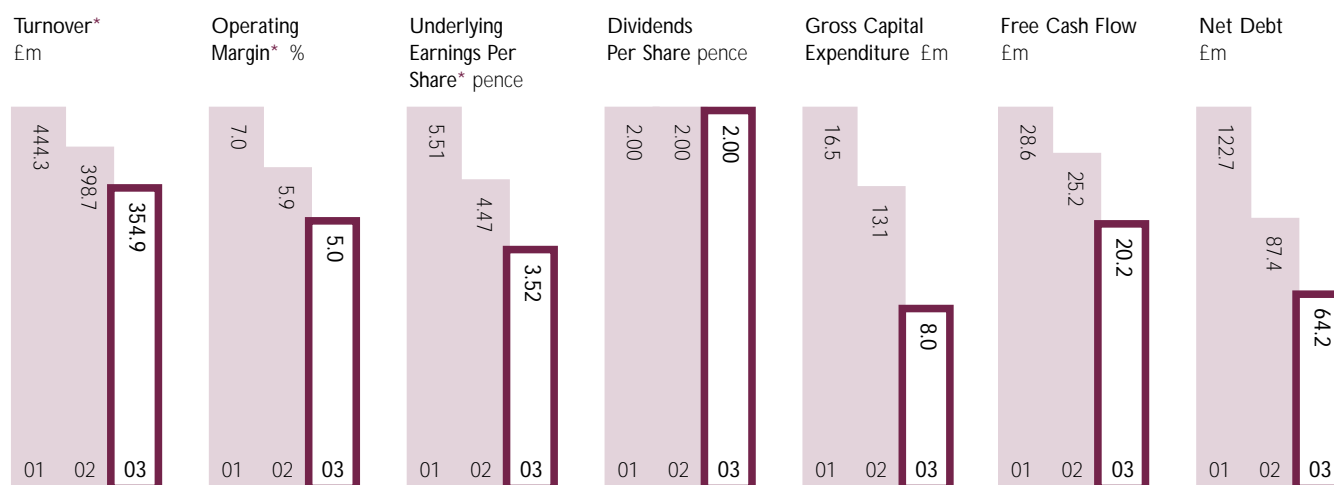
Metallic and fabric expansion joints, flexible metallic hoses, composite hoses, ventilation ducting

23% of Group turnover

## Financial Highlights

Year ended 31 December	2003	2002
Turnover from continuing operations	£354.9m	£398.7m
Operating profit from continuing operations		
– before goodwill amortisation <sup>(1)</sup>	£17.6m	£23.4m
– after goodwill amortisation	£12.2m	£17.6m
Profit before taxation	£7.7m	£7.0m
Free cash flow <sup>(1)</sup>	£20.2m	£25.2m
Net borrowings	£64.2m	£87.4m
Underlying earnings per share <sup>(1)</sup>	3.52p	4.47p
Dividends per share	2.00p	2.00p

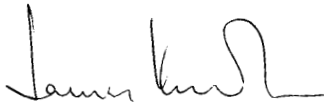
Note<sup>(1)</sup>: see Finance Director's Review for derivation of non-statutory information



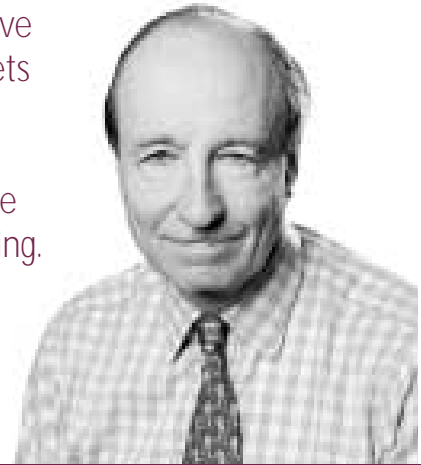
\* Continuing business before impairment and amortisation of goodwill

## 2 Chairman's Statement

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



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.

Across the Group our employees have worked with enthusiasm and commitment throughout another year of change, challenge and cost reduction and I would like to thank them for their loyalty and wholehearted contribution during this period.

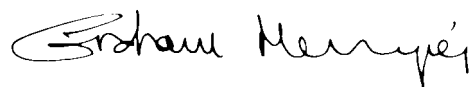
### Outlook

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.

The main markets in which the Group operates remained challenging throughout 2003. Accordingly, programmes aimed at operational improvement, cost and working capital reduction and capital expenditure control were aggressively pursued.



Graham Menzies Chief Executive



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 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 businesses. 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.

## Geographic turnover\*

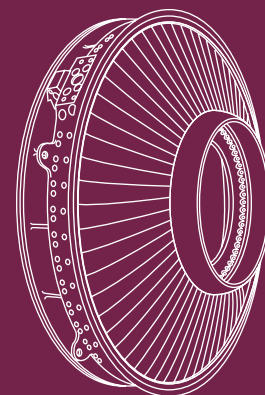
67% North America

10% UK

20% Rest of Europe

3% Rest of World

\*by destination



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 restructured 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 reverted 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.

### Geographic turnover\*

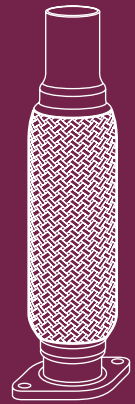
44% North America

7% UK

41% Rest of Europe

8% Rest of World

\*by destination



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.

## Geographic turnover\*

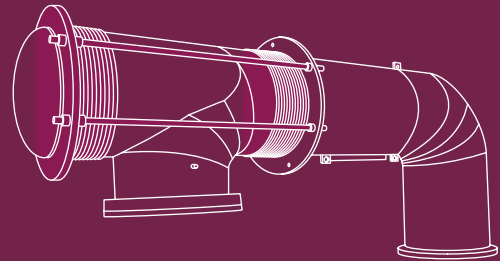
41% North America

37% UK

15% Rest of Europe

7% Rest of World

\*by destination



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 marketplace, 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.

The Group's net borrowings fell by £23.2m to £64.2m (2002 – £87.4m) during 2003. Gearing, on shareholders' funds, at the year-end was 53% (2002 – 72%).



Mark Rollins Finance Director



## 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 2 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%). A reconciliation between the effective tax rate and the UK corporate tax rate of 30% is included in Note 7. 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).

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 10 (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

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
<b>Free cash flow</b>	<b>20.2</b>	<b>25.2</b>
Disposals and acquisitions	0.4	2.2
Dividends paid	(6.1)	(2.5)
Effect of exchange rates	8.7	10.4
<b>Reduction in net borrowings</b>	<b>23.2</b>	<b>35.3</b>
<b>Net borrowings</b>	<b>64.2</b>	<b>87.4</b>

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 with full details being disclosed in Note 24 (a). 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 are provided in Note 24 (c) and 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 2.
- 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 9 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.

#### Going Concern

After undertaking a review of the future prospects and funding of the Group, the Directors are of the opinion that the Group has adequate financial resources to continue to operate for the foreseeable future. Consequently the accounts were prepared on a going concern basis.



**1 James Kerr-Muir**

**Non-Executive Chairman\*, Age 63**

Chairman of Davenham Group plc and a non-executive director of Yates Group plc and Gartmore Fledgling Trust plc. He joined the Board in 1996 and was appointed Chairman in 2001. He is also Chairman of the Remuneration Committee. The Board considers James Kerr-Muir to be independent.

**2 Graham Menzies**

**Group Chief Executive, Age 56**

Joined as Group Chief Executive in 2000 previously having been with Adwest Automotive plc for over 14 years, latterly as Chief Executive. He holds graduate and post-graduate qualifications in Mechanical Engineering and Machine Tool Technology.

**3 Mark Rollins**

**Group Finance Director, Age 41**

A Chartered Accountant, he began his accountancy career with BDO Binder Hamlyn before joining Morgan Crucible plc where he held a number of senior corporate and operational finance roles. He joined the Group in 1998 as Divisional Finance Director and became Group Finance Director in 2000, when he joined the Board. He is Chairman of the Group's Treasury Committee.

**4 Michael Sheppard**

**Executive Director, Age 45**

Joined the Board on 1 September 2002. A citizen of the United States, he has worked for Senior for a number of years, and is the Chief Executive of the Automotive and North American Industrial Division.

**5 Martin Clark**

**Non-Executive Director\*, Age 58**

Joined the Board in 2001 and is also a non-executive director of Clarkson plc. During the year, he retired from the boards of BPB plc and Blick plc. He is Chairman of the Audit Committee and of the Trustee Board of the Senior plc Pension Plan. He was appointed the Company's Senior Independent Director during the year. The Board considers Martin Clark to be independent.

**6 Richard Turner CMG, OBE**

**Non-Executive Director\*, Age 61**

He is a non-executive director of Corus Group plc and was the Group Marketing Director of Rolls-Royce plc before retiring from that company in June 2003. He joined the Board in 1996 and is Chairman of the Nominations Committee. He retires from the Board at the conclusion of the AGM on 16 April 2004. The Board considers Richard Turner to be independent.

**Main Board**

The main Board met a total of ten times during the period 1 January 2003 to 31 December 2003. All the Directors attended the ten Board Meetings, with the exception of Richard Turner, who attended nine.

**Audit Committee**

Martin Clark (Chairman), James Kerr-Muir, Richard Turner. Met three times during the year.

**Remuneration Committee**

James Kerr-Muir (Chairman), Martin Clark, Richard Turner. Met twice during the year.

**Nominations Committee**

Richard Turner (Chairman), Martin Clark, James Kerr-Muir. Met three times during the year.

There was full attendance at every Committee of the Board during the year.

\*Member of the Audit, Remuneration and Nominations Committees

# 10 Report of the Directors

The Directors present their report and supplementary reports, together with the audited financial statements for the year ended 31 December 2003.

## Activities and Business Review

Senior plc is a holding company. Its Principal Group Undertakings are shown on page 47 and comments on each Division's results and activities in 2003 are included in the Chief Executive's Review on pages 3 to 6.

## Acquisitions and Disposals

There were no acquisitions or disposals during the year.

## Results and Dividends

The results for the year are shown in the Group Profit and Loss Account on page 22.

An interim dividend of 0.65p per share (2002 – 0.65p) has already been paid and the Directors recommend a final dividend of 1.35p per share (2002 – 1.35p). The final dividend, if approved, will be payable on 27 May 2004 to shareholders on the register at the close of business on 30 April 2004. This brings the total dividend for the year to 2.00p per share (2002 – 2.00p).

## Share Capital

During 2003, 2,376 shares were allotted in respect of the Senior plc Savings Related Share Option Plan. A further 2,401 shares were allotted under the same Plan in February 2004. Further details concerning share capital are given in Note 21 to the Accounts.

## Directors

The Directors who served during the year and their interests in the shares of the Company are included in the Report of the Directors – Remuneration Report on pages 12 to 16. None of the Directors has any interest in contracts with the Company or its subsidiary undertakings. J R Kerr-Muir and M Rollins retire by rotation and, being eligible, offer themselves for re-election at the AGM. J R Kerr-Muir has no service agreement with the Company and M Rollins has a service agreement subject to 12 months' notice by either party. R T Turner is to retire from the Board at the conclusion of the AGM on 16 April 2004 having served eight years.

## Research and Development

In 2003, the Group incurred £4.0m (2002 – £4.0m) on research and development, before recoveries from customers of £0.2m (2002 – £0.2m). The majority of the Group's efforts are devoted towards product development and improved manufacturing techniques.

## Charitable and Political Donations

During the year the Group made charitable donations amounting to £17,000 (2002 – £45,000), principally to local charities serving the communities in which the Group operates. No political donations were made.

## Policy on Payment of Creditors

The Group's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction and to seek to adhere to those terms. Based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by suppliers, the number of days outstanding at the year-end was 16 days (2002 – 16 days). However, these figures are not considered indicative of the typical payment terms adhered to, which are estimated to be on average about 30 days.

## Major Shareholdings

At 3 March 2004, the following shareholders had advised holdings in excess of 3% of the issued share capital of the Company:

Schroder Investment Management Limited	33,694,012	10.96%
HSBC Asset Management	16,950,327	5.51%
AXA Investment Management Limited	16,284,590	5.30%
Legal & General Investment Management Limited	15,118,003	4.92%
Deutsche Asset Management Limited	13,706,031	4.46%
HBOS PLC	12,361,671	4.02%
JO Hambro Capital Management Group Limited	9,333,953	3.04%
S G Asset Management	9,308,520	3.03%
BriTel Fund Nominees Ltd	9,286,618	3.02%

So far as is known, no other shareholder had a notifiable interest amounting to 3% or more of the share capital of the Company and the Directors believe that the close company provisions of the Income and Corporation Taxes Act 1988 (as amended) do not apply to the Company.

### Compliance with the Hampel Code

Statements of compliance with the Hampel Code and on internal controls are set out on page 20.

### Report of the Directors – Remuneration Report

The Company's policy on executive Directors' remuneration is set out in the Report of the Directors – Remuneration Report on pages 12 to 16. The Report of the Directors – Remuneration Report is to be put to shareholder vote at the Annual General Meeting on 16 April 2004.

### Special Business at the Annual General Meeting

Shareholders will see from the Notice of Meeting that they are asked to consider as Special Business and, if thought fit, to pass the following resolutions:

1. Authority to Allot Shares – The Companies Act 1985 prevents Directors from allotting unissued shares without the authority of shareholders in general meeting. Resolution 7 will empower the Directors to issue the authorised but unissued share capital of the Company up to an aggregate nominal amount of £10,200,000 (representing 102,000,000 ordinary shares of 10p each and approximately one third of the total share capital in issue as at 3 March 2004, being a date not more than one month prior to this Notice). The Directors have no present intention of exercising this authority, other than in connection with the grant of share options.

2. Disapplication of Pre-emption Rights – Resolution 8 allows the Directors to make issues for cash, on a non pre-emptive basis, amounting to an aggregate nominal amount of £1,500,000 (representing 15,000,000 ordinary shares of 10p each and approximately 5% of the total share capital in issue as at 3 March 2004, being a date not more than one month prior to this Notice). The resolution will also allow the Directors to make a rights issue, open offer or other pre-emptive offers without the need to comply with the technical requirements of the relevant statutory provisions which are problematic, particularly with regard to overseas shareholders.

