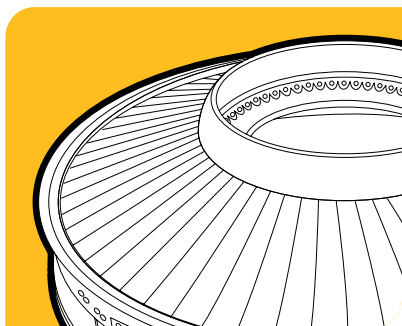


## Aerospace Division



### Geographic turnover by destination

**68% North America**

**10% UK**

**21% Rest of Europe**

**1% Rest of World**

The civil aerospace market began to show signs of progressive recovery in 2004, following the market turmoil experienced in 2002 and 2003 as a result of the events of 9/11. Further recovery is expected in 2005.

Amongst the larger civil aircraft manufacturers, Airbus is expected to deliver 350 planes in 2005, a 15% increase over the 305 planes delivered in 2003 and a 9% increase over the 320 planes delivered in 2004. By contrast, Boeing is moving from 281 deliveries in 2003 and 285 in 2004 to an expected 314 deliveries in 2005 – a 12% increase over the three years. In the regional jet sector, Bombardier delivered 242 planes in 2003 but only 195 in 2004, a reduction of 19%. The other major regional jet manufacturer, Embraer, increased its deliveries by 47% from 101 in 2003 to 148 in 2004. The engine manufacturers' demands upon our operations mirrored the changes in the mix of demand for the aircraft.

Demand for military and defence products remained at around 29% of Divisional sales. This continued to help Senior Aerospace SSP, in Los Angeles, which designs and fabricates high pressure ducting systems. The company moved ahead strongly on all fronts during the year and completed its factory modernisation programme. It now has a manufacturing facility that truly reflects its world leading product design capability.

Senior Aerospace Metal Bellows in Sharon, Massachusetts, specialises in edge-welded bellows products. It benefited from the recovery in civil aircraft build rates, the demand for spares as more aircraft returned to the sky, and from the military and defence sector remaining strong. The cost reductions implemented in 2002 and 2003 also helped the company's profitability during 2004.

Senior Aerospace BWT, in the UK, made little progress in 2004. This company has a technical leadership position in ultra low weight passenger cabin ducting with its biggest customer being Bombardier to whom it sells in US dollars – hence the dual challenges in 2004 of declining demand and a declining sterling selling price. There are a variety of initiatives and new product programmes in development to help mitigate this situation in the future.

Senior Aerospace Composites is located in Wichita, Kansas, and manufactures composite ducting, but to a different specification to BWT. This company has borne very significant start-up costs on the Airbus A380, but these are now declining as the A380 programme starts production. Recovery in demand for business jets at its biggest customer, Cessna, will also help the business to move ahead.

In France, Senior Aerospace Ermeto was the main operation in the Group affected by the pause in production of the Eurofighter. This programme is scheduled to recommence during 2005. Ermeto supplies pipework and associated components for the hydraulic systems on the Eurofighter and other aircraft. Product development and production improvements are helping its recovery. At Senior Aerospace Calorstat, also in France, 2004 was a year of significant progress, helped by new leadership of the business and demand being ahead of expectations at a number of its customers.

Senior Aerospace Bird Bellows has a leading position in the supply of flexible high pressure metallic ducting components. Airbus's increasing build rate is helping Bird to grow turnover with the business also benefiting from the offload work being outsourced by Airbus, as it prepares for increased volumes and the ramp up in production of the much larger A380.

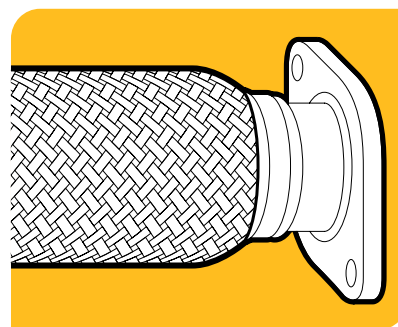
Senior Aerospace Bosman, in Holland, made significant progress in securing new business with OEMs as its traditional repair business declined. Product detail manufacture is being outsourced to lower cost countries and the business is planning to move to a smaller facility incorporating design, final assembly and testing only. New business, both in aerospace and power generation, is in discussion.

In San Diego, USA, the Group has two aerospace operations. Senior Aerospace Jet Products began to see some recovery in 2004 as the build rate of the Boeing 737 increased. At Senior Aerospace Ketema, an improved result was helped by higher levels of demand on a range of programmes. However, the operation will experience a significant mix change in 2005 as new business from Goodrich, Rolls-Royce and Pratt & Whitney goes into production

to replace reduced demand from the regional jet engine manufacturers. This will entail further investment in the complex machining equipment necessary to meet the stringent manufacturing demands required by the new generation of aircraft engines.

Overall, the Aerospace Division made healthy progress during 2004 with improved operating profits and an increase in operating margin. 2004 was a typical year for capital expenditure with £4.1m invested (75% of depreciation). The focus on lean manufacturing remains as strong as ever and this should help further progress to be made as the aerospace market continues its recovery.

## Automotive Division



### Geographic turnover by destination

**34% North America**

**7% UK**

**48% Rest of Europe**

**11% Rest of World**

The Group's main automotive markets, the USA and Europe, were flat in 2004. Within them, however, the trend of the Asian brands winning market share from the regional brands continued. In the USA, the "Big 3" market share declined again, whilst Toyota and Nissan made further inroads. In Europe, BMW had a good year, Fiat a poor one and Toyota again advanced its market position.

