Thursday 2 March 2006

Senior plc

Results for the year ended 31 December 2005

FINANCIAL HIGHLIGHTS	Year ended 31 December		
	2005	2004 [1]	
REVENUE FROM CONTINUING OPERATIONS	**£338.6m**	£306.8m	+10.4%
OPERATING PROFIT FROM CONTINUING OPERATIONS	**£19.6m**	£16.6m	+18.1%
PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS [2]	**£16.6m**	£12.5m	
BASIC EARNINGS PER SHARE FROM CONTINUING OPERATIONS [2]	**4.59p**	3.56p	
ADJUSTED PROFIT BEFORE TAXATION [3]	**£14.8m**	£12.5m	+18.4%
ADJUSTED EARNINGS PER SHARE [3]	**4.01p**	3.59p	+11.7%
TOTAL DIVIDENDS (PAID AND PROPOSED) PER SHARE	**2.00p**	2.00p	-
FREE CASH FLOW [4]	**£2.2m**	£10.5m	
NET BORROWINGS	**£62.4m**	£50.6m	

(1) The figures for 2004 have been restated following the adoption of International Financial Reporting Standards.
(2) Profit before tax and basic earnings per share from continuing operations includes the benefit of a £2.0m gain (2004: £nil) arising from foreign exchange movements on long-term inter-company loans as required by IAS21.
(3) Adjusted profit before taxation and adjusted earnings per share arise from continuing and discontinued businesses before a £0.2m loss on disposal of fixed assets (2004: £0.5m gain), £2.0m exchange gain on long-term inter-company loans (2004: £nil) and loss on disposal of discontinued businesses of £nil (2004: £4.8m).
(4) See Note 10(b) for derivation of free cash flow.

Commenting on the results, James Kerr-Muir, Chairman of Senior plc, said:

"This is a healthy set of results with sales and adjusted earnings per share more than 10% ahead of the prior year. The ongoing recovery in the large civil aircraft market, the recent acquisition of Sterling Machine and the impending start of production of the new heavy truck diesel engine products mean prospects for future growth remain strong across the Group."

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This announcement, together with other information on Senior plc may be found at: www.seniorplc.com

Note to Editors:

Senior is an international manufacturing group with operations in 11 countries. Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, automotive and specialised industrial markets.

CHAIRMAN'S STATEMENT

Senior made good progress in 2005.

The large civil aircraft market had a buoyant year with increased deliveries and a record number of new aircraft being ordered. In automotive, whilst the demand for passenger vehicles in Europe and the USA remained steady, Senior made significant progress in getting its new diesel products in North America ready for the start of production scheduled for late 2006. The Industrial Division benefited from the recovery in the oil and gas market.

The year ended with an 18.4% improvement in adjusted profit before taxation and solid order books with which to enter 2006.

Financial Results

Group turnover on continuing operations increased by 10.4% to £338.6m (2004 : £306.8m). Operating profit increased by 18.1% to £19.6m (2004 : £16.6m), whilst trading profit (which excludes any profit or loss on the sale of fixed assets) rose by 23.0% to £19.8m (2004 : £16.1m). Adjusted profit before tax, the measure which the Board believes best reflects the true underlying performance of the business, increased by 18.4% to £14.8m (2004 : £12.5m). Adjusted earnings per share increased by 11.7% to 4.01p per share (2004 : 3.59p). The results for 2005, and the comparatives for 2004, have been prepared for the first time under International Financial Reporting Standards. The derivation of trading profit, adjusted earnings per share and other non-statutory information is explained in the Business Review.

Trading profits in most of the Group's aerospace operations improved compared to 2004 as a result of the generally healthier marketplace, with those providing parts for the wide-bodied commercial aircraft seeing the greatest gains. Operations exposed to the regional jet market found trading conditions more challenging as a result of the decline in build rates in this sector. Overall, the Aerospace Division improved trading profits by 16.1% over 2004 (at constant currency).

As a result of the corrective actions taken early in the year, the French automotive operation recovered from its 2004 difficulties. Its improved financial performance assisted the Automotive Division to report trading profits 9.9% ahead of 2004 (at constant currency).The Division accounted for £13.2m of the Group's total £16.6m of capital expenditure in the year, as plant and machinery began to be installed to produce the new heavy duty diesel engine parts for the North American market. Start of production remains firmly on track for late 2006 onwards.

In the Industrial Division, trading profit more than doubled in a year of contrasting fortunes. On the one hand, the year contained the loss making Wembley Stadium contract at Senior Hargreaves but, more significantly, the lower cost base and very buoyant oil and gas market helped the North American operations, particularly Pathway, to have a much improved year.

Net debt at the end of the year was £62.4m (2004 : £50.6m), with the increase due to the increased Automotive capital expenditure and the effect of the strengthening US dollar on the Group's reported borrowings.