If approved, the authorities granted by Resolutions 7 and 8 will last for five years and shall expire on 16 April 2009.

3. Authority to Purchase its Own Shares – Resolution 9 seeks authority for the Company to make market purchases of its own shares for cancellation up to a maximum of 30,700,000 shares representing approximately 10% of the issued ordinary share capital. The Directors may make purchases of the Company's shares if it considers such purchases will result in an increase in earnings per share and are considered to be in the best interests of shareholders generally. The seeking of this authority should not be taken to imply that shares will be purchased.

The Directors believe that it is in the best interests of shareholders that the Company should have the flexibility to make market purchases of its own shares. The number of options to subscribe for equity shares in the Company that are outstanding on 3 March 2004 was 19,331,524 representing 6.29% of the issued share capital at that time. If the full authority to buy back shares is used then such options will represent 6.99% of the issued share capital of the Company.

The authority granted by Resolution 9 shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2005 or, if earlier, on 16 July 2005. It is intended that the authority granted by Resolution 9 will be renewed annually.

### Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board  
Andrew Bodenham, Secretary  
3 March 2004

## 12 Report of the Directors – Remuneration Report

The Remuneration Committee is constituted in accordance with the Hampel Code and consists entirely of non-executive Directors. J R Kerr-Muir (Chairman), M Clark and R T Turner were members of the Committee throughout the year. The primary role of the Committee is to consider and make recommendations to the Board concerning the remuneration packages and conditions of service of the executive Directors and senior management subject to ratification by the Board.

During the financial year the Committee met twice. Details of Directors' attendance at these meetings are disclosed on page 9.

### Advisers to the Remuneration Committee

All advisers to the Remuneration Committee are appointed and instructed by the Committee members. During the year, the Committee was advised by Slaughter and May, Mercer Human Resource Consulting, and the Group Company Secretary.

### Remuneration Policy

In determining remuneration of the executive Directors, the Committee seeks to maintain a competitive programme, which enables the Company to attract and retain the highest calibre of executive. The performance-related elements of remuneration form a significant proportion of the total remuneration package of executive Directors, details of which are set out in paragraphs (c) and (d) below. They are designed to align their interests with those of shareholders and to give such executive Directors incentives to perform at the highest levels.

The non-executive Directors, who are all independent, do not participate in any pension, bonus, share incentive or other share option plans. Their remuneration reflects both the time given and the contribution made by them to the Company's affairs, including membership or chairmanship of the Board or its Committees. The remuneration of the non-executive Directors is determined by the Board of Directors. The non-executive Directors do not participate in any discussion or decisions relating to their own remuneration.

Before recommending proposals for Board approval, the Remuneration Committee ordinarily seeks advice from external remuneration consultants to ensure it is fully aware of comparative external remuneration practice as well as legislative and regulatory developments. However, the services of remuneration consultants were not used in determining the 2004 salaries, as the base salaries of the executive Directors are to remain the same as the 2003 salaries.

### a) Service Agreements

Each executive Director has a service agreement providing for a rolling period of notice of one year. There are no provisions in those agreements or otherwise for additional termination payments. The service agreements for G R Menzies, M Rollins and M Sheppard are dated 27 April 2000, 1 November 2000 and 4 February 2004, respectively. The agreements contain provisions requiring the Director to mitigate his loss in the event of termination.

The non-executive Directors do not have service agreements with the Company. J R Kerr-Muir was appointed Chairman under an initial fixed three year contract from 11 May 2001 terminable upon 12 months' notice on or after the third anniversary. M Clark was appointed with effect from 1 February 2001 for an initial three year term, which has been renewed for a further three year term with effect from 1 February 2004. R T Turner is to retire from the Board at the conclusion of the AGM on 16 April 2004.

With prior approval of the Board, executive Directors may hold external non-executive directorships and retain any fees paid for these appointments. At the year-end no executive Director held such a position.

### b) Base Salaries

In setting the base salary of each Director, the Committee takes into account the pay practice of other companies and the performance of that Director. The Committee is also responsible for ratifying the salaries of all the senior managers of the Group, representing approximately 180 employees, and therefore is fully cognisant of pay levels in the Group when determining the pay of the executive Directors. Notwithstanding these considerations, the Committee is conscious of the significant cost pressures on the Company by customers and the need to rebuild earnings. The Board as a whole has agreed to freeze their base salaries or fees for 2004.

### c) Annual Performance Bonus Scheme

Under the performance bonus scheme, bonuses of between 0% and 100% (2002 – 0% and 100%) of basic salary could be earned by the executive Directors depending on the Group's actual performance compared to the prior year and to internal targets in respect of underlying earnings per share and cash flow. The table below provides details for 2002 and 2003 of the maximum possible awards together with details of the bonuses paid to G R Menzies and M Rollins as a percentage of their respective salaries:

	Cash flow target		Earnings per share target		Total %
	Interim %	Full year %	Internal target %	Year on year growth %	
Maximum possible award for 2002 and 2003	10	15	45	30	100
2002 bonus paid	10	15	–	–	25
2003 bonus paid	10	15	2	–	27
2004 maximum possible award	6	9	20	25	60

As 2003 was the first full year in which M Sheppard served as a Director of the Company (in addition to his role as Chief Executive of the Automotive and North American Industrial Division) his bonus for the year was 80% dependent on the operating profits and cash flow performance of the Automotive and North American Industrial Division and 20% on Group performance. In 2003 he earned a bonus of 23.8% of salary (2002 – 61.0%) consisting of 18.4% for Divisional performance and 5.4% for Group performance.

The scheme in place for 2004 is largely unchanged from the 2003 scheme. However, given the significant reduction in the Company's net debt levels over recent years, the targets for 2004 have been amended to increase the focus on the rebuilding of earnings. In addition, the maximum payout levels under the scheme have been reduced from 100% to 60% of basic salary as shown in the table above.

#### d) Share Plans

The Company's policy regarding the granting of share options is to encourage participating Directors and other employees to build and retain a long-term stake in the Group and align their interests with those of the shareholders.

All executive Directors are eligible for the following share plans:

##### i) 1999 Executive Share Option Plan ("the Plan")

The Plan, which is open to executive Directors and other senior managers, was launched following its approval by shareholders at the Annual General Meeting in May 1999 with the performance target determined by the Remuneration Committee to be challenging in the light of the Company's performance and prevailing financial circumstances at the time. Any performance target must be no less challenging than the one it replaces.

The maximum number of shares over which options may be awarded to a participant is subject to their value at the time of grant not exceeding:

- a. 100% of the Director's basic salary at the time of the award;
- b. 125% of the Director's basic salary taking into account the combined notional current value of all awards under the LTIP and awards under the Plan in any year; and
- c. the £30,000 statutory limit for the Approved Option element of the Plan.

The total value of options under the Plan and any earlier executive share option schemes, to subscribe for new issue shares granted in any ten year period should not exceed 4 x current annual basic salary or, if higher, remuneration excluding benefits in kind over the previous 12 months. Where options have already been exercised, further "replacement" options may be granted provided that the market value of all outstanding options does not exceed 4 x current annual basic salary or, if higher, remuneration (excluding benefits in kind) over the previous 12 months.

All options granted under this Plan to date will, in normal circumstances, only become exercisable if the Group's underlying earnings per share grows by not less than 4% p.a. compound above the growth in the UK Retail Prices Index over a period of three or more financial years. If not exercised within six years of the date of grant the options will lapse.

Options granted to the Directors are shown under Directors' Interests together with the base underlying earnings per share figure to be used when determining whether the performance target has been met.

For options granted in future, the Remuneration Committee will take into account shareholders' views on performance targets and retesting.

##### ii) Long Term Incentive Plan

Following approval by shareholders at the Annual General Meeting in May 1996, the Long Term Incentive Plan was launched with a five year life which was subsequently extended for a further ten years at the May 2001 Annual General Meeting.

The maximum aggregate value of awards that may be made to an employee in any financial year is 60% of a participant's basic salary at the date of the award. In October 2001, awards, under the new performance criteria, were made to the executive Directors and are shown on page 14 under Directors' Interests, together with the base underlying earnings per share figure to be used in determining whether the performance target has been met. These are the only outstanding awards under the Long Term Incentive Plan. The performance criteria for this award are based on EPS growth performance in excess of inflation, relative to the EPS for the financial year 2000 of the Company, over the four year "restricted period". For the purposes of the award EPS was defined as Earnings Per Share before amortisation of goodwill, profit/loss on sale of fixed assets and profits/losses on disposal of operations and associated undertaking(s). The proportion of the award which may be released is dependent on the percentage annual EPS growth, details of which are set out in the table below:

Percentage annual growth	Proportion of award
Less than 3%	Nil
3%	30%
More than 3% but less than 8%	Pro-rata from 30% and 100%
8% or more	100%

If the performance requirement is not achieved by 30 October 2005, the award shall lapse. The Company currently anticipates that no shares will be distributed under this award.

## 14 Report of the Directors – Remuneration Report *continued*

### iii) Savings Related Share Option Plan

The Company's Savings Related Share Option Plan was first launched in 1996 to eligible employees across the Group. There are no performance criteria for this arrangement and options are issued to all participants in accordance with the Inland Revenue rules for such savings related plans.

As employees, executive Directors are eligible to participate and their options under the Plan are shown below under Directors' Interests.

### e) Retirement Benefits

G R Menzies' and M Rollins' pension arrangements are provided by the Group plan and are based upon their pensionable salaries up to the Inland Revenue "cap". M Sheppard participates in a defined benefit plan and a defined contribution plan both of which are made available to the Group's US employees. His base salary is pensionable up to a "cap" of \$200,000 p.a.

### f) Other Benefits

There are non-cash benefits including provision of a fully expensed car and medical insurance.

### Directors' Emoluments

The information presented in the remainder of this report has been audited, with the exception of the Directors' Interests in shares and the Total Shareholder Return graph.

Aggregate remuneration	2003 £000's	2002 £000's
Emoluments	1,023	881
Gains on exercise of share options and incentives (see below)	–	–
Money purchase pension contributions	10	3
<b>Total</b>	<b>1,033</b>	<b>884</b>

Directors' emoluments	Salary or fees £000's	Bonus £000's	Taxable benefits £000's	2003 Total £000's	2002 Total £000's
<b>Executive</b>					
G R Menzies	314	85	16	415	408
M Rollins	185	50	13	248	238
M Sheppard	174	41	14	229	104
<b>Non-executive</b>					
J R Kerr-Muir	72	–	–	72	72
M Clark	34	–	–	34	34
R T Turner	25	–	–	25	25
	<b>804</b>	<b>176</b>	<b>43</b>	<b>1,023</b>	<b>881</b>

Bonuses as shown above are payable to G R Menzies, M Rollins and M Sheppard under the Annual Performance Bonus scheme. The comparative for M Sheppard covers the period from appointment on 1 September 2002.

The above figures for emoluments do not include any amount for the value of share options or awards granted to, or held by, Directors.

### Directors' Interests

The Directors who served during the year and their interests (which are all beneficial), including family interests, in the 10p ordinary shares of the Company were as follows:

Shares	Shares 2003	Shares 2002
G R Menzies	500,000	500,000
M Rollins	100,000	100,000
M Sheppard	–	–
J R Kerr-Muir	120,819	120,819
M Clark	20,000	20,000
R T Turner	36,900	36,900

No change in any of the Directors' share interests occurred during the period 31 December 2003 to 3 March 2004.

Options and other share incentives				Gains on exercise/	Market price on exercise/				Exercise period/
Date of grant/award	At 31.12.02	Granted 2003	Exercised 2003	vesting 2003	vesting 2003	Lapsed 2003	At 31.12.03	Option price	maturity date
<b>G R Menzies</b>									
1999 Executive Share Option Plan									
05.04.00	227,272	-	-	-	-	-	227,272	82.50p	3 years to 04.04.06
13.09.00	230,755	-	-	-	-	-	230,755	54.17p	3 years to 12.09.06
12.03.03	-	1,019,552	-	-	-	-	1,019,552	23.08p	3 years to 11.03.09
Sharesave Plan									
06.10.00	38,793	-	-	-	-	-	38,793	43.50p	6 months to 31.05.06
Long Term Incentive Plan – Performance Awards									
31.10.01	270,000	-	-	-	-	-	270,000	-	30.10.05
<b>M Rollins</b>									
1999 Executive Option Plan									
13.05.99	37,172	-	-	-	-	-	37,172	154.35p	3 years to 12.05.05
13.09.00	276,906	-	-	-	-	-	276,906	54.17p	3 years to 12.09.06
12.03.03	-	521,014	-	-	-	-	521,014	23.08p	3 years to 11.03.09
Sharesave Plan									
06.10.00	22,270	-	-	-	-	-	22,270	43.50p	6 months to 31.05.04
Long Term Incentive Plan – Performance Awards									
31.10.01	180,000	-	-	-	-	-	180,000	-	30.10.05
<b>M Sheppard</b>									
1999 Executive Share Option Plan									
13.05.99	48,924	-	-	-	-	-	48,924	154.35p	3 years to 12.05.05
13.09.00	328,173	-	-	-	-	-	328,173	54.17p	3 years to 12.09.06
12.03.03	-	499,747	-	-	-	-	499,747	23.08p	3 years to 11.03.09
Sharesave Plan									
06.10.00	24,018	-	-	-	-	-	24,018	43.50p	6 months to 31.05.04
Long Term Incentive Plan – Performance Awards									
31.10.01	180,000	-	-	-	-	-	180,000	-	30.10.05

Details of the 1999 Executive Share Option Plan and the Long Term Incentive Plan may be found on page 13.