Volume was not the primary challenge in 2004 for Senior Automotive. The major challenge was, and still is, raw materials with some genuine shortages, suppliers demanding huge price rises and the vehicle manufacturers resisting component price increases because of the impact on their own limited profitability.

The worst impact was at Senior Automotive Bartlett, in the USA, where some of its products were designed out of customers' vehicles and some legacy products moved to lower cost countries. The operation got through the year, with huge management effort, and with very substantial progress made in securing incremental business with new customers for new products. These products, all for diesel engine applications, include high pressure fuel lines, common rails and exhaust gas recycling coolers.

Test facilities are being substantially upgraded and manufacturing capacity installed ready for production starting in late 2006, in order that the customers' diesel engines will meet the new 2007 emissions legislation. Capital expenditure at this plant will be substantially higher in 2005 and 2006 as a result. The ongoing enquiry rate associated with this legislation change still remains high. The recovery in Bartlett's financial performance should start in 2006.

Senior Automotive Crumlin has also been focused on product development whilst, like Bartlett, it has suffered migration of legacy products to lower cost operations. Diesel engines are in widespread use in passenger cars in Europe and Crumlin has designed, developed and tested a new exhaust gas recycling cooler that is lighter and more efficient than anything else on the market. Substantial prototype and application engineering work is in progress with three high volume European diesel engine manufacturers.

At Senior Automotive Blois, in France, 2004 turned out to be a year of great challenge. Its financial performance deteriorated as a result of unexpectedly high volume increases, a key production plant supplier going into receivership and a key supplier failing to consistently maintain supplies at the required level. However, additional raw material sources have now been commissioned with new machine capacity, from a different equipment supplier, shortly due for installation. Recovery is expected in 2005.

Senior Automotive Kassel, in Germany, moved ahead in 2004, helped by the cost reduction actions taken in 2003 and by stronger demand from its traditional customers. The company has many new product applications in discussion and further progress is expected.

Senior Automotive Olomouc, a greenfield site in the Czech Republic, remained profitable throughout 2004 having moved into profit for the first time at the end of 2003. Its products had been relocated from the Group's Blois facility in France over the previous two years. It is anticipated that further expansion will take place at this site in due course.

Senior Automotive Sao Paulo, in Brazil, also moved ahead in 2004. A more stable local economy and steadier market demand helped its automotive business. A higher level of demand was seen for its industrial products.

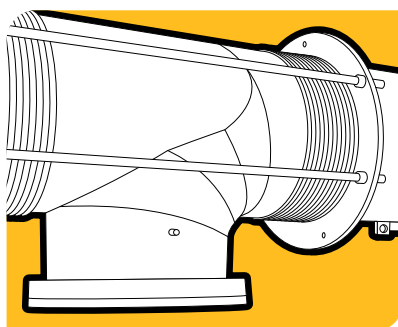
Senior's operation in India, Senior Automotive New Delhi, grew strongly, winning new business for its domestic OEM automotive market as well as serving the growing European automotive aftermarket. As a result, plans are in place to increase the floorspace of the factory during 2005 and to install

additional manufacturing capacity. Further growth in this business is anticipated.

Senior Automotive Cape Town, in South Africa, had a successful year, beginning with the move into a much larger factory, the installation of new manufacturing equipment and the start of production on a series of new product lines. The Automotive Division's key legacy product, for which Senior has a substantial market position, is the exhaust flex for front wheel drive cars. This historically migrated from Bartlett in the USA and Crumlin in the UK to Cape Town as customers took advantage of the weak local currency. More recently, the South African Rand has strengthened so stemming the flow. Nonetheless, unit volumes on existing programmes continue to grow.

Whilst 2004 was a challenging year for Senior Automotive, the Division is now beginning to see the fruits of the effort and resource that has gone into new product development over the past two years. As a consequence, the performance of the Division is expected to improve in the coming years.

## Industrial Division



### Geographic turnover by destination

**50% North America**  
**46% UK**  
**0% Rest of Europe**  
**4% Rest of World**

The final planned disposal was completed during 2004, leaving turnover at the remaining three operations at £44.9m in 2004 (2003 – £50.0m). The five industrial hose operations that left the Group in August 2004 had sales for the seven months prior to disposal of £19.1m (£32.0m for the full year in 2003). The financial details of the disposal are contained in the Finance Director's Review.

Of the three remaining businesses, Canada did well, helped by a supportive economy, continued attention to its cost base and the development of a more cost-effective supply base.

At Pathway, in the USA, the factory in Tennessee was closed and the factory

in Texas expanded. All production operations are now in the Texan facility. Pathway is a world leader in the design, fabrication and installation of large expansion joints for process plant, oil and gas and power generation applications but, during 2004, the market demand for its products remained at a low level. A recovery in demand has become evident at the start of 2005 and this, together with the management and cost base overhaul now being implemented, should result in the performance of Pathway improving.

Senior Hargreaves is the market leader in the design, fabrication and installation of ventilation ductwork but new construction in the UK has recently been in the doldrums. The business underwent a strategic review in 2004 with the result that, in future, a greater emphasis will be placed on higher specification applications and the retail side of the business. Hargreaves is expected to start to make progress in 2005 with the new strategy in place and the completion of the ongoing Wembley Stadium contract.

The three industrial businesses are all in shape to improve their performance in 2005 and continue to progress thereafter.

**Graham Menzies**  
 Chief Executive