Acquisition

Senior made its first acquisition in six years, Sterling Machine, in January 2006 and I am particularly pleased to be able to welcome all the employees of this company to the Group. Sterling Machine, which will join the Aerospace Division, is a key supplier of critical components to the military helicopter market, a sector that has very good growth prospects. The acquisition further widens the customer spread as well as increasing the military content of the division. It is profitable, well run and respected by its main customer, Sikorsky, and it is expected to contribute to Group earnings in 2006. The acquisition was partially funded by a share placing of 15 million new shares in Senior plc at 60p per share.

Dividend

The Board is recommending an unchanged final dividend of 1.35p per share in respect of 2005, bringing the total paid and proposed dividends for the year to 2.00p per share (2004 : 2.00p).

Employees and the Board

Ian Much joined the Board in December 2005 after Gordon Campbell stood down due to his other commitments. I would like to thank Gordon for his contribution and welcome Ian who brings with him much international experience of both the aerospace and automotive markets. He will stand for election at the forthcoming Annual General Meeting.

I would like to thank all the Group's employees for another year of unstinting effort and commitment in dealing with the challenges our operations faced in 2005, a year of improving market outlook, but one of unrelenting pressure on performance.

Outlook

Recovery in the large civil aircraft market is well underway and build rates are being increased significantly. The business jet and the military and defence sectors are strong although the regional jet market is weak. Overall, notwithstanding the current difficulty in sourcing raw materials, the aerospace market sector is well positioned for Senior. In Automotive, whilst the build rates of passenger cars may remain flat in the Group's markets, production of the new heavy duty diesel products is on schedule for late 2006 and represents the beginning of significant organic growth potential. The strong oil and gas market will continue to sustain the industrial operations and the Wembley Stadium contract should be finished in the first half of 2006.

Trading in the first two months of 2006 has been satisfactory and in line with the Board's expectations. The Group can anticipate that 2006 will bring new challenges but improved prospects and further growth opportunities.

CHIEF EXECUTIVE'S STATEMENT

Aerospace

During 2005, the aerospace industry continued its rapid recovery in build rates. Boeing delivered 290 aircraft, up from 285 in 2004, and booked a net 1,002 of new orders. They plan to deliver 395 aircraft in 2006, a 36% increase. Airbus has not yet announced its build plan for 2006, but it delivered 378 aircraft in 2005, an 18% increase over 2004, and booked an unprecedented net 1,055 in new orders during the year.

Together, Boeing and Airbus delivered 668 aircraft in 2005 but took net orders for 2,057 aircraft – a book to bill ratio of 3.1. This was a record year for the industry, both for the large civil aircraft builders and for the engine suppliers, such as Rolls-Royce, GE and Snecma. In the smaller regional jet aircraft sector the two main assemblers fared less well. Bombardier reduced regional jet deliveries by 26%, from 176 aircraft in 2004 to 130 in 2005, and Embraer by 10% from 134 to 120. Bookings were also down with Bombardier, suffering from significant cancellations on its CRJ 200 programme, receiving net orders for only 4 aircraft in 2005 compared to 135 in 2004 and Embraer booking 90, down from 108.

The small business jet sector was very buoyant and the military and defence sector remained at a healthy level.

Senior Aerospace has a good spread of customers in the aerospace industry with about 30% of sales being to the military and defence sector. The industry recovery, however, is being powered by the demand for Boeing and Airbus large civil aircraft that should see build rates at a higher level for a number of years to come.

In addition, there are a variety of new programmes that are helping demand. The very large Airbus A380 flew for the first time in 2005 and is due into service in 2007. Work has commenced on the European military transport aircraft, the A400M, and production of the Eurofighter has been extended into its second tranche of around 250 aircraft. Both Boeing and Airbus have launched new mid-size large civil aircraft – respectively the B787 and A350 – and had received orders of 291 and 87 aircraft for these models by the end of 2005. The new aircraft are planned to cost less to buy and fly compared to the current equivalent aircraft.

Growth in the aerospace industry is not, however, without its challenges. The availability and price of raw materials is a major concern and this could slow the industry efforts to increase build rates. The industry uses a variety of specialist materials in higher volumes than most other industries. One such material is titanium, where by January 2006 the price had risen by over 65% from a year earlier and the delivery lead time for supplies of titanium had stretched to around 72 weeks.

In addition to build rates increasing, and new aircraft being launched, Senior Aerospace now has an additional member company. Sterling Machine was bought from its private owners in January 2006. Located in Connecticut, USA, it is a well run, profitable, growing and well invested business which makes transmission and rotor-head components for military helicopters – primarily for its main customer Sikorsky. The build rate of the Sikorsky Blackhawk is forecast to grow substantially in the near term as a result of a strong order book. In the medium term, the US government has agreed financing to recommence production of the heavy lift Sikorsky Super Stallion. Sterling Machine is a welcome addition to the Group.