Options granted from 1999 onwards and awards under the Long Term Incentive Plan become exercisable only when certain performance targets have been met. The base underlying earnings per share figures used to determine whether the target has been met are as follows:

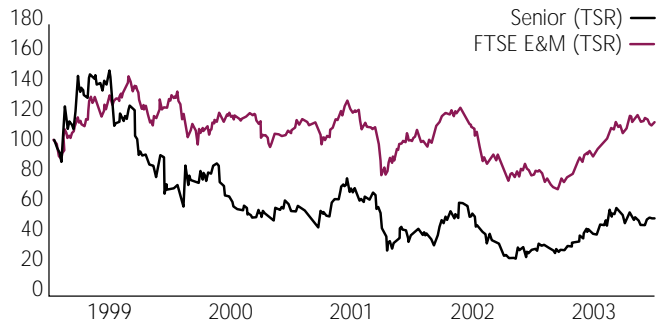
Date of grant	13.05.99	05.04.00	13.09.00	31.10.01	12.03.03
Base underlying EPS	11.75p	6.03p	6.03p	5.87p	4.47p

The total net value of the Directors' unexercised options, all of which were unexercisable, at 31 December 2003 was £304,414 (2002 – £nil) representing options held by G R Menzies (£152,117), M Rollins (£77,735) and M Sheppard (£74,562). The net value of unexercised options is the positive difference between the closing middle market price of the Company's shares at the year-end (38.00p per share) and the exercise price of the options. It does not take into account the likelihood of the performance targets being met.

Inclusive of the above Long Term Incentive Plan awards to Directors, at 31 December 2003, 870,716 ordinary shares (2002 – 870,716 ordinary shares) were held by the Senior plc Employee Benefit Trust, a discretionary trust resident in Jersey. The market value of these shares at 31 December 2003 was £331,000 (2002 – £209,000). The Trust has materially waived its rights to dividends on these shares. The potential beneficiaries of this Trust include executive Directors and senior management within the Group and, accordingly, the executive Directors are collectively interested in these shares.

The middle market price of the shares at 31 December 2003 was 38.00p (2002 – 24.00p). During 2003 the shares traded in the range of 21.00p to 45.00p.

## 16 Report of the Directors – Remuneration Report continued



This graph compares the Total Shareholder Return of the Company's shares against the FTSE Engineering and Machinery Index over a five-year period (where dividends are included gross of tax). This index allows a comparison to be made against organisations facing broadly similar economic and market conditions as the Company.

### Directors' Pension Entitlements

The Directors had accrued entitlements under final salary plans as follows:

	Gross increase in accrued pension (A) £000's	Increase in accrued pension net of inflation (B) £000's	Total accrued pension at 31.12.03 (C) £000's	Value of net increase in accrual over period (D) £000's	Change in transfer value during period (E) £000's	Transfer value of accrued pension at 31.12.03 (F) £000's	Transfer value of accrued pension at 31.12.02 (G) £000's
G R Menzies	3	3	12	45	59	195	129
M Rollins	3	3	12	16	24	91	62
M Sheppard	3	2	26	4	8	42	38
<b>Total</b>	<b>9</b>	<b>8</b>	<b>50</b>	<b>65</b>	<b>91</b>	<b>328</b>	<b>229</b>

1. Pension accruals shown are the amounts which would be paid annually on retirement based on service to the end of the year.
2. Transfer values as at 31 December 2002 and 31 December 2003 have been calculated in accordance with version 1.5 of Guidance Note GN11 issued by the actuarial profession.
3. The value of net increase (D) represents the incremental value to the Director of his service during the year, calculated on the assumption that service terminated at the year-end. It is based on the accrued pension increase (B) after deducting the Director's contribution.
4. The change in the transfer value (E) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors, such as stock market movements. It is calculated after deducting the Director's contribution.
5. Voluntary contributions paid by Directors and resulting benefits are not shown.
6. The figures quoted last year for M Sheppard were overstated. His benefits have now been clarified and restated above.
7. The figures quoted above for M Sheppard include the defined benefit element of his pension only. In addition, he has a defined contribution arrangement, to which the Company paid \$17,000 during the year.

### Shareholder approval for the Remuneration Report

The Company is proposing an ordinary resolution to its shareholders approving this Remuneration Report.

James Kerr-Muir  
Chairman of the Remuneration Committee  
for and on behalf of Senior plc  
3 March 2004

# Report of the Directors – Ethical, Social, Health, Safety and Environmental Report

## Principles

The policy of the Company is to enhance shareholder value recognising the importance, in achieving that, of operating in an ethical and socially responsible manner which helps to preserve health, safety and the environment. The Company believes that operating in an ethical and socially aware manner which helps to preserve health, safety and the environment is an integral part of efficient and profitable business management and recognises that success in these areas depends on the involvement and commitment of everyone in the organisation. As a minimum, the Company's operations around the world (the "Group") must meet their legal and regulatory obligations.

## Goals

### a) Ethical Operations

Applications for employment by disabled persons are encouraged, bearing in mind the respective aptitudes, skills and abilities of the applicant concerned and the requirements of the position. In the event of employees becoming disabled, the Group's aim is to ensure continued employment with appropriate training being arranged if required. It is the policy of the Group to maintain, wherever feasible, the training, career development and promotion of disabled persons.

Group policy is that employment-related decisions are based on relevant aptitudes, skills and abilities and promotes a policy of equal opportunity in employment, without unlawful consideration of sex, sexual orientation, race, nationality, age, disability, religion or any other category protected by law.

The Group promotes the dissemination of relevant information so that employees are kept regularly advised of Group and operating company developments. Where practical, local briefing sessions are held concerning such matters as health and safety, performance-related incentive plans, the Group's Sharesave Plan (which operates wherever practical in the larger companies within the Group), pension plans, etc.

There is a formal Code of Business Conduct in place for the Group, which promotes a commitment to maintaining the highest standard of ethics and integrity in the conduct of the Group's business throughout the world. During the year, the Board implemented a revised Whistle Blowing policy.

### b) Socially Aware Operations

The management of each operation in the Group is aware of the importance of being a good neighbour in its community and is encouraged to build a relationship with local organisations. Each Group operation aims to recognise and respond constructively to any community concerns about the health, safety and environmental aspects of its operations. Each operation within the Group strives to offer a competitive remuneration package to its employees.

### c) Preserving Health and Safety

The Group seeks to maximise employees' involvement in health, safety and environmental matters by open communication and encouragement of active participation. Each operation aims to provide sufficient resources in terms of people, training, plant and equipment to meet applicable health and safety obligations. The Group's operations strive to improve health and safety at work through, among other things, the use of internal assessments and regular reports on performance.

### d) Preserving the Environment

While already subject to various laws and regulations governing the emission of substances which could affect human health or the environment, each operation examines different means by which to reduce further such emissions. The Group strives both to reduce waste at source by careful use of materials, energy and other resources and to take advantage of recycling opportunities. Each operation aims to provide resources in terms of people, training, plant and equipment to meet applicable environmental obligations. The Group's operations strive to improve environmental protection through, among other things, the use of internal assessments and regular reports on performance. Operations which represent almost a quarter of the Group's turnover have already obtained ISO14001, the international environmental accreditation. Each operation considers, early in the development stage, the possible environmental impact of new products and processes and the Group carefully considers environmental issues during acquisitions and divestments.

## Organisation and Responsibilities

Operating in an ethical and socially aware manner which preserves health, safety and the environment is a mainstream management responsibility. Executive and line managers at all levels within the Group are directly responsible through the normal management structure for these matters in the specific operations under their control. All the Group's employees have a responsibility to act in an ethical and socially aware manner, to take reasonable care of themselves and others while at work and to participate positively in the task of preserving workplace health and safety and the environment.

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Each operation is expected to adopt policies in keeping with these principles and goals which also describe the local organisation and arrangements for putting them into practice. Each operation also has a person appointed to this task who is responsible to the general manager of the operation for the implementation of these principles and goals.

Ethical, social, health, safety and environmental factors can represent risks to the Group's short and long-term value, as well as opportunities to enhance value that may arise from an appropriate response. The Board has established reporting structures to provide it with information on such risks and opportunities:

- Ethical, social, health, safety and environmental issues that represent significant business risk or opportunity are monitored and reported as part of the risk management process initiated following the Turnbull Report on corporate risk management, as described in the Report of the Directors – Corporate Governance Report. The risk management process adopted includes procedures for monitoring and verification of matters reported.
- Other important ethical, social, health, safety and environmental matters are reported to the Group Executive and the Group Board by the Group's Divisional Directors on a regular basis as part of their reports on operational matters.

The Group Chief Executive heads the ethical, social, health, safety and environmental function of the Board.

## Report of the Directors – Corporate Governance Report

This Corporate Governance Report describes the manner in which the Company has applied the Principles of Good Governance set out in Section 1 of the Hampel Code of Corporate Governance and whether or not it has complied with the Hampel Code provisions.

In July 2003, the Financial Reporting Council issued a new Combined Code, known as the FRC Code, in response to the Higgs Review on Non-Executive Directors and the Smith Review on Audit Committees. The Company complies with the majority of its provisions, although the Board is not required to report on their compliance with the FRC Code until they report to shareholders in respect of the financial year ending 31 December 2004.

### **Application of the Principles**

The Principles of Good Corporate Governance are detailed in the Hampel Code under four areas which have each been reviewed by the Directors and then commented upon below:

#### **a) Directors**

The Directors consider that there is in place an effective Board which leads and controls the Group with clear divisions of responsibility between running the Board and running the Group's business.

The Board is structured under a non-executive independent Chairman and currently includes three executive Directors and two other non-executive independent Directors who were selected for appointment because of their wide industrial and commercial experience. In addition, there is a Group Executive Committee, chaired by the Group Chief Executive which includes, along with the executive Directors, other key executives within the Group. Brief details of the Board are included on page 9.

The Board meets formally on a regular basis (ten times in 2003) and in addition there were three meetings of the Audit Committee in 2003, together with two meetings of the Remuneration Committee and three meetings of the Nominations Committee. Other Committees are appointed by the Board to deal with treasury matters and specific issues such as acquisitions and disposals. The minutes arising from the Committee Meetings are available to the Board.

Procedures are in place to ensure that the Directors are properly briefed so that the decisions taken by the Board are based on the fullest available information. At every Board Meeting there are reviews of operational, financial and administrative matters while social, environmental and ethical issues and other matters such as health and safety, agreement of budgets and levels of insurance cover are reviewed whenever appropriate.

There is a procedure by which all Directors can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

#### *Nominations Committee*

The Nominations Committee leads the process for Board appointments and supervises management development and succession plans. It makes recommendations to the Board on all new Board appointments. The composition of the Committee, which consists entirely of independent non-executive Directors, is shown on page 9, and its terms of reference may be found on the Company's website.

The appointment of new non-executive Directors to the Board is controlled by the Committee and assisted by appropriate external recruitment consultants. In conjunction with the external consultant, consideration is given to the role and the capabilities required for a particular appointment. Based on agreed criteria, the consultant then produces a shortlist of candidates, from which the Committee presents its recommendation to the Board.

During the year, the Board formalised a process to evaluate its own performance and that of its committees and individual Directors. The performance evaluation process will commence in 2004, the results of which will be used to improve Board performance and determine the training needs of the Directors.

In accordance with the Company's Articles, Directors submit themselves for re-election at the Annual General Meeting following their appointment and thereafter at intervals of no more than three years.

#### b) Directors' Remuneration

The Report of the Directors – Remuneration Report on pages 12 to 16 describes how the Board has applied itself to remuneration matters.

#### c) Relations with Shareholders

The Company maintains regular contact with its institutional shareholders. Each year, the Chief Executive and Finance Director undertake a series of meetings with the Company's major shareholders, following the announcement of the full year and interim results, to discuss both strategic objectives and the detailed performance of the business. During 2003, James Kerr-Muir, the Company's non-executive Chairman also attended the full year and interim results announcements to shareholders and analysts in March and August respectively. No other non-executive Director formally met with shareholders during the year. M Clark, the newly appointed Senior Independent Director, is available to attend shareholder meetings if this is requested by shareholders, so providing an alternative channel of communication between the Company and its shareholders.

The Company also makes constructive use of the Annual General Meeting to communicate with private investors. A detailed presentation of the Company's performance is given at the AGM and a copy of the presentation, along with other investor relations material, is made available on the Company's website.

All resolutions at the 2003 AGM were passed unanimously on a show of hands. Details of the proxy voting received by the Company for the 2003 AGM are set out in the table below.

#### Proxy voting for the 2003 AGM

Resolution	For (votes)	Against (votes)	Discretionary (votes)	Abstentions (votes)	Total (votes)
1. To adopt Report & Accounts	164,223,970	19,143	174,561	10,800	164,428,474
2. To approve Remuneration Report	119,100,863	39,831,069*	190,082	5,306,460	164,428,474
3. To declare a dividend	160,066,342	33,303	177,361	4,151,468	164,428,474
4. To re-elect M Clark as a Director	164,103,028	94,927	217,719	12,800	164,428,474
5. To re-elect G R Menzies as a Director	164,129,795	60,531	219,932	18,216	164,428,474
6. To elect M Sheppard as a Director	164,106,666	67,156	241,452	13,200	164,428,474
7. To elect R T Turner as a Director	155,261,974	90,013	223,137	8,853,350	164,428,474
8. To re-appoint Deloitte & Touche as auditors	159,967,620	70,009	207,126	4,183,719	164,428,474
9. Authority to allot shares	164,025,842	140,652	211,489	50,491	164,428,474
10. Disapplication of pre-emption rights	164,055,939	139,009	217,226	16,300	164,428,474
11. Authority to buy back shares	161,413,931	406,922	203,189	2,404,432	164,428,474

\*The majority of the votes cast against Resolution 2 were received from a small number of institutional shareholders. The Company was advised that their vote was cast due to the shareholders' desire for greater disclosure in the Remuneration Report of the maximum possible awards that may be granted to executive Directors under the Company's share schemes, and the performance targets for the Executive Share Option Scheme and Long Term Incentive Plan being Earnings Per Share, rather than Total Shareholder Return, based. This year's Remuneration Report contains greater detail relating to the maximum possible awards. For options granted in future, the Remuneration Committee will take into account shareholders' views on performance targets and retesting.

The total number of proxy votes received for the 2003 AGM represented approximately 53.5% of the issued share capital of the Company. The Company is supportive of initiatives to promote greater shareholder participation and for the 2004 AGM will be offering CREST members the facility to appoint a proxy or proxies through the CREST electronic proxy appointment service. Further details of this service may be found in the enclosed Notice of the Annual General Meeting.

#### d) Accountability and Audit

##### Financial Reporting

The Board believes that the Annual Report properly presents a balanced and understandable assessment of the Group's position and prospects.

There is an independent internal audit function, which includes a cyclical programme of visits to all Group operations. The Group Internal Audit function also co-ordinates semi-annual Financial Integrity Declarations and self-assessment questionnaires applied on a cyclical basis and subjected to review. The results of these reviews and internal audit visits are reported to the Audit Committee, along with those from the external auditors.

The Audit Committee reviews the scope, cost and timing of the work of the external auditors and acts to ensure their findings are appropriately implemented. Whilst the Company does not have a policy of subjecting its external auditors to a regular fixed term rotation, the Committee remains cognisant of the importance of maintaining the objectivity of the Company's external auditors. The Committee also reviews the level and type of non-audit work carried out by the Company's external auditors. In 2003, £0.5m was paid in fees to the external auditors relating to non-audit work, principally for advice on tax compliance (£0.3m) and taxation consulting services (£0.2m). The Committee considers it is beneficial to the Company to retain Deloitte & Touche LLP for this type of work because of their expertise in this area and knowledge of the Group, however, the Committee will continue to keep the nature and extent of such services under review in order to balance the maintenance of objectivity and value for money. The composition of the Audit Committee, which consists entirely of non-executive Directors, is detailed on page 9.

#### *Internal Control*

The Company has a well-established and ongoing process, which was in place for the full year and up to the date of the Accounts, for identifying, evaluating and managing the significant risks, including non-financial risks, faced by the Group. This process is regularly reviewed by the Board and has been further improved during the year. The process continues to accord with the Turnbull guidance on internal control.

Information on the Group's significant risks, together with the relevant control and monitoring procedures, is reviewed for completeness and accuracy by the Group's management committees. The information is presented to the Board for it to assess the effectiveness of the system of internal control. Whilst the Board acknowledges its overall responsibility for internal control it believes strongly that senior management within the Group's operating businesses should contribute in a substantial way and this has been built into the process.

In carrying out their review of the effectiveness of internal control in the Group the Board has taken into consideration the following key features of the risk management process and system of internal control:

- Senior management of each business have spent time identifying and assessing business unit and Group objectives, key issues, opportunities and controls. This assessment encompassed operational, compliance, financial and business risks and is updated on an ongoing basis. A risk assessment has similarly been prepared for the Group covering central functions and strategic risks;
- A detailed system of budgeting, reporting and forecasting for the Group's operations is in place which is monitored, both locally and centrally, through a review of monthly management information;
- The Group has expanded the remit of the Internal Audit function whose audit plan is reviewed, updated and approved by the Audit Committee. The conclusions from the function's work are reported to the Audit Committee, the Chief Executive and the Finance Director; and
- There is in place a formal annual risk management sign-off process for senior management in each of the business units. This is operated in order to ensure that, as far as possible, the controls and safeguards are being operated in line with established procedures and standards.

The whole risk management process is subject to review twice a year by the Audit Committee and strengthened as appropriate. Steps are taken to embed internal controls and risk management further into the operations of the business and to deal with areas of improvement which come to management's and the Board's attention. The Board is responsible for the effectiveness of the Group's system of internal control and for the review of its effectiveness. Such a system is designed to manage rather than to eliminate the risk of failure to achieve the Group's objectives and can only provide reasonable but not absolute assurance against misstatement or loss.

#### **Compliance Statement**

The Company has, throughout the year, consistently applied the Principles of Good Governance and Code of Best Practice, which together comprise the Hampel Code appended to the Listing Rules of the Financial Services Authority. Prior to the publication of the FRC Code during the year, the Board did not consider the appointment of a Senior Independent Director to be beneficial to the operation of the Company's relatively small board. However, with the increased responsibilities attaching to the role of the Senior Independent Director and developments in the corporate governance field, the Company, in December 2003, appointed a senior non-executive Director as required by Code provision A.2.1 and so now fully complies with all the detailed provisions in Section 1 of the Hampel Code.

#### **Statement of Directors' Responsibilities**

UK company law requires the Directors to prepare Accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those Accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts; and
- Prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the Accounts comply with the Companies Act 1985.

We have audited the financial statements of Senior plc for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, related notes 1 to 25 and the schedule of principal group undertakings. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Report of the Directors – Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Report of the Directors – Remuneration Report. Our responsibility is to audit the financial statements and the part of the Report of the Directors – Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report of the Directors – Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Report of the Directors – Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Report of the Directors – Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report of the Directors – Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report of the Directors – Remuneration Report described as having been audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Report of the Directors – Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Birmingham

3 March 2004

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

## 22 Group Profit and Loss Account

For the year ended 31 December	Notes	2003 £m	2002 £m
<b>Turnover</b>			
Continuing operations		354.9	398.7
Discontinued operations		–	5.7
	2, 3	354.9	404.4
<b>Operating profit</b>			
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		–	–
	2, 3	12.2	17.6
Profit/(loss) on sale of fixed assets – continuing operations		0.4	(0.5)
Loss on disposal of discontinued operations	25	–	(3.5)
<b>Profit on ordinary activities before interest and taxation</b>		12.6	13.6
Other interest receivable and similar income		1.2	1.1
Interest payable and similar charges	4	(6.1)	(7.7)
<b>Profit on ordinary activities before taxation</b>	5	7.7	7.0
Tax on profit on ordinary activities	7	(1.9)	(3.1)
<b>Profit for the financial year</b>	22	5.8	3.9
Dividends	8, 22	(6.1)	(6.1)
<b>Loss for the year</b>		(0.3)	(2.2)
<b>Earnings per share</b>			
Basic	9	1.89p	1.29p
Diluted	9	1.88p	1.29p
Underlying	9	3.52p	4.47p
Dividends per share	8	2.00p	2.00p

The Notes to the Accounts on pages 25 to 45, together with page 47, form part of these Accounts.

At 31 December	Notes	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
<b>Fixed assets</b>					
Intangible assets – goodwill	11	76.7	85.8	–	–
Tangible assets	12	79.1	89.7	0.2	0.2
Investments	13	0.3	0.2	427.1	441.2
		156.1	175.7	427.3	441.4
<b>Current assets</b>					
Stocks	14	40.1	46.3	–	–
Debtors: Amounts falling due after more than one year	15	2.5	2.4	4.4	4.1
Debtors: Amounts falling due within one year	15	66.9	73.8	1.4	1.9
Cash at bank and in hand		11.6	9.6	1.5	2.5
		121.1	132.1	7.3	8.5
Creditors: Amounts falling due within one year	16	(79.0)	(86.3)	(20.4)	(21.7)
<b>Net current assets/(liabilities)</b>		<b>42.1</b>	<b>45.8</b>	<b>(13.1)</b>	<b>(13.2)</b>
<b>Total assets less current liabilities</b>		<b>198.2</b>	<b>221.5</b>	<b>414.2</b>	<b>428.2</b>
Creditors: Amounts falling due after more than one year	17	(73.4)	(97.5)	(290.6)	(304.0)
Provisions for liabilities and charges	20	(2.7)	(2.7)	(0.3)	(0.2)
<b>Net assets</b>		<b>122.1</b>	<b>121.3</b>	<b>123.3</b>	<b>124.0</b>
<b>Capital and reserves</b>					
Called-up share capital	21	30.7	30.7	30.7	30.7
Share premium	22	3.5	3.5	3.5	3.5
Other reserves	22	17.7	17.7	83.8	83.8
Profit and loss account	22	70.2	69.4	5.3	6.0
<b>Equity shareholders' funds</b>	22	<b>122.1</b>	<b>121.3</b>	<b>123.3</b>	<b>124.0</b>

Approved by the Board on 3 March 2004

J R Kerr-Muir, Director

M Rollins, Director

## Group Statement of Total Recognised Gains and Losses

For the year ended 31 December	2003 £m	2002 £m
<b>Profit for the financial year</b>	<b>5.8</b>	<b>3.9</b>
Currency translation differences on overseas net investments including goodwill	0.5	(2.3)
Tax benefits on foreign exchange losses	0.6	0.7
<b>Total recognised gains and losses relating to the year</b>	<b>6.9</b>	<b>2.3</b>

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

The Notes to the Accounts on pages 25 to 45, together with page 47, form part of these Accounts.

## 24 Group Cash Flow Statement

For the year ended 31 December	Notes	2003 £m	2003 £m	2002 £m	2002 £m
<b>Net cash inflow from operating activities</b>	10 a)		32.9		43.9
<b>Returns on investments and servicing of finance</b>					
Interest received		1.2		0.6	
Interest paid		(6.2)		(7.9)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(5.0)		(7.3)
<b>Taxation</b>					
UK corporation tax recovered		–		0.1	
Net overseas tax (paid)/recovered		(0.8)		0.2	
<b>Net cash (outflow)/inflow from taxation</b>			(0.8)		0.3
<b>Capital expenditure and financial investments</b>					
Purchase of tangible fixed assets		(8.0)		(11.6)	
Sale of property, plant and equipment		1.1		1.4	
<b>Net cash outflow from capital expenditure and financial investments</b>			(6.9)		(10.2)
<b>Acquisitions and disposals</b>					
Purchase of subsidiary undertakings – deferred consideration		(0.3)		(0.6)	
Sale of subsidiary undertakings		0.7		2.8	
<b>Net cash inflow from acquisitions and disposals</b>			0.4		2.2
<b>Dividends paid on ordinary shares</b>			(6.1)		(2.5)
<b>Net cash inflow before financing</b>			14.5		26.4
<b>Financing</b>					
New loans initiated by Group		18.4		5.2	
Repayment of existing loans		(33.5)		(37.5)	
Cash inflow on forward exchange contracts		4.5		0.2	
			(10.6)		(32.1)
<b>Increase/(decrease) in cash in the period</b>	10 b)		3.9		(5.7)

The Notes to the Accounts on pages 25 to 45, together with page 47, form part of these Accounts.

## 1 Accounting Policies

### Basis of Accounts

The Accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards. These policies have been applied consistently throughout the year and the preceding year. The Accounts also include the transitional requirements of Financial Reporting Standard No.17 "Retirement Benefits".

### Basis of Consolidation

The Group Accounts consolidate the Accounts of Senior plc and all its subsidiary undertakings, including those shown on page 47, drawn up to 31 December 2003. The results of businesses acquired, disposed of or terminated during the year are included in the Group Profit and Loss Account from the date of acquisition or up to the date of disposal or termination.

On the acquisition of a business, fair values are attributed to the net tangible assets. Where the costs of acquisition exceed the values attributed to such net tangible assets, the difference is treated as purchased goodwill and is capitalised and amortised on a straight-line basis over twenty years which the Directors consider to be its reasonable maximum economic life. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard and Group accounting policy then in force. As permitted by the current Financial Reporting Standard No.10 "Goodwill and Intangible Assets", the goodwill previously written off to reserves, as a matter of accounting policy, has not been reinstated in the balance sheet.

On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

In the Group's Accounts, investments in associated undertakings are accounted for using the equity method. The Group Profit and Loss Account includes the Group's share of these undertakings' profits less losses, while the Group's share of the net assets of the associated undertakings is shown in the Group Balance Sheet. Goodwill arising on the acquisition of associated undertakings is accounted for in accordance with the policy set out above.

In the Company's Accounts, investments in subsidiary undertakings are stated at cost plus loans to such undertakings, less amounts written off for impairment. Dividends receivable are credited to the Company's Profit and Loss Account when declared.

The Company's investment in own shares is held by the Employee Benefit Trust for the purpose of funding certain of the Company's Long Term Incentive Plan liabilities. The Trustee purchases the Company's ordinary shares in the open market using funds provided by the Company. The Company amortises the cost of the shares over the life of the incentives. If the liabilities are no longer expected to crystallise then the shares are revalued to market value.

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed or, if a termination, its former activities have ceased permanently during the year or in the subsequent period ending upon the approval of the Accounts.

### Exceptional Items

Exceptional items are those that need to be disclosed by virtue of their size and incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group, or profits or losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the Profit and Loss Account after operating profit.

### Tangible Fixed Assets

Freehold and long leasehold land and buildings are shown at cost or at modified historic cost which represents a valuation undertaken prior to the effective date of Financial Reporting Standard No.15 and not subsequently amended. Other fixed assets are shown at cost.

Depreciation is provided at rates calculated to write off the cost or modified historic cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

- Freehold buildings – 2% per annum.
- Leasehold land and buildings – over the period of the lease.
- Plant and equipment – 5%-33% per annum.

### Stocks and Long-Term Contracts

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Costs incurred in bringing each product to its present location and condition are based on:

- Raw materials – purchase cost on a first-in, first-out basis, including transport.
- Work-in-progress and finished goods – cost of direct materials and labour plus an appropriate proportion of manufacturing overheads based on normal levels of activity.

Recoverable development engineering costs, related to specific contracts, are held on the balance sheet within work-in-progress and amortised over the contract life or such shorter period as is considered appropriate. Amortisation commences when the project has transferred from development to commercial production.

Where it is considered that the amortisation charges exceed the forecast profits from commercial production of the related project then the excess is written off in the accounting period that such an assessment is made.

Net costs incurred on long-term work-in-progress in excess of amounts transferred to cost of sales are classified as long-term contract balances. Foreseeable losses are deducted from long-term contract balances. Revenues recognised in excess of amounts billed are included in debtors. Amounts billed in excess of revenues recognised are deducted from related long-term contract balances, with any residual balances being classified as payments on account and included in creditors.

Where it is considered that the outcome of a long-term contract can be assessed with reasonable certainty before its conclusion, the prudently calculated attributable profit is recognised in the Profit and Loss Account in accordance with the provisions of Statement of Standard Accounting Practice No.9 "Stocks and Long-Term Contracts".