Automotive

In both Europe and North America, automotive markets were flat in 2005. Within these markets, diesel engined vehicles in Europe continued to gain market share as common rail diesel technology became available to most engine assemblers. This high pressure fuel technology increases power output, reduces noise and vibration, improves fuel consumption and helps meet emission standards which authorities around the world continue to tighten. In North America, the rise in fuel prices during 2005 precipitated a switch from large sports utility vehicles to smaller regular passenger cars. Fortunately, the Group's products in production today are more likely to be fitted on the latter rather than the former. In addition, the "Big 3" continued to have their market share eroded by the Japanese and Korean assemblers. These two factors resulted in some distress in the industry with General Motors, Ford and Daimler Chrysler announcing rationalisations, cost reductions and plant closures.

In Senior Automotive, material price pressures slackened somewhat in 2005 compared to 2004 when the industry had witnessed dramatic price increases in a variety of metals. Senior almost exclusively uses varieties of stainless steels where price increases of its component metals (nickel, molybdenum, cobalt etc.) had led to the need to negotiate surcharge mechanisms with both raw material suppliers and customers. The supply chain in the industry now has surcharge mechanisms in place that largely address variations in raw material prices.

Investment by the Division over the last three years in new product programmes is now bearing fruit. The diesel engine manufacturers in the USA, who build essentially for heavy truck assemblers, have adopted common rail high pressure fuel systems for their 2007 model year. It is currently the most economic way to meet 2007 emission standards. Today, the Division has little exposure to heavy trucks but, by 2007, sales in this sector will increase substantially and the dependence upon diesel engines, both large in the USA and small in Europe, will increase significantly. This will dilute Senior's exposure to regular passenger vehicles.

Industrial

In 2005, there were conflicting fortunes in the Industrial Division. Trying to complete the Wembley Stadium ducting contract on cost, and on time, proved impossible on a very difficult site where the main contractor, Multiplex, has regularly reported on its own financial and operational difficulties. The contract is near to completion with the adverse financial impact of the contract being recognised in the 2005 results. By contrast oil and gas, in North America, has been a very healthy market and looks set to continue as long as the crude oil price remains high. Together with the cost reductions affected in 2004, this helped the performance of the Industrial Division improve significantly in 2005, particularly at Pathway.

Operational Excellence

Throughout the Group, engineered products are manufactured for large original equipment assemblers. Consequently, demand levels in the Group's factories are a direct function of the success of the Group's customers in selling their own products together with the dynamics of the marketplaces themselves. In order to continue to be a successful and growing business, the Group remains committed to operational improvements, cost reduction and value enhancement through product and process design and development. Operational excellence, impeccable customer service and profitable pricing remain core objectives.

These policies and improving markets leave Senior well placed to grow in the future.

BUSINESS REVIEW

GROUP ACTIVITIES

Senior is a global engineering group, with operations in 11 countries, principally serving the aerospace and automotive markets. The aerospace business is relatively evenly spread across the large commercial, military and regional jet marketplaces supplying both airframe, engine and aerospace component manufacturers. The Automotive Division principally produces products using the Group's flexible thin-walled metal "Flexonics" technology supplying exhaust, fuel, turbocharger, engine emission and cooling parts to both the car assemblers themselves and also their Tier 1 suppliers. The Group also supplies a variety of industrial markets including the oil and gas, chemical and HVAC industries.

Acquisition

Subsequent to the year end, the Group completed the acquisition of Sterling Machine Co., Inc. a US manufacturer of precision machined parts for the aerospace industry. Sterling is a pre-eminent manufacturer of transmission and rotor-head helicopter components for military platforms, principally to Sikorsky Aircraft Corporation. The business operates from a freehold site in Connecticut, USA. In 2005, Sterling reported sales of US$ 18.8m and profit before interest and tax of US$ 4.2m. The cash consideration, including assumed net debt, was US$ 37.6m which was funded through a combination of a placing of 15 million new Senior plc shares at £0.60 each and utilisation of the Group's existing borrowing facilities.

Future Structure of the Group

Starting with the 2006 interim results, the plan is to present the Group as having two divisions. The Senior Aerospace Division will have eleven subsidiaries, including the newly acquired Sterling Machine, while a newly named Senior Flexonics Division will include both the existing eight automotive operations and the three industrial operations. The reason for this move is threefold: the Group's dependence upon traditional automotive components is diminishing with the increase in heavy duty diesel applications; the Group already has an industry recognised common brand in "Flexonics" and much common technology across the automotive and industrial market sectors; and the move to only two divisions signifies the end of a period of rationalisation of the Group and marks the beginning of a sustained period of growth for Senior both as a result of new products and expanding markets.

CHANGES IN ACCOUNTING POLICY

Companies listed on security exchanges within the European Union were required to adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 31 December 2004. Accordingly, the Group's 2005 Financial Statements represent the first time the Group has reported under IFRS. The Company, Senior plc, is also reporting under IFRS for the first time. All comparative figures for 2004 have been restated with Note 13 explaining the effect of the transition to IFRS on the balance sheets at the start and end of 2004 and the income statement for 2004. The most significant effects relate to the non-amortisation of goodwill, the non-accrual for period end dividends and a change in the treatment of previously written-off goodwill upon the disposal of operations. The reconciliation at Note 13 shows that other effects were minor with the Group trading profit on continuing operations for 2004 being £0.3m lower under IFRS than previously reported under UK GAAP.