#### Taxation

Current tax payable is provided on taxable profits at the effective current rates.

Provision is made for deferred tax in accordance with Financial Reporting Standard No.19 "Deferred Tax" in respect of timing differences on a non-discounted basis.

#### Pension and Other Post-Retirement Benefit Costs

Pension and other post-retirement benefit (principally US healthcare) costs are charged against profit in a systematic manner over the average service lives of the employees in each plan.

Total costs comprise:

- The regular cost, that is the consistent ongoing cost, calculated as a level percentage of the current and expected future payroll of members in each plan.
- Variations from the regular cost, arising from scheme surpluses or deficits, allocated over the expected remaining service lives of the employees in each plan.

Any differences between the amounts charged in the Profit and Loss Account and the amounts payable to the plans for the year are recorded as provisions or prepayments as appropriate.

In accordance with Financial Reporting Standard No.17 "Retirement Benefits", the Accounts include the transitional disclosures required ahead of full implementation of the FRS. These disclosures are shown in Note 24.

#### Research and Development

Costs are charged against revenue in the year in which they are incurred.

#### Government Grants

Government grants are recognised in the Profit and Loss Account in order to match the grant with the expenditure towards which it is intended to contribute.

#### Turnover

Turnover, other than that arising on long-term contracts, comprises the external sales value of work invoiced during the year, excluding discounts and sales taxes.

Turnover on long-term contracts represents the proportion of contract activity in the year, ascertained by reference to total contract costs.

#### Leases

Assets held under finance leases are initially reported at the present value of the minimum lease payments, with an equivalent liability being included within creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the term of each lease in accordance with the amount outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term.

#### Foreign Currencies

Transactions denominated in foreign currencies are recorded at actual exchange rates. At the year-end, outstanding monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the year-end and the gain or loss is recorded in the Profit and Loss Account, except that differences arising on foreign currency borrowings undertaken to finance equity investments are dealt with in reserves.

On consolidation, the balance sheets of overseas subsidiary undertakings are translated into sterling at the closing rates and the profit and loss accounts at the average rates of exchange for the year. These translation gains or losses are accounted for in reserves.

The exchange rates for the major currencies applied in the translation of results were as follows:

	Average rates 2003	Average rates 2002	Year-end rates 2003	Year-end rates 2002
US dollar	1.64	1.50	1.79	1.61
Euro	1.45	1.59	1.42	1.53

#### Derivative Financial Instruments

The Group uses derivative financial instruments (foreign currency forward contracts and interest rate swaps) to reduce exposure to both exchange and interest rate movements. The Group does not hold such instruments for speculative purposes.

Foreign currency forward contracts are used to hedge (compensate) for movements arising from specific Group assets or liabilities denominated in the same or equivalent foreign currency. Gains and losses arising on forward contracts held in respect of balance sheet translation differences are dealt with in reserves and offset the movement on the assets or liabilities being hedged. As such they are considered to have the same characteristics as debt and, accordingly, are included within Group net debt from a cash flow perspective. On the Balance Sheet the book value is included within prepayments and accrued income, if an asset, and within other creditors and accruals, if a liability. Gains and losses arising on forward contracts held in respect of transaction exposures are dealt with in the Profit and Loss Account to match the underlying transaction.

Interest rate swaps are used to convert interest arising from existing Group liabilities (or assets) from a variable rate to a fixed rate or vice versa. Interest differentials arising under these swaps are recognised within net interest payable over the periods of the contracts.

## 2 Segment Information

Group turnover, operating profit and net assets are analysed below. The reconciliation of operating profit to profit before taxation is shown on the Group Profit and Loss Account on page 22. 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 Spółka 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	Turnover	Operating profit	Operating profit	Net assets	Net assets
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	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 £1.3m (2002 – £1.3m) of reorganisation and restructuring costs and £5.4m (2002 – £5.8m) 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	Turnover by destination	Turnover by origin	Turnover by origin	Operating profit by origin	Operating profit by origin	Net assets	Net assets
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	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

## 2 Segment Information continued

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

	Reorganisation and restructuring		Goodwill amortisation	
	2003 £m	2002 £m	2003 £m	2002 £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

	2003 £m	2002 £m
c) Net assets reconciliation		
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

## 3 Operating Profit

	Continuing 2003 £m	Discontinued 2003 £m	Total 2003 £m	Continuing 2002 £m	Discontinued 2002 £m	Total 2002 £m
Turnover	354.9	–	354.9	398.7	5.7	404.4
Cost of sales	(276.0)	–	(276.0)	(310.8)	(4.2)	(315.0)
Gross profit	78.9	–	78.9	87.9	1.5	89.4
Distribution costs	(4.7)	–	(4.7)	(4.3)	(0.1)	(4.4)
Administrative expenses	(62.0)	–	(62.0)	(66.0)	(1.4)	(67.4)
Operating profit	12.2	–	12.2	17.6	–	17.6

## 4 Interest Payable

Interest payable comprises:

	2003 £m	2002 £m
Bank loans and overdrafts	1.2	2.2
All other loans	4.9	5.5
	6.1	7.7

## 5 Profit on Ordinary Activities Before Taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2003 £m	2002 £m
Depreciation – continuing operations	16.1	17.5
– discontinued operations	–	0.3
Operating lease rentals – on land and buildings	3.4	3.4
– on plant and equipment	1.0	0.9
Auditors' remuneration	0.4	0.4
Grant income	(1.2)	(0.8)
Reorganisation and restructuring costs	1.3	1.3

In the prior year, the reorganisation and restructuring costs were presented on the Group Profit and Loss Account due to the size of the 2001 comparative.

Amounts incurred on research and development during the year amounted to £4.0m (2002 – £4.0m), before recoveries from customers of £0.2m (2002 – £0.2m).

Fees payable to Deloitte for non-audit services amounted to £0.5m (2002 – £0.3m). These fees relate to taxation compliance (£0.3m) and taxation consulting services (£0.2m).

Audit fees include £0.1m (2002 – £0.1m) payable in respect of the Company.

## 6 Employee Costs

Particulars of employees (including Directors) are shown below:

	2003 £m	2002 £m
Wages and salaries	112.6	124.5
Social security and other costs	14.1	14.2
Pension costs – defined benefit schemes	3.0	2.7
Pension costs – defined contribution schemes	2.7	3.3
	132.4	144.7

The average monthly number of persons employed by the Group during the year was as follows:

	2003 Number	2002 Number
Production	4,262	4,551
Distribution	61	55
Sales	378	404
Administration	448	494
	5,149	5,504

Disclosure on Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 12 to 16 within the Report of the Directors – Remuneration Report and form part of these audited financial statements.

**7 Tax on Profit on Ordinary Activities**

The Group tax charge comprises:

	2003 £m	2002 £m
Current tax:		
UK corporation tax at 30% (2002 – 30%)	(0.2)	(0.3)
Overseas taxation	2.6	3.9
Adjustments in respect of prior years	(0.4)	(0.1)
Total current tax charge	2.0	3.5
Deferred tax:		
Origination and reversal of timing differences	0.1	(0.4)
Adjustments in respect of prior years	(0.2)	–
Total deferred tax credit	(0.1)	(0.4)
	1.9	3.1

In neither year is the tax charge affected by the exceptional items in relation to the profit/(loss) on sale of fixed assets or the loss on disposal of discontinued operations.

Factors affecting the Group tax charge for the year:

The current tax charge varies from the standard rate of corporation tax in the UK due to the following factors:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	7.7	7.0
Adjust:		
Amortisation of goodwill	5.4	5.8
(Profit)/loss arising on sale of fixed assets	(0.4)	0.5
Loss on disposal of discontinued operations	–	3.5
Profit on ordinary activities, as adjusted	12.7	16.8
Tax at UK corporation tax rate of 30% (2002 – 30%)	3.8	5.0
Tax deductible goodwill amortisation in overseas subsidiaries	(0.6)	(0.6)
Unrelieved tax losses	1.0	0.7
Permanent disallowables	0.5	0.4
Other timing differences originating/(reversing)	0.5	1.0
Net effect of different rates of tax on overseas earnings	(2.8)	(2.9)
Adjustments to current tax charge in respect of prior periods	(0.4)	(0.1)
Current tax charge	2.0	3.5

Factors that may affect future tax charges:

The Group's future mix of overseas profits is anticipated to remain broadly unchanged and hence the Group is anticipating to remain in a current tax chargeable position in future.

As a result of trading conditions experienced during the current and prior years, taxable losses have arisen in the UK and certain overseas subsidiary undertakings which are available for offset against future taxable profits in the territories concerned. A deferred tax asset of £8.1m has not been recognised in respect of certain of these losses as, based on detailed budgets, it is not anticipated that taxable profits will arise in the subsidiary undertakings concerned within the immediate future.

The Company has £5.0m of surplus ACT previously written off which is unlikely to be recoverable in the foreseeable future due to the anticipated ongoing level of dividend payments and UK earnings.

The potential liability in respect of UK corporation tax on unremitted earnings to the UK has not been provided as the Directors have no intention to remit the retained earnings of overseas subsidiaries to the UK in the foreseeable future.

## 8 Dividends

	Rates per share 2003	Rates per share 2002	2003 £m	2002 £m
Interim – paid	0.65p	0.65p	2.0	2.0
Final – proposed	1.35p	1.35p	4.1	4.1
	2.00p	2.00p	6.1	6.1

## 9 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
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

## 10 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 – £0.1m inflow) in respect of discontinued activities.

## 10 Group Cash Flow Statement continued

b) Reconciliation of net cash flow to movement in net debt	2003 £m	2002 £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 (Note 10c)	(64.2)	(87.4)

c) Analysis of net debt	At 1 January 2003 £m	Cash flow £m	Non cash items £m	Exchange movement £m	At 31 December 2003 £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 with prepayments and accrued income falling due within one year.

## 11 Intangible Fixed Assets – Goodwill

Movements in the year	Group 2003 £m	Group 2002 £m
<b>Cost</b>		
At 1 January	108.8	119.4
Disposals	–	(1.8)
Currency variations	(4.6)	(8.8)
At 31 December	104.2	108.8
<b>Amortisation</b>		
At 1 January	23.0	21.0
Charge for the year – underlying	5.4	5.8
Disposals	–	(0.4)
Currency variations	(0.9)	(3.4)
At 31 December	27.5	23.0
<b>Net book value</b>		
At 31 December	76.7	85.8

## 12 Tangible Fixed Assets

a) Movements in the year	Group Freehold land and buildings £m	Group Leasehold land and buildings, long leases £m	Group Leasehold land and buildings, short leases £m	Group Plant and equipment £m	Group Total £m	Company Total £m
<b>Cost or valuation</b>						
At 1 January 2003:						
– Cost	40.2	0.1	1.2	179.4	220.9	0.4
– Valuation	1.0	–	–	–	1.0	–
Additions	0.6	–	–	7.4	8.0	0.1
Disposals	(0.3)	–	–	(7.3)	(7.6)	–
Currency variations	(1.0)	–	(0.1)	(6.3)	(7.4)	–
At 31 December 2003	40.5	0.1	1.1	173.2	214.9	0.5
Cost	39.5	0.1	1.1	173.2	213.9	–
Professional valuation (see c) below) – 1988	1.0	–	–	–	1.0	–
At 31 December 2003	40.5	0.1	1.1	173.2	214.9	–
<b>Depreciation</b>						
At 1 January 2003	7.5	–	0.7	124.0	132.2	0.2
Charge for the year	1.1	–	0.1	14.9	16.1	0.1
Disposals	(0.1)	–	–	(6.8)	(6.9)	–
Currency variations	(0.1)	–	(0.1)	(5.4)	(5.6)	–
At 31 December 2003	8.4	–	0.7	126.7	135.8	0.3
<b>Net book value</b>						
At 31 December 2003	32.1	0.1	0.4	46.5	79.1	0.2
At 31 December 2002	33.7	0.1	0.5	55.4	89.7	0.2

The depreciable amount included in freehold land and buildings at 31 December 2003 amounted to £37.1m (2002 – £37.9m).

b) Plant and equipment includes an immaterial amount of fixtures and fittings.

c) The professional valuations of freehold properties were undertaken by Chesterton, International Property Consultants on the basis of open market value for continued existing use of the properties concerned.

d) The net book value of fixed assets includes £2.7m (2002 – £2.7m) in respect of assets held under finance leases. The related depreciation charge was £0.1m (2002 – £0.1m).

e) Original cost and related depreciation of the Group's land and buildings included at valuation above comprise:

	Freehold land and buildings 2003 £m	Freehold land and buildings 2002 £m
Original cost	0.4	0.4
Depreciation based on cost	(0.3)	(0.3)
	0.1	0.1

The closing net book value of the Company's fixed assets comprises plant and equipment.

## 13 Fixed Asset Investments

a) Investments	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Shares at cost less amounts written off	–	–	0.3	0.3
Loans due from subsidiary undertakings	–	–	396.5	410.7
Capital contributions to subsidiary undertaking	–	–	30.0	30.0
Investment in own shares held by the Employee Benefit Trust	0.3	0.2	0.3	0.2
	<b>0.3</b>	<b>0.2</b>	<b>427.1</b>	<b>441.2</b>

The Principal Group Undertakings in which the Company and the Group had investments at the year-end are listed on page 47.

b) Movements on investments in subsidiary undertakings in the year	Company £m
At 1 January 2003	441.0
Decrease in loans to subsidiary undertakings	(14.2)
At 31 December 2003	<b>426.8</b>

c) Movements in investment in own shares held by the Employee Benefit Trust in the year	Group £m	Company £m
At 1 January 2003	0.2	0.2
Revaluation	0.1	0.1
At 31 December 2003	<b>0.3</b>	<b>0.3</b>

The shares held have been revalued to market value during the year as it is no longer expected that the performance conditions required for their release will be met. Further information on the number and market value of shares held is included in the Report of the Directors – Remuneration Report on pages 12 to 16.

## 14 Stocks

	Group 2003 £m	Group 2002 £m
Raw materials and consumables	17.3	19.4
Work-in-progress	15.3	18.0
Finished goods and goods for resale	7.5	8.9
	<b>40.1</b>	<b>46.3</b>

The estimated replacement cost of stocks is not materially different from historical cost.

## 15 Debtors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Trade debtors	51.3	57.3	–	–
Amounts recoverable on contracts	4.9	3.6	–	–
Due from subsidiary undertakings	–	–	0.6	0.7
Current tax recoverable	1.3	0.7	–	–
Value added tax	0.9	1.6	–	–
Other debtors	0.4	1.3	0.3	0.7
Prepayments and accrued income	8.1	9.3	0.5	0.5
	66.9	73.8	1.4	1.9
Amounts falling due after more than one year:				
Trade debtors	0.2	0.2	–	–
Other debtors	0.8	0.7	–	–
Pension costs (Note 24)	1.5	1.5	4.4	4.1
	2.5	2.4	4.4	4.1
Total debtors	69.4	76.2	5.8	6.0

## 16 Creditors: Amounts Falling Due Within One Year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank overdrafts	0.1	2.0	7.7	9.2
Short-term bank loans (Note 18)	3.0	–	–	–
Current portion of long-term loans (Note 18)	2.8	2.4	2.8	2.4
Obligations under finance leases (Note 18)	0.3	0.2	–	–
Trade creditors	29.4	33.7	0.2	0.2
Current tax payable	6.0	4.4	2.1	1.5
Social security and PAYE	4.6	4.1	0.1	–
Value added tax	0.3	0.4	0.1	–
Proposed dividend	4.1	4.1	4.1	4.1
Other creditors and accruals	28.4	35.0	3.3	4.3
	79.0	86.3	20.4	21.7

Bank overdrafts are stated net of certain cash balances in accordance with the Group's banking arrangements.

## 17 Creditors: Amounts Falling Due After More Than One Year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Loans (Note 18)	71.2	94.6	70.7	87.0
Loans due to subsidiary undertakings	–	–	219.9	217.0
Obligations under finance leases (Note 18)	1.7	1.9	–	–
Other creditors	0.5	1.0	–	–
	73.4	97.5	290.6	304.0
Loans comprise:				
Revolving credit facility (Note 23c)	14.8	31.8	14.8	24.2
Other loans	0.5	–	–	–
Less – current portion	–	(2.4)	–	(2.4)
	15.3	29.4	14.8	21.8
8.57% Private placement loan – 2004 (Note 23d)	2.8	3.1	2.8	3.1
8.75% Private placement loans – 2007 (Note 23d)	14.0	15.5	14.0	15.5
6.52% Private placement loans – 2008 (Note 23d)	41.9	46.6	41.9	46.6
Less – current portion	(2.8)	–	(2.8)	–
	55.9	65.2	55.9	65.2
Total loans falling due after more than one year	71.2	94.6	70.7	87.0

## 18 Maturity Profile of Gross Indebtedness

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Borrowings are repayable as follows:				
In one year or less or on demand:				
– Bank overdrafts	0.1	2.0	7.7	9.2
– Bank loans	3.0	2.4	–	2.4
– Other loans	2.8	–	2.8	–
In more than one year but not more than two years:				
– Bank loans	–	29.4	–	21.8
– Other loans	–	3.1	–	3.1
In more than two years but not more than five years:				
– Bank loans	14.8	–	14.8	–
– Other loans	55.9	15.5	55.9	15.5
In more than five years:				
– Other loans	0.5	46.6	–	46.6
<b>Total borrowings</b>	<b>77.1</b>	<b>99.0</b>	<b>81.2</b>	<b>98.6</b>
Obligations under finance leases are repayable as follows:				
– In one year or less	0.3	0.2	–	–
– In more than one year but not more than two years	0.3	0.2	–	–
– In more than two years but not more than five years	0.4	0.6	–	–
– In more than five years	1.0	1.1	–	–
<b>Total obligations under finance leases</b>	<b>2.0</b>	<b>2.1</b>	<b>–</b>	<b>–</b>
<b>Total gross indebtedness</b>	<b>79.1</b>	<b>101.1</b>	<b>81.2</b>	<b>98.6</b>

Materially all loans are unsecured and are repayable other than by instalments.

## 19 Financial Instruments

The Group's policies as regards derivatives and financial instruments are set out in the Finance Director's Review (pages 7 and 8) and in the Accounting Policies (pages 25 and 26). The Group does not trade in financial instruments.

Short-term debtors and creditors have been omitted from all disclosures other than the currency profile.

## (i) Maturity profile of financial liabilities

The Group's gross indebtedness comprising loans £77.0m (2002 – £97.0m), overdrafts £0.1m (2002 – £2.0m) and finance leases £2.0m (2002 – £2.1m) together with other non-interest bearing liabilities (largely deferred consideration on past acquisitions) is repayable over the following periods:

Repayable period	Gross debt 2003 £m	Other 2003 £m	Total 2003 £m	Gross debt 2002 £m	Other 2002 £m	Total 2002 £m
In one year or less or on demand	6.2	–	6.2	4.6	–	4.6
In more than one year but not more than two years	0.3	0.4	0.7	32.7	0.7	33.4
In more than two years but not more than five years	71.1	0.1	71.2	16.1	0.3	16.4
In more than five years	1.5	–	1.5	47.7	–	47.7
<b>Gross financial liabilities</b>	<b>79.1</b>	<b>0.5</b>	<b>79.6</b>	<b>101.1</b>	<b>1.0</b>	<b>102.1</b>

The Group had the following undrawn borrowing facilities at 31 December:

	2003 £m	2002 £m
Committed:		
Expiring in one year or less	–	11.9
Expiring in more than one year but not more than two years	–	51.3
Expiring in more than two years but not more than five years	45.2	–
Uncommitted	13.6	16.5
<b>Total unused facilities</b>	<b>58.8</b>	<b>79.7</b>

## 19 Financial Instruments continued

### (ii) Interest and currency profile of financial liabilities

a) The gross financial liabilities of the Group, comprising private placement loans, borrowings under the revolving credit facilities and general overdraft arrangements, together with other non-interest bearing liabilities have the following interest rate and currency profile:

At 31 December 2003	Total	Floating rate (see below)	Fixed rate	Non-interest bearing	Weighted average rate – fixed	Weighted average years for which rate is fixed
Currency	£m	£m	£m	£m		
Sterling	–	–	–	–	–	–
US dollar	59.0	11.7	47.0	0.3	7.53%	4.3
Euro	18.0	15.8	2.0	0.2	5.79%	9.0
Other	2.6	2.6	–	–	–	–
	<b>79.6</b>	<b>30.1</b>	<b>49.0</b>	<b>0.5</b>		

At 31 December 2002	Total	Floating rate (see below)	Fixed rate	Non-interest bearing	Weighted average rate – fixed	Weighted average years for which rate is fixed
Currency	£m	£m	£m	£m		
Sterling	4.0	4.0	–	–	–	–
US dollar	72.4	6.6	65.2	0.6	7.53%	5.6
Euro	22.8	8.8	13.6	0.4	4.33%	0.5
Other	2.9	2.9	–	–	–	–
	<b>102.1</b>	<b>22.3</b>	<b>78.8</b>	<b>1.0</b>		

Interest rates are based on appropriate LIBOR rates at the time of the draw down under the revolving credit facilities and overdraft arrangements.

The weighted average period to maturity of the non-interest bearing liabilities by currency is: US dollar 1.5 years (2002 – 1.7 years) and Euro 2.0 years (2002 – 2.4 years).

b) The Group's financial assets, including cash at hand and in bank £11.6m (2002 – £9.6m), have the following interest rate and currency profile at 31 December:

Currency	Total	Floating rate (see below)	Non-interest bearing	Total	Floating rate (see below)	Non-interest bearing
	2003	2003	2003	2002	2002	2002
	£m	£m	£m	£m	£m	£m
Sterling	1.7	1.3	0.4	1.6	1.2	0.4
US dollar	2.6	2.1	0.5	3.2	2.6	0.6
Euro	6.0	5.9	0.1	2.3	2.2	0.1
Other	2.3	2.3	–	3.6	3.6	–
	<b>12.6</b>	<b>11.6</b>	<b>1.0</b>	<b>10.7</b>	<b>9.6</b>	<b>1.1</b>

Interest on bank deposits is based on prevailing, short-term money market interest rates at time of deposit.

The weighted average period to maturity of non-interest bearing assets by currency is: sterling 2.0 years (2002 – 2.3 years); US dollar 9.8 years (2002 – 10.2 years); Euro 2.1 years (2002 – 2.5 years) and other currencies nil years (2002 – nil years).

### (iii) Fair values of financial assets and liabilities

	Book value 2003	Fair value 2003	Book value 2002	Fair value 2002
	£m	£m	£m	£m
Cash at bank	11.6	11.6	9.6	9.6
Debtors due in more than one year	1.0	1.0	0.9	0.9
Other assets	–	–	0.2	0.2
Gross financial assets	<b>12.6</b>	<b>12.6</b>	<b>10.7</b>	<b>10.7</b>
Gross debt	79.1	82.4	101.1	104.6
Other creditors due in more than one year	0.5	0.5	1.0	1.0
Gross financial liabilities	<b>79.6</b>	<b>82.9</b>	<b>102.1</b>	<b>105.6</b>
Interest rate lock and rate swaps	–	(1.1)	–	(1.4)
Forward foreign exchange contracts	4.1	4.6	4.9	5.2

## 19 Financial Instruments continued

Market values have been used to determine the fair value of the interest rate swaps and the forward foreign exchange contracts. Other items have been valued by discounting expected cash flows at prevailing interest rates at the year-end.

## (iv) Currency profile

As noted in the Finance Director's Review on pages 7 and 8 the majority of the Group's operations trade predominantly in their own functional currency and where this is not the case exposures are covered on a twelve month rolling basis using forward contracts. Transaction exposure giving rise to net currency gains and losses reported in the Profit and Loss Account is therefore not considered significant.

## (v) Hedging

	Gains 2003 £m	Losses 2003 £m	Total net gains/(losses) 2003 £m	Gains 2002 £m	Losses 2002 £m	Total net gains/(losses) 2002 £m
Unrecognised gains/(losses) on hedges at 1 January	0.3	(1.4)	(1.1)	–	(2.5)	(2.5)
(Gains)/losses arising in previous years that were recognised in current year	(0.3)	0.3	–	–	1.2	1.2
Gains/(losses) arising in previous years that were not recognised in current year	–	(1.1)	(1.1)	–	(1.3)	(1.3)
Gains/(losses) arising in the current year that were not recognised	0.5	–	0.5	0.3	(0.1)	0.2
Unrecognised gains/(losses) on hedges at 31 December	0.5	(1.1)	(0.6)	0.3	(1.4)	(1.1)
Of which:						
Amount expected to be recognised within one year	0.5	(0.3)	0.2	0.3	(0.3)	–
Amount expected to be recognised after one year	–	(0.8)	(0.8)	–	(1.1)	(1.1)

As explained in the Finance Director's Review on pages 7 and 8 the Group's policy is to hedge transaction exposures, translation of overseas assets and interest rate exposures. Of these only the hedging of transaction exposures and interest rate exposures gives rise to unrecognised gains and losses which may ultimately be recognised in the Profit and Loss Account.

## 20 Provisions for Liabilities and Charges

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Deferred tax	1.0	1.1	0.3	0.2
Pension and other post-retirement benefit costs (Note 24)	1.7	1.6	–	–
	2.7	2.7	0.3	0.2

The movement in pension and other post-retirement benefit costs represents a charge to the Profit and Loss Account.

Analysis of deferred tax provided is as follows:

	Group provided 2003 £m	Group provided 2002 £m	Company provided 2003 £m	Company provided 2002 £m
Accelerated capital allowances	0.3	0.4	–	–
Timing differences related to pension costs	1.3	1.2	1.3	1.2
Short-term timing differences	1.1	1.0	(0.1)	(0.2)
Tax losses carried forward	(1.7)	(1.5)	(0.9)	(0.8)
Net deferred tax liability	1.0	1.1	0.3	0.2

Movement in deferred tax liability	Group £m	Company £m
At 1 January 2003	1.1	0.2
Charge/(credit) to profit and loss account – UK	0.1	0.1
– Overseas	(0.2)	–
At 31 December 2003	1.0	0.3

## 21 Share Capital

	2003 £m	2002 £m
Authorised:		
500.0m 10p ordinary shares (2002 – 500.0m)	50.0	50.0
Issued:		
307.4m 10p ordinary shares – fully paid (2002 – 307.4m)	30.7	30.7

## 1999 Executive Share Option Plan:

No options granted under the 1999 Executive Share Option Plan were exercised during the year. At 31 December 2003 there were outstanding:

Date of grant	Subscription price	Normal exercise period	Executive options 2002	Granted 2003	Lapsed 2003	Exercised 2003	Executive options 2003
13 May 1999	154.35p	3 years to 12 May 2005	596,764	–	–	–	596,764
5 April 2000	82.50p	3 years to 4 April 2006	227,272	–	–	–	227,272
13 September 2000	54.17p	3 years to 12 September 2006	3,497,063	–	128,704	–	3,368,359
10 October 2000	53.33p	3 years to 9 October 2006	142,426	–	–	–	142,426
23 March 2001	52.58p	3 years to 22 March 2007	425,000	–	–	–	425,000
11 April 2001	52.58p	3 years to 10 April 2007	105,000	–	–	–	105,000
31 October 2001	30.00p	3 years to 30 October 2007	755,000	–	–	–	755,000
12 March 2003	23.08p	3 years to 11 March 2009	–	7,450,783	–	–	7,450,783
			5,748,525	7,450,783	128,704	–	13,070,604

These options will normally only become exercisable provided that the Group's Underlying Earnings per Share grows by not less than 4% per annum compound above the growth in the UK Retail Price Index over a period of three or more financial years commencing in January of the year of grant, and will lapse if not exercised within six years of the date of grant.