FINANCIAL PERFORMANCE OF THE GROUP

Sales

Total sales from continuing operations were £338.6m compared to £306.8m in 2004, an increase of £31.8m or 10.4%. Exchange rate movements had little year-on-year impact accounting for only £3.4m of the improvement. The underlying improvement was widely spread with each of the three divisions reporting improved turnover levels.

Operating Profit

The Group's operating profit on continuing operations was £19.6m, an 18.1% increase on the £16.6m reported for 2004. This result includes a loss on sale of fixed assets of £0.2m (2004 : £0.5m profit) which, when added back, results in a Group trading profit from continuing operations of £19.8m. This is £3.7m or 23.0% ahead of 2004's £16.1m with only £0.3m of the increase due to exchange rate movements. All three divisions reported improved profitability.

Investment Income and Finance Costs

Investment income fell to £1.3m from £2.1m in 2004 due to a one-off benefit in 2004 when £0.8m of interest relating to a US tax refund was received.

Finance costs remained relatively stable at £6.3m (2004: £6.2m) despite the slightly higher levels of net debt in the year. Finance costs include £1.1m (2004 : £1.2m) of net finance costs in respect of retirement benefit obligations.

Profit before Tax

Adjusted profit before tax (that arising from continuing and discontinued businesses before a £0.2m loss on disposal of fixed assets (2004 : £0.5m gain), £2.0m exchange gain on long-term inter-company loans (2004 : £nil) and a loss on disposal of discontinued businesses of £nil (2004 : £4.8m)) increased by 18.4% to £14.8m (2004 : £12.5m). Profit before tax on continuing operations was £16.6m (2004 : £12.5m). This includes the £2.0m gain (2004 : £nil) from foreign exchange movements on long-term inter-company loans as required by IAS21 ("The Effects of Changes in Foreign Exchange Rates"), as currently endorsed by the European Union. It should be noted that an amendment to IAS21 was issued in December 2005 which, when endorsed by the European Union, will require such foreign exchange differences to be taken to reserves rather than the income statement.

Taxation

The total tax charge on continuing operations increased to £2.5m (2004 : £1.6m). The effective tax rate, expressed as a percentage of profit before tax on continuing operations (excluding the foreign exchange gain on inter-company loans) was 17.1% (2004 : 12.8%). The low effective tax rate for 2004 benefited from £0.9m of adjustments in respect of prior periods whereas 2005 benefited by only £0.5m.

Disposals

There were no disposals in the year. In 2004 a loss of £4.4m was recognised in respect of discontinued operations being a profit before tax of £0.5m less tax of £0.1m and less the loss on disposal of £4.8m.

Earnings

Basic earnings per share from continuing operations was 4.59p an increase of 28.9% over 2004 (3.56p), reflecting both the underlying trading improvement and the £2.0m foreign exchange gain on inter-company loans discussed above. Adjusted earnings per share, the measure which the Board believes best reflects the true underlying performance of the business and whose derivation is set out at Note 8, increased by 11.7% to 4.01p (2004 : 3.59p). Adjusted earnings per share exclude the effect of the disposal of businesses and fixed assets and also foreign exchange gains or losses on long-term inter-company loans.

Dividend

As noted in the Chairman's statement, an unchanged final dividend of 1.35p per share is proposed. Together with the unchanged interim dividend of 0.65p, the total dividend for 2005 will be 2.00p (2004 : 2.00p) assuming the final dividend is approved. The total dividend is covered 2.0x (2004 : 1.8x) by adjusted earnings per share.

Cashflow

	2005	**2004**
	£m	**£m**
Net cash from operating activities	**16.5**	**17.7**
Interest received	1.4	2.5
Capital expenditure	(16.6)	(10.4)
Proceeds from sale of fixed assets	0.9	0.7
Free cash flow	**2.2**	**10.5**
Dividends paid	(6.1)	(6.1)
Acquisitions/disposals	(0.1)	4.5
Share issues	0.5	-
Effect of exchange rates	(7.8)	4.7
Change in net borrowings	**(11.3)**	**13.6**
New borrowings under IFRS	(0.5)	-
Opening net borrowings	(50.6)	(64.2)
Closing net borrowings	**(62.4)**	**(50.6)**

Free cash flow, as set out above and in Note 10(b), decreased from £10.5m to £2.2m. This was largely due to an increase of £6.2m in capital expenditure to £16.6m (2004 : £10.4m) with the increase arising in the Automotive Division where capital expenditure rose to £13.2m (2004 : £4.4m) as plant and machinery began to be installed ready for the manufacture of the new heavy duty diesel engine products for North America which are scheduled to go into production towards the end of 2006.

Net Borrowings

At the end of 2005, the Group had net borrowings of £62.4m, an increase of £11.8m in the year (31 December 2004 : £50.6m). The increase was due in part to exchange movements as well as increased capital expenditure. The Group primarily finances its borrowings through the US private placement market in US $ and through two revolving credit facilities (one US $; one multi-currency). The US $ strengthened from $1.92 : £1 at the start of the year to $1.72 : £1 at the end and this, together with other currency movements, caused £7.8m of the increase in net borrowings.

At the end of 2005 the Group had total borrowing facilities of £138.3m, of which £119.2m were committed facilities. £53.3m (2004 : £59.0m) of the committed facilities remained undrawn at the end of the year. Gearing at the year-end was 68% (2004 : 61%) measured on total net assets of £92.3m (2004 : £83.7m).

Shareholders' Equity

The increase in total shareholders' equity of £8.6m in the year, to £92.3m, largely arose from the £14.1m profit for the period less the £6.1m of dividends paid. Also of note was a £0.2m increase in share capital and a £0.3m increase in the share premium account following the exercise of options over 1.8 million shares under employee share save schemes.

DIVISIONAL REVIEW

Aerospace Division

£m	2005	2004	Change
Sales [(1)]	156.2	140.3	+11.3%
Trading Profit [(1)]	13.0	11.2	+16.1%
Margin [(1)]	8.3%	8.0%	-

[(1)] 2004 results translated at 2005 exchange rates

In the Aerospace Division (ten operations in 2005), sales grew by 11.3% to £156.2m (2004 : £140.3m at constant currency). Recovery in build rates within the industry helped this growth along with new programmes coming on stream. Trading profit increased by 16.1% to £13.0m (2004 : £11.2m at constant currency) as a result of the growth in revenue, maintained control of spending and a continued focus on process improvement and efficiency. The improved operating margin of 8.3% (2004 : 8.0%) arose as a result of better throughput in the factories partially offset by the steady rise in raw material prices. Whilst the large civil aircraft builders finished 2005 with record order-books, the smaller regional jet builders recorded poor bookings in the year. Business jet and defence and military demand remained at a good level and a number of sectors, military helicopters for instance, move into 2006 with growing order books.

Another important consequence of the ongoing industry growth, is the increasing opportunity for the Division to take on work being outsourced by the aircraft and engine assemblers as they seek to free up manufacturing space at their own factories. Bird Bellows benefited, during 2005, from Airbus outsourcing some ducting parts, whilst Ketema won outsourced engine parts from Rolls-Royce which will add to sales from 2006 onwards. On the other hand, the decline in the regional jet market impacted Ketema particularly hard during 2005 and there is little sign of recovery in this market. As well as benefiting generally from the increase in aircraft build-rates, the Division also saw improved performances as a result of the business and factory rationalisations carried out at Stainless Steel Products, in the USA, and Bosman, in Holland, during the prior year.

Overall, the recent addition of Sterling Machine and the generally healthy marketplace mean prospects for the Aerospace Division should remain positive for the foreseeable future.

Automotive Division

£m	2005	2004	Change
Sales [(1)]	135.9	125.1	+8.6%
Trading Profit [(1)]	8.9	8.1	+9.9%
Margin [(1)]	6.5%	6.5%	-

[(1)] 2004 results translated at 2005 exchange rates

Despite the flat markets, sales in the Automotive Division (eight operations) grew by 8.6% to £135.9m (2004 : £125.1m at constant currency) and trading profits by 9.9% to £8.9m (2004 : £8.1m at constant currency) as new programmes came on stream at a number of locations. The operating margin remained unchanged at 6.5% with the gearing benefit of the increase in sales offset by the additional engineering resource and start-up costs associated with bringing the new heavy duty diesel engine parts into production at Bartlett, in the USA.

The lower cost operations in Brazil, India and South Africa continued to perform well, with new automotive programmes starting up in all three locations. Sales in the Crumlin factory in Wales, however, fell as MG Rover went into bankruptcy and replacement exhaust programmes started up in South Africa rather than Crumlin. More positively, Crumlin's newly developed EGR Cooler for diesel engine passenger vehicles continues to attract interest from a number of vehicle manufacturers which may lead to orders being placed in the coming months. As anticipated, the French operation, having resolved its material supply problems, made a profit in the second half of the year after a difficult 2004 and its prospects remain encouraging for 2006.

As mentioned previously in the Chief Executive's Statement, the introduction of the heavy duty diesel engine products in the USA remains firmly on track with production scheduled to start in late 2006. To put these new products into production requires substantial capital investment in new capacity to be able to produce the necessary volumes. Capital expenditure, at £13.2m for the Division, was over double depreciation for the year, and is expected to be at least this level in 2006. The sales are scheduled to come through in 2007.

With such a large number of new products being introduced and the associated plant and equipment being installed, 2006 is likely to bring a number of challenges. 2007 is anticipated to be the first year to benefit from the additional volumes. Significant enquiries continue to be received for opportunities beyond those already booked which, together with growing volumes at a number of other locations, leave the Division well placed for growth from 2007 onwards.

Industrial Division

£m	2005	2004	Change
Sales [(1)]	47.8	45.4	+5.3%
Trading Profit [(1)]	2.2	0.9	+144%
Margin [(1)]	4.6%	2.0%	-

[(1)] 2004 results translated at 2005 exchange rates

Sales in the Industrial Division (three operations) increased by 5.3% to £47.8m (2004 : £45.4m at constant currency) with trading profits improving to around two and a half times 2004 levels (2005 : £2.2m; 2004 : £0.9m at constant currency). This significant improvement was achieved despite Senior Hargreaves being adversely impacted by the losses incurred on its Wembley Stadium ducting contract as previously described. Whilst the Canadian operation once again improved its performance, the main driver for the Divisional improvement was the larger Pathway operation, in the USA, where improved markets, such as oil and gas, and the site consolidation and operational improvement actions undertaken during 2004, drove its performance well ahead of the break-even position reported in 2004. Its markets remain strong and, with the completion of Wembley Stadium in the first half of 2006, the Division can anticipate improved prospects for 2006.

OTHER FINANCIAL MATTERS

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 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 normally attend the Treasury Committee once a year. All 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 income statements 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. Transaction exposures are, however, normally hedged through forward exchange contracts on a rolling 12 month basis. Changes in the fair value of derivative financial instruments that are designated and are effective as a cash flow hedge are recognised through reserves with any ineffective portion recognised in the income statement.

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.

Pensions

The Group operates a number of defined benefit pension plans, with the largest being the UK scheme, as well as a number of geographically based defined contribution and government sponsored arrangements.

At the end of 2005, total IAS 19 pension and post-retirement net liabilities were £39.9m (2004: £41.4m), a reduction of £1.5m (2004: £2.8m) in the year. Whilst equity returns were very strong, with the Group's pension fund assets increasing by £11.0m more than anticipated in the year, interest rates on long-term index-linked government bonds fell such that the liabilities of the Group's pension schemes, as calculated at the year end, rose by £10.8m more than anticipated, effectively cancelling out the increase in asset valuations.

The UK defined benefit scheme with around 5,200 members, 460 of which are active members, accounted for the vast majority, £31.3m (2004 : £33.7m), of the Group's total net pension liabilities. The latest actuarial valuation of the UK scheme was carried out during 2004 with the past service deficit calculated at that time as £18.5m. From 2006 onwards this is being funded by additional company contributions of £3.0m per annum (2005: £2.6m). The actuarial deficit for the UK scheme is lower than the IAS 19 deficit primarily due to the different discount rates used to value the liabilities.

In total, £1.8m (2004 : £2.0m) was charged to the profit and loss account in the year in respect of defined benefit schemes, in addition to the £1.1m (2004 : £1.2m) of net finance costs discussed earlier. The total charge for the Group's defined contribution schemes was £2.2m (2004 : £2.2m).

Non-Statutory Information

In the commentary to the year's results reference is made to non-statutory financial information. Such information includes:

- Trading profit – this is used to illustrate the underlying trading performance of the Group and excludes any profit or loss on the sale of fixed assets. The Consolidated Income Statement provides the information to reconcile this to operating profit.
- Adjusted earnings per share – this indicates the overall performance of the Group before the effect of the disposal of businesses and fixed assets and foreign exchange gains or losses on long-term inter-company loans. Note 8 reconciles this to the reported results.
- Free cash flow – this highlights the total net cash generated by the Group prior to corporate activity such as acquisitions, disposals and dividend payments. Note 10(b) reconciles this to the reported results.

Going Concern

Having assessed the future funding of the Group, the Directors are of the opinion that it is appropriate for the financial statements to be prepared on a going concern basis.

Senior plc

Consolidated income statement

For the year ended 31 December 2005

	Notes	Year ended 2005 £m	Year ended 2004 £m
Continuing operations			
Revenue	3	338.6	306.8
Trading profit		19.8	16.1
(Loss)/profit on sale of fixed assets		(0.2)	0.5
Operating profit	3	19.6	16.6
Exchange gain on long-term intercompany loans	4	2.0	-
Investment income		1.3	2.1
Finance costs		(6.3)	(6.2)
Profit before tax		16.6	12.5
Tax	5	(2.5)	(1.6)
Profit for the period from continuing operations		14.1	10.9
Discontinued operations			
Loss for the period from discontinued operations	6	-	(4.4)
Profit for the period		14.1	6.5
Attributable to:			
Equity holders of the parent		14.1	6.5
Earnings per share			
From continuing operations			
Basic	8	4.59p	3.56p
Diluted	8	4.51p	3.51p
From continuing and discontinued operations			
Basic	8	4.59p	2.12p
Diluted	8	4.51p	2.09p

The comparative figures for 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 13 for details.

Senior plc

Consolidated statement of recognised income and expense

For the year ended 31 December 2005

	Year ended 2005 £m	Year ended 2004 £m
Initial recognition of financial instruments	(0.2)	-
Gains on cash flow hedges	0.5	-
Net losses on revaluation of financial instruments	(1.8)	-
Exchange differences on translation of foreign operations	2.2	(0.5)
Actuarial gains/(losses) on defined benefit pension schemes	0.2	(0.3)
Tax on items taken directly to equity	(0.7)	1.0
Net income recognised directly in equity	0.2	0.2
Amounts transferred to profit or loss on cash flow hedges	(0.3)	-
Amounts transferred to loss on disposal	-	0.2
Profit for the period	14.1	6.5
Total recognised income and expense for the period	14.0	6.9
Attributable to:		
Equity holders of the parent	14.0	6.9

The net liability of £0.2m shown on the initial recognition of financial instruments comprises a £0.5m asset related to forward contracts taken out as cash flow hedges of future transactions and a £0.7m liability related to an interest rate instrument.

The comparative figures for 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 13 for details.

Senior plc

Consolidated balance sheet

For the year ended 31 December 2005

	Notes	Year ended 2005 £m	Year ended 2004 £m
Non-current assets			
Goodwill		77.1	73.1
Other intangible assets		1.1	1.2
Property, plant and equipment		76.1	68.8
Deferred tax assets		0.1	0.1
Trade and other receivables		3.8	3.8
Total non-current assets		158.2	147.0
Current assets			
Inventories		47.7	38.4
Construction contracts		3.4	4.5
Trade and other receivables		64.9	55.5
Cash and cash equivalents		8.5	7.4
Total current assets		124.5	105.8
Total assets		282.7	252.8
Current liabilities			
Trade and other payables		69.7	59.6
Tax liabilities		10.0	9.5
Obligations under finance leases		0.2	0.3
Bank overdrafts and loans		0.2	2.6
Total current liabilities		80.1	72.0
Non-current liabilities			
Bank and other loans		66.3	52.6
Retirement benefit obligations	11	39.9	41.4
Deferred tax liabilities		2.1	0.9
Obligations under finance leases		1.6	1.8
Others		0.4	0.4
Total non-current liabilities		110.3	97.1
Total liabilities		190.4	169.1
Net assets		92.3	83.7

Senior plc

Consolidated balance sheet (continued)

For the year ended 31 December 2005

	Year ended 2005 £m	Year ended 2004 £m
Equity		
Issued share capital	30.9	30.7
Share premium account	3.8	3.5
Equity reserve	0.4	0.2
Other reserve	-	17.0
Hedging and translation reserve	0.4	0.7
Retained earnings	58.1	32.9
Own shares	(1.3)	(1.3)
Equity attributable to equity holders of the parent	92.3	83.7
Total equity	92.3	83.7

The comparative figures for 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 13 for details.

Senior plc

Consolidated cash flow statement

For the year ended 31 December 2005

	Notes	Year ended 2005 £m	Year ended 2004 £m
Net cash from operating activities	10a)	16.5	17.7
Investing activities			
Interest received		1.4	2.5
Disposal of subsidiary		-	4.7
Proceeds on disposal of property, plant and equipment		0.9	0.7
Purchases of property, plant and equipment		(16.3)	(9.8)
Purchases of intangible assets		(0.3)	(0.2)
Acquisition of subsidiary	9	(0.1)	(0.2)
Net cash used in investing activities		(14.4)	(2.3)
Financing activities			
Dividends paid		(6.1)	(6.1)
Repayment of borrowings		(1.0)	(18.9)
Repayments of obligations under finance leases		(0.3)	(0.3)
Share issues		0.5	-
New loans raised		7.1	-
Net cash (outflow)/inflow on forward contracts		(0.2)	4.5
Net cash from/(used in) financing activities		-	(20.8)
Net increase/(decrease) in cash and cash equivalents		2.1	(5.4)
Cash and cash equivalents at beginning of period		5.9	11.5
Effect of foreign exchange rate changes		0.5	(0.2)
Cash and cash equivalents at end of period	10c)	8.5	5.9

Senior plc

Notes to the preliminary financial statements

For the year ended 31 December 2005

1. General Information

The Preliminary Announcement of results for the year ended 31 December 2005 is an excerpt from the forthcoming 2005 Annual Report and does not constitute the Group's statutory accounts of 2005 nor 2004. Statutory accounts for 2004 (reported under UK GAAP) have been delivered to the Registrar of Companies, and those for 2005 will be delivered following the Company's Annual General Meeting. The Auditors have reported on both those accounts; their reports were unqualified and did not contain statements under Sections 237(2) or (3) of the Companies Act 1985.

2. Accounting policies

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS on 14 March 2006.

3. Segmental analysis

Under IFRS, segmental detail is presented according to a primary segment and a secondary segment. The Group's primary segmental analysis is based on the industries that it serves; Aerospace, Automotive and Industrial. The secondary analysis is presented according to geographic markets comprising North America, Europe (split between the UK and Rest of Europe) and the Rest of the World. This is consistent with the way the Group manages itself and with the format of the Group's internal financial reporting.

a) Business segments

Segment information for revenue, operating profit and a reconciliation to entity net profit is presented below.

	External revenue Year ended 2005 £m	Inter segment revenue Year ended 2005 £m	Total revenue Year ended 2005 £m	Segment Result Year ended 2005 £m	External revenue Year ended 2004 £m	Inter Segment Revenue Year ended 2004 £m	Total Revenue Year ended 2004 £m	Segment Result Year ended 2004 £m
Aerospace	155.8	0.4	156.2	12.8	139.5	0.1	139.6	11.1
Automotive	135.2	0.7	135.9	8.9	122.6	0.3	122.9	8.4
Industrial	47.6	0.2	47.8	2.2	44.7	0.2	44.9	0.9
Sub total	338.6	1.3	339.9	23.9	306.8	0.6	307.4	20.4
Eliminations		(1.3)	(1.3)	-		(0.6)	(0.6)	-
Central costs				(4.3)				(3.8)
Total continuing operations	338.6	-	338.6	19.6	306.8	-	306.8	16.6
Exchange gain on long-term intercompany loans				2.0				-
Investment income				1.3				2.1
Finance costs				(6.3)				(6.2)
Profit before tax				16.6				12.5
Tax				(2.5)				(1.6)
Loss for the period from discontinued operations				-				(4.4)
Profit after tax and discontinued operations				14.1				6.5

Segment results for 2005 shown above are stated after charging a £0.2m loss on sale of fixed assets, attributed wholly to the Aerospace segment. Segment results for 2004 shown above are stated after crediting profit of £0.5m on sale of fixed assets attributed wholly to the Automotive segment.

The total Group revenue was £338.6m (2004: £325.9m), with discontinued operations contributing £ nil (2004: £19.1m). Details on the loss for the 2004 year from discontinued operations are shown in Note 6.

The discontinued operations related wholly to the Industrial segment.

3. Segmental analysis (continued)

Segment information for assets, liabilities, property, plant and equipment and intangible assets and depreciation and amortisation is presented below.

	Assets Year ended 2005 £m	Liabilities Year ended 2005 £m	Additions to PPE & intangibles Year ended 2005 £m	Depn and amort Year ended 2005 £m	Assets Year ended 2004 £m	Liabilities Year ended 2004 £m	Additions to PPE & intangibles Year ended 2004 £m	Depn and amort Year ended 2004 £m
Aerospace	143.0	25.9	3.1	5.2	132.1	20.6	4.1	5.5
Automotive	91.9	22.7	13.2	6.1	73.2	21.8	4.4	6.5
Industrial	34.0	9.0	0.3	0.6	33.5	9.1	1.5	0.6
Sub total continuing operations	268.9	57.6	16.6	11.9	238.8	51.5	10.0	12.6
Unallocated corporate amounts	13.8	132.8	-	0.1	14.0	117.6	0.1	0.1
Discontinued operations	-	-	-	-	-	-	0.3	0.6
Total	282.7	190.4	16.6	12.0	252.8	169.1	10.4	13.3

Additions to property, plant and equipment and intangibles during the year amounting to £nil (2004: £0.4m) were financed by new finance leases. The additions in 2004 were attributed wholly to the Aerospace segment.

b) Geographical segments

The Group's operations are principally located in North America and Europe.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services. The carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, are analysed by the geographical area in which the assets are located.

	Sales revenue Year ended 2005 £m	Segment assets Year ended 2005 £m	Additions to PPE and intangibles Year ended 2005 £m	Sales revenue Year ended 2004 £m	Segment assets Year ended 2004 £m	Additions to PPE and intangibles Year ended 2004 £m
North America	178.5	137.9	10.6	158.5	112.2	5.7
UK	40.7	62.3	1.7	42.2	62.4	0.8
Rest of Europe	94.2	51.4	2.9	88.7	52.2	2.7
Rest of World	25.2	17.3	1.4	17.4	12.0	0.8
Sub total continuing operations	338.6	268.9	16.6	306.8	238.8	10.0
Unallocated corporate amounts	-	13.8	-	-	14.0	0.1
Discontinued operations	-	-	-	19.1	-	0.3
Total	338.6	282.7	16.6	325.9	252.8	10.4

Revenue from the Group's discontinued operations was derived from North America (2005: £ nil, 2004: £6.3m , UK (2005: £ nil, 2004: £4.2m), Europe (2005: £ nil, 2004: £7.4m) and Rest of World (2005: £ nil , 2004: £1.2m).

The carrying value of segment assets all relate to continuing operations.
Additions to property, plant and equipment and intangibles during the year amounting to £nil (2004: £0.4m) were financed by new finance leases. The additions in 2004 were attributed wholly to North America.

3. Segmental analysis (continued)

The additions to property, plant and equipment and intangibles relating to the Group's discontinued operations were as follows:-
North America (2005: £ nil, 2004: £nil), UK (2005: £ nil, 2004: £0.1m), Europe (2005: £ nil , 2004: £0.2m) and Rest of World (2005: £ nil, 2004: £ nil) .

4. Exchange gain on long-term intercompany loans

Under IAS21, as currently endorsed by the EU, exchange differences that arise on retranslation of intercompany loans that are in a currency different to that of either counterparty are taken to the income statement. An amendment to