## Savings Related Share Option Plan:

2,376 shares were allotted in respect of options granted under the Savings Related Share Option Plan during the year. A further 2,401 shares were allotted under the Share Plan in February 2004 but these are not included in the table below. At 31 December 2003 there were outstanding:

Date of grant	Subscription price	Normal exercise period	Sharesave options 2002	Granted 2003	Lapsed 2003	Exercised 2003	Sharesave options 2003
22 November 1996	96.00p	6 months to 31 July 2002	3,593	–	3,593	–	–
3 October 1997	129.50p	6 months to 31 May 2003	91,680	–	91,680	–	–
6 October 1998	114.00p	6 months to 31 May 2004	142,704	–	21,363	–	121,341
1 October 1999	91.50p	6 months to 31 May 2003	159,338	–	159,338	–	–
1 October 1999	91.50p	6 months to 31 May 2005	78,550	–	7,005	–	71,545
6 October 2000	43.50p	6 months to 31 May 2004	988,701	–	249,458	–	739,243
6 October 2000	43.50p	6 months to 31 May 2006	331,279	–	103,185	–	228,094
9 October 2001	42.00p	6 months to 31 May 2005	1,087,385	–	193,744	–	893,641
9 October 2001	42.00p	6 months to 31 May 2007	525,175	–	96,904	–	428,271
6 September 2002	25.25p	6 months to 31 May 2006	3,096,098	–	453,325	–	2,642,773
6 September 2002	25.25p	6 months to 31 May 2008	1,514,036	–	190,319	2,376	1,321,341
			8,018,539	–	1,569,914	2,376	6,446,249

## 22 Reconciliation of Movements in Shareholders' Funds

a) 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

Cumulative goodwill written off against reserves is as follows:

	Total £m
At 1 January 2003 and 31 December 2003	59.0

b) Company	Share capital	Share premium	Other reserve	Profit and loss account	Total
At 1 January 2003	30.7	3.5	83.8	6.0	124.0
Profit for the financial year (2002 – £7.2m)	-	-	-	5.4	5.4
Dividends	-	-	-	(6.1)	(6.1)
At 31 December 2003	30.7	3.5	83.8	5.3	123.3

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own Profit and Loss Account.

## c) Group and Company

Shareholders' funds are attributable entirely to equity interests.

In 1997, £87.0m of the Share Premium Account was cancelled and replaced by a Special Reserve against which Group goodwill, arising on acquisitions since completion of the previous restructuring of shareholders' funds in June 1991 and December 1997, of £70.0m has been set off. Subject to first settling existing creditors, this reserve becomes distributable by the Company to the extent of future increases in issued share capital and Share Premium Account or may be used in the write off of goodwill in the Company's investments in its own direct subsidiaries.

## 23 Guarantees and Other Financial Commitments

## a) Capital commitments

Capital commitments of the Group contracted for but not provided for in the Accounts at 31 December 2003 were £1.6m (2002 – £0.6m).

The Company had capital commitments at 31 December 2003 of £nil (2002 – £nil).

## b) Operating lease commitments

The Group leases certain land and buildings and plant and equipment. The net rental for 2003 on the land and buildings leases was £3.4m (2002 – £3.4m). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The total rental for 2003 on the plant and equipment leases was £1.0m (2002 – £0.9m). The lease agreements provide that the Group pays substantially all insurance, maintenance and repairs.

The minimum annual rental commitments under the foregoing leases are as follows:

	2003 Land and buildings £m	2003 Plant and equipment £m	2002 Land and buildings £m	2002 Plant and equipment £m
Operating leases which expire:				
Within one year	0.3	0.2	0.6	0.2
Between two and five years	0.8	0.6	1.1	0.7
After five years	2.0	-	1.1	-
	3.1	0.8	2.8	0.9

### 23 Guarantees and Other Financial Commitments continued

The net rental for 2003 payable by the Company on a land and buildings lease was £0.2m (2002 – £0.2m). The minimum annual rental commitment under this lease, which expires after five years, is £0.2m (2002 – £0.2m).

The Company has guaranteed £1.3m (2002 – £1.0m) of annual lease commitments of certain subsidiary undertakings.

#### c) Revolving credit facility

At the beginning of the year, the Company was a guarantor, jointly and severally, with certain subsidiary undertakings, of a committed £83.1m (originally £100m) multi-currency revolving credit facility for the Group, maturing in June 2004.

During 2002 the Company had exercised a term out option converting €14.0m and US\$2.5m into two year loans maturing at the end of the facility in June 2004.

In April 2003 the above loans, together with a €3.6m loan which had been termed out in 2001, were prepaid and at the same time an £11m unutilised portion of the remaining £70m commitments was cancelled, so that the facility became a £59m committed facility.

In October 2003 this facility was replaced with a committed £46m multi-currency revolving credit facility dated 23 October 2003 and maturing 31 October 2006, of which the Company is a guarantor, jointly and severally, with certain subsidiary undertakings.

At December 2003 the total amounts borrowed under this facility were £14.8m, comprising €17.5m and Swedish kroner 32.5m.

#### d) Private placement loans

The Company is a guarantor, jointly and severally, with certain subsidiary undertakings of US\$75.0m (2002 – US\$75.0m) unsecured loan notes under agreements dated 22 October 1998.

The Company is a guarantor, jointly and severally, with certain subsidiary undertakings of US\$30.0m (2002 – US\$30.0m) unsecured loan notes under amended and restated agreements dated 31 October 1995 and 15 January 1999.

#### e) Bank guarantees

The Company is a guarantor, jointly and severally, with certain UK subsidiary undertakings, of all indebtedness of these subsidiary undertakings to two of the Group's UK clearing bankers.

The Company is a guarantor of all indebtedness of certain US subsidiary undertakings to its US clearing bankers, including a committed single bank \$25m three-year facility maturing on 31 May 2006. At December 2003 there were no amounts drawn under this facility.

#### f) Forward exchange contracts

The Group enters into forward exchange contracts as part of its hedging policy on exchange exposures arising on translation of overseas assets into sterling. At 31 December 2003, the Group had entered into forward contracts to sell US dollars, Euros and Czech koruna for a total sterling value of £50.3m (2002 – £44.9m). These contracts all mature within one year.

### 24. Pension Costs and Other Post-Retirement Benefit Costs

The Group has continued to account for pension costs and other post-retirement benefit costs in accordance with SSAP24 "Accounting for Pension Costs" and the disclosures given, in a) below, are those required by that standard. Whilst the timetable for the full implementation of Financial Reporting Standard No. 17 "Retirement Benefits" has been delayed by the Accounting Standards Board, the supplementary transitional disclosures it requires are included in c) below.

#### a) SSAP24

The Group operates a number of pension plans in the UK, North America and Europe. These include both defined contribution arrangements covering 56% of the Group's employees and defined benefit arrangements covering 30% of the Group's employees.

Defined benefit plans are operated in the UK and the USA. The assets are held in separate trustee administered funds managed by independent financial institutions and have pension costs assessed by consulting actuaries using the projected unit method.

The total defined benefit pension costs for the Group were £3.0m (2002 – £2.7m). In the current year the UK plan charge was increased by a net £0.4m (2002 – £0.3m) in respect of the amortisation of the scheme deficit offset by interest on the excess of the amount funded over the accumulated pension costs.

In the UK the major plan is valued on a triennial basis with the latest valuation having taken place at 6 April 2001. At this date the valuation showed the value of assets held was £115m and that the actuarial value of assets held was 100% of the benefits that had accrued to members after allowing for future increases in earnings. It was assumed that future investment returns would exceed pay increases by 3.0% per annum and would exceed both inflation and pension increases by 3.5% per annum.

In the USA the plans are valued annually and at 31 December 2003 the market value of the assets was US\$24.4m (2002 – US\$20.6m), being 72% (2002 – 68%) of the pension obligations.

The excess of the amount funded over the accumulated pension costs for the Group of £1.5m (2002 – £1.5m) is included within debtors falling due after more than one year. The excess of the amount funded over the accumulated pension costs for the Company of £4.4m (2002 – £4.1m) is included within debtors falling due after more than one year.

The cost of post-retirement healthcare benefits in both 2003 and 2002 was not material. The cumulative cost of benefits accrued in earlier years is being spread over the expected average remaining service life of plan members and a provision of £0.3m (2002 – £0.3m) is included in the Group Balance Sheet. In addition the Group has recorded a provision of £1.4m (2002 – £1.3m) in respect of the unfunded pension obligations arising on businesses acquired during 1994. These amounts are not expected to change under FRS17.

## 24. Pension Costs and Other Post-Retirement Benefit Costs continued

## b) Defined Contribution Schemes

In addition to the above, the Group has a number of different defined contribution and government sponsored arrangements in place in the countries in which it operates. None of these are individually material to the Group and the aggregate cost of such schemes for the period was £2.7m (2002 – £3.3m). A total of £1.4m (2002 – £1.9m) of contributions were outstanding at the year-end. These figures include one small multi-employer defined benefit scheme in which it is not possible to identify the Group's share of the underlying assets and liabilities. Consequently the scheme has been accounted for as a defined contribution scheme. The Group is not aware of any surplus or deficit in this scheme that will cause the contribution rate to vary significantly in the next year.

## c) FRS17 Retirement Benefits

The calculations used for FRS17 disclosures have been based on the most recent actuarial valuations, updated as necessary to take account of the requirements of FRS17 in order to assess the position of the plans at 31 December 2003.

UK Plan Plan assets	31 December 2003		31 December 2002	
	Fair value	Expected rate of return	Fair value	Expected rate of return
	£m	%	£m	%
Equities	64.9	7.5	45.4	7.0
Bonds	13.8	5.5	19.0	5.0
Gilts	31.8	4.5	30.2	4.0
Properties and other	0.2	3.5	2.5	3.0
Total	110.7	6.4	97.1	5.6
Present value of plan liabilities	(146.2)		(131.5)	
Scheme surplus/(deficit)	(35.5)		(34.4)	
% funding	75.7%		73.8%	
Main contribution rate for current year	10.7%		10.7%	
Normal contributions made in the current year	£1.6m		£1.6m	
Additional discretionary contributions	£0.9m		–	
Main contribution rate for next year	10.7%		10.7%	
Major assumptions (per annum %)				
Inflation	2.60%		2.25%	
Increase in salaries	3.60%		3.25%	
Increase in pensions	2.60%		2.25%	
Increase in deferred pensions	2.60%		2.25%	
Rate used to discount scheme liabilities	5.5%		5.5%	
Average future investment returns	6.4%		5.6%	

Had the Group adopted FRS17 early the following items would have been recorded in the accounts:

## (i) Amount that would have been charged to operating profit

	2003 £m	2002 £m
Service cost	1.5	1.3

## (ii) Amount that would have been included as other finance income

	2003 £m	2002 £m
Expected return on scheme assets	5.4	6.7
Interest on scheme liabilities	(7.2)	(6.9)
	(1.8)	(0.2)

## 24. Pension Costs and Other Post-Retirement Benefit Costs continued

(iii) Amount that would have been included in the Statement of Total Recognised Gains and Losses

	2003	2003	2002	2002
	£m	% of assets/ liabilities	£m	% of assets/ liabilities
Difference between actual and expected return	8.0	7	(17.4)	(18)
Experience gains and losses on scheme liabilities	–	–	(5.9)	(4)
Effect of changes in assumptions	(8.3)		(5.6)	
	(0.3)	–	(28.9)	(22)

	2003	2002
	£m	£m
Movement in the scheme deficit during the year		
Deficit at 1 January	(34.4)	(5.4)
Current service cost	(1.5)	(1.3)
Contributions	2.5	1.4
Other finance income	(1.8)	(0.2)
Actuarial loss	(0.3)	(28.9)
Deficit at 31 December	(35.5)	(34.4)

The UK plan shows a deficit under FRS17 of £35.5m, but was fully funded at the last valuation date under SSAP24. The difference arises principally due to the method of discounting the plan liabilities and the movement in asset values since that time. Under SSAP24, the liabilities are discounted at a long-term portfolio average rate of return, in effect, matching the discount rate with the expected long-term investment performance of the fund. Under FRS17 the liabilities are discounted at a long-term high quality (AA) corporate bond rate effective at the point of valuation.

US Plan Plan assets	31 December 2003		31 December 2002	
	Fair value	Expected rate of return	Fair value	Expected rate of return
	£m	%	£m	%
Equities	13.6	8.0	12.8	8.0
Bonds	–		–	
Other	–		–	
Total	13.6	8.0	12.8	8.0
Present value of plan liabilities	(18.8)		(18.7)	
Scheme surplus/(deficit)	(5.2)		(5.9)	
% funding	72.3%		68.4%	
Contribution rate for current year	3.9%		1.0%	
Contributions made in the current year	£0.7m		£0.2m	
Contribution rate for next year	16.3%		3.9%	
Major assumptions (per annum %)				
Inflation	2.5%		2.5%	
Increase in salaries	4.0%		4.0%	
Increase in pensions	–		–	
Increase in deferred pensions	–		–	
Rate used to discount scheme liabilities	6.25%		6.75%	
Average future investment returns	8.0%		8.0%	

Once earned, pension benefits under the US plan are not subject to any form of indexation. The prior year comparative has been corrected to reflect this.

## 24. Pension Costs and Other Post-Retirement Benefit Costs continued

Had the Group adopted FRS17 early the following items would have been recorded in the accounts.

(i) Amount that would have been charged to operating profit

	2003 £m	2002 £m
Service cost	0.5	0.6

(ii) Amount that would have been included as other finance income

	2003 £m	2002 £m
Expected return on scheme assets	0.9	1.2
Interest on scheme liabilities	(1.2)	(1.3)
	(0.3)	(0.1)

(iii) Amount that would have been included in the Statement of Total Recognised Gains and Losses

	2003 £m	2003 % of assets/ liabilities	2002 £m	2002 % of assets/ liabilities
Difference between actual and expected return	1.5	11	(2.5)	(19)
Experience gains and losses on scheme liabilities	-	-	0.1	-
Effect of changes in assumptions	(1.2)		(1.0)	
Exchange	0.5		0.3	
	0.8	4	(3.1)	(17)

	2003 £m	2002 £m
Movement in the scheme deficit during the year		
Deficit at 1 January	(5.9)	(2.3)
Current service cost	(0.5)	(0.6)
Contributions	0.7	0.2
Other finance income	(0.3)	(0.1)
Actuarial gain/(loss)	0.3	(3.4)
Exchange	0.5	0.3
Deficit at 31 December	(5.2)	(5.9)

The US plan shows a deficit of £5.2m, whilst under SSAP24 the accounts include a liability of £1.3m. The plan deficit includes prior service liabilities and actuarial losses that, for accounting purposes, are being spread over the average remaining life of the employees and therefore have yet to be recognised in the accounts.

If the Group had adopted FRS17 early the Group profit and loss reserve would have been restated as follows:

	2003 £m
Profit and loss reserves as currently stated	70.2
Less: SSAP24 prepayment	(1.5)
Less: FRS17 deficit	(40.7)
Add: related deferred tax asset	12.7
Profit and loss reserves as restated	40.7

## 25 Acquisitions and Disposals

a) There were no acquisitions or disposals of businesses during the year.

b) The effect of business disposals during 2002 was as follows:

	2002 Disposals £m
Goodwill	(1.4)
Property, plant and equipment	(3.0)
Stocks	(2.0)
Debtors	(2.9)
Creditors	2.0
Loss on sale	3.5
	(3.8)
Consideration:	
Cash received	(3.1)
Costs	0.3
Deferred consideration receivable	(1.0)
	(3.8)

The £0.4m net cash inflow shown in the Group Cash Flow Statement comprises net cash receipts of £0.7m in respect of prior year disposals offset by the settlement of £0.3m deferred consideration payable in respect of previous acquisitions.

c) The 2002 loss on disposal of discontinued operations relates to the disposal in September 2002 of Senior Flexonics Bredan A/S and the businesses conducted by BHC a.s., Senior Flexonics Polska Spółka zo.o. and the UK Expansion Joints Division of Senior UK Limited, which were sold at a combined loss of £3.5m, including the write-off of £1.4m of goodwill.

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
<b>Group profit and loss accounts</b>					
<b>Turnover</b>					
Continuing operations	354.9	398.7	444.3	460.8	416.8
Discontinued operations	–	5.7	19.4	44.6	80.0
	<b>354.9</b>	<b>404.4</b>	<b>463.7</b>	<b>505.4</b>	<b>496.8</b>
<b>Operating profit before impairment and amortisation of goodwill</b>					
Continuing operations	17.6	23.4	31.1	34.1	23.9
Discontinued operations	–	–	0.4	(3.0)	(4.0)
	<b>17.6</b>	<b>23.4</b>	<b>31.5</b>	<b>31.1</b>	<b>19.9</b>
Impairment of goodwill	–	–	(4.0)	–	(12.8)
Amortisation of goodwill	(5.4)	(5.8)	(6.2)	(6.1)	(3.6)
<b>Operating profit</b>	<b>12.2</b>	<b>17.6</b>	<b>21.3</b>	<b>25.0</b>	<b>3.5</b>
Share of operating profit in associate net of amortisation of goodwill	–	–	0.2	1.0	0.5
Specified exceptional items*	0.4	(4.0)	(2.2)	(15.9)	(25.4)
Interest payable, net	(4.9)	(6.6)	(9.8)	(9.3)	(5.4)
<b>Profit/(loss) before taxation</b>	<b>7.7</b>	<b>7.0</b>	<b>9.5</b>	<b>0.8</b>	<b>(26.8)</b>
Taxation	(1.9)	(3.1)	(5.1)	(0.9)	(4.1)
<b>Profit/(loss) after taxation</b>	<b>5.8</b>	<b>3.9</b>	<b>4.4</b>	<b>(0.1)</b>	<b>(30.9)</b>
Dividends	(6.1)	(6.1)	(6.1)	(15.0)	(14.9)
<b>Loss for the year</b>	<b>(0.3)</b>	<b>(2.2)</b>	<b>(1.7)</b>	<b>(15.1)</b>	<b>(45.8)</b>
<b>Depreciation</b>	<b>16.1</b>	<b>17.8</b>	<b>18.4</b>	<b>18.3</b>	<b>17.0</b>
<b>Gross capital expenditure (including finance lease assets)</b>	<b>8.0</b>	<b>13.1</b>	<b>16.5</b>	<b>17.4</b>	<b>35.6</b>
<b>Basic earnings/(loss) per share</b>	<b>1.89p</b>	<b>1.29p</b>	<b>1.46p</b>	<b>(0.08)p</b>	<b>(10.08)p</b>
<b>Diluted earnings/(loss) per share</b>	<b>1.88p</b>	<b>1.29p</b>	<b>1.45p</b>	<b>(0.08)p</b>	<b>(10.06)p</b>
<b>Underlying earnings per share</b>	<b>3.52p</b>	<b>4.47p</b>	<b>5.51p</b>	<b>5.87p</b>	<b>6.03p</b>
<b>Dividends per share</b>	<b>2.00p</b>	<b>2.00p</b>	<b>2.00p</b>	<b>4.88p</b>	<b>4.88p</b>
<b>Group balance sheets</b>					
Fixed assets	156.1	175.7	201.3	227.1	226.2
Net current assets	42.1	45.8	53.8	62.6	66.5
Creditors due after one year	(73.4)	(97.5)	(127.5)	(162.1)	(154.3)
Provisions for liabilities and charges	(2.7)	(2.7)	(2.5)	(3.5)	(2.7)
Net assets	<b>122.1</b>	<b>121.3</b>	<b>125.1</b>	<b>124.1</b>	<b>135.7</b>
Borrowings, gross	(79.1)	(101.1)	(137.6)	(162.9)	(150.4)
Less cash (including deposits and forward exchange contracts)	14.9	13.7	14.9	16.4	9.6
Net borrowings	<b>(64.2)</b>	<b>(87.4)</b>	<b>(122.7)</b>	<b>(146.5)</b>	<b>(140.8)</b>
<b>Gearing, net</b>	<b>52.6%</b>	<b>72.0%</b>	<b>98.1%</b>	<b>118.0%</b>	<b>103.8%</b>
<b>Group cash flow</b>					
Cash inflow from operating activities	32.9	43.9	46.9	50.1	36.8
Tax (payments)/receipts	(0.8)	0.3	7.0	(4.9)	(9.1)
Interest payments, net	(5.0)	(7.3)	(9.7)	(8.7)	(6.7)
Capital expenditure (including finance leases) less disposals	(6.9)	(11.7)	(15.6)	(16.8)	(30.7)
Free cash flow	<b>20.2</b>	<b>25.2</b>	<b>28.6</b>	<b>19.7</b>	<b>(9.7)</b>
Dividends paid	(6.1)	(2.5)	(15.0)	(15.0)	(14.5)
Acquisitions less disposals	0.4	2.2	11.5	(3.8)	(36.5)
Dividend income from associated undertaking	–	–	0.2	0.2	0.1
Proceeds from share issues	–	–	–	0.1	0.3
Own shares purchased by the Employee Benefit Trust	–	–	–	–	(0.6)
Maturity of investments – bank deposits	–	–	–	–	8.0
(Decrease)/increase in loans	(15.1)	(32.3)	(25.3)	4.2	38.2
Increase in finance leases	–	1.5	–	–	–
Cash inflow on forward exchange contracts	4.5	0.2	–	–	–
Increase/(decrease) in cash in the period	<b>3.9</b>	<b>(5.7)</b>	<b>–</b>	<b>5.4</b>	<b>(14.7)</b>

\*Specified exceptional items comprise losses on disposal and termination of businesses and associated undertakings, including related goodwill, together with profit or loss on disposal of fixed assets.

Operating companies	Business units	Locations
Senior Flexonics Limited	Senior Flexonics – United Flexible	Merthyr Tydfil
Senior Hargreaves Limited	Senior Hargreaves	Bury
Senior UK Limited	Senior Automotive – Crumlin Senior Aerospace – BWT Senior Aerospace – Bird Bellows	Crumlin Macclesfield Congleton
Senior Operations Inc. (incorporated in Delaware, USA)	Senior Automotive – Bartlett Senior Flexonics – Hose Division Senior Flexonics – Pathway Senior Flexonics – Pathway Senior Aerospace – Metal Bellows Senior Aerospace – SSP Senior Aerospace – Composites Senior Aerospace – Ketema Senior Aerospace – Ketema Senior Aerospace – Jet Products	Bartlett, Illinois Romeoville, Illinois New Braunfels, Texas Oak Ridge, Tennessee Sharon, Massachusetts Burbank, California Wichita, Kansas El Cajon, California Saltillo, Mexico San Diego, California
Senior Operations (Canada) Limited (incorporated in Canada)	Senior Flexonics – Canada	Brampton, Ontario
Senior Berghofer GmbH (incorporated in Germany)	Senior Automotive – Kassel	Kassel, Germany
Senior Automotive Czech s.r.o. (incorporated in the Czech Republic)	Senior Automotive – Olomouc	Olomouc, Czech Republic
Senior Aerospace Ermeto SAS (incorporated in France)	Senior Aerospace – Ermeto	Blois, France
Senior Automotive Blois SAS (incorporated in France)	Senior Automotive – Blois	Blois, France
Senior Calorstat SAS (incorporated in France)	Senior Aerospace – Calorstat	Dourdan, France
Flexonics SAS (incorporated in France)	Senior Flexonics – France	Dourdan, France
Senior Flexonics B.V. (incorporated in Holland)	Senior Flexonics – Holland	Rotterdam, Holland
Senior Aerospace Bosman B.V. (incorporated in Holland)	Senior Aerospace – Bosman	Rotterdam, Holland
Habia Teknofluor AB (incorporated in Sweden)	Senior Flexonics – Habia	Knivsta, Sweden
Senior Automotive S.A. (Pty) Limited (incorporated in the Republic of South Africa)	Senior Automotive – Cape Town	Cape Town, South Africa
Senior do Brasil Ltda. (incorporated in Brazil)	Senior Automotive – Sao Paulo	Sao Paulo, Brazil
Senior India Private Limited (incorporated in India)	Senior Automotive – New Delhi	New Delhi, India
Senior Investments AG (incorporated in Switzerland)		Schaffhausen, Switzerland

All Group undertakings are both wholly owned and incorporated in Great Britain and registered in England and Wales unless otherwise indicated. They are all directly owned by subsidiary undertakings of Senior plc and in every case the principal country of operation is the country of incorporation.

Comments on the activities of each Group undertaking are included in the Chief Executive's Review on pages 3 to 6.

## 48 Additional Shareholder Information

### Analysis of Shareholders at 31 December 2003

	Shareholders number	Shareholders %	Shareholdings millions	Shareholdings %
<b>By Category</b>				
Corporate bodies	1,076	24.01	289.58	94.21
Other shareholders	3,406	75.99	17.81	5.79
	<b>4,482</b>	<b>100.00</b>	<b>307.39</b>	<b>100.00</b>
<b>By Range of Holdings</b>				
1 – 24,999	4,118	91.88	16.19	5.27
25,000 – 49,999	130	2.90	4.42	1.44
50,000 – 249,999	111	2.47	11.45	3.73
250,000 – 499,999	39	0.87	13.83	4.50
500,000 – 999,999	24	0.54	17.90	5.82
1,000,000 – and over	60	1.34	243.60	79.24
	<b>4,482</b>	<b>100.00</b>	<b>307.39</b>	<b>100.00</b>

### Share Registrars

All shareholder records are maintained by Lloyds TSB Registrars and all correspondence should be addressed to the Registrar, Senior plc at the Lloyds TSB Registrars' address shown on the facing page, quoting the reference number starting with 0228 detailed on your dividend vouchers. The Registrar should be notified regarding changes to name or address, loss of either share certificate or dividend warrant, or request for, or change to, a dividend mandate.

Lloyds TSB Registrars provide a range of shareholder information on-line. Shareholders can check their holdings, update details and obtain practical help on transferring shares at: [www.shareview.co.uk](http://www.shareview.co.uk)

Instead of payment by post to your registered address, dividends can be paid through the BACS system direct into a UK bank or building society account, with the dividend voucher still sent to your registered address. If you wish to use this facility and have not previously applied, then please apply direct to Lloyds TSB Registrars and request a dividend mandate form. Shareholders who are currently receiving duplicate sets of Company mailings, as a result of any inconsistency in name or address details, should write direct to Lloyds TSB Registrars so holdings can be combined, if appropriate.

### CREST Proxy Voting

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 16 April 2004 and any adjournment(s) thereof by using the procedures described in the CREST Manual. Further details relating to voting via CREST may be found on the Notice Of Meeting/Proxy Card inserted within the Annual Report.

## 2004 Financial Calendar

4 March	Preliminary announcement of 2003 annual results.
16 March	Publication of Annual Report 2003.
16 April	Annual General Meeting.
28 April	Shares ex-dividend for 2003 final dividend.
30 April	Record date for shareholders on the register to receive the 2003 final dividend.
27 May	Payment of 2003 final dividend.
5 August	Preliminary announcement of 2004 interim results.
9 August	Publication of Interim Report 2004.
27 October	Shares ex-dividend for 2004 interim dividend.
29 October	Record date for shareholders on the register to receive 2004 interim dividend.
26 November	Payment of 2004 interim dividend.

## Officers and advisers

### Secretary and Registered Office

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Registered in England and Wales No. 282772

### Registrars

Lloyds TSB Registrars  
The Causeway, Worthing, West Sussex BN99 6DA

### Auditors

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Four Brindley Place, Birmingham B1 2HZ

### Solicitors

Slaughter and May  
One Bunhill Row, London EC1Y 8YY

### Principal UK Clearing Bankers

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8 Canada Square, London E14 5HQ

### Royal Bank of Scotland

135 Bishopsgate, London EC2M 3UR

### Investment Bankers

Schroder Salomon Smith Barney  
Citigroup Centre, 33 Canada Square, London E14 5LB

### Stockbrokers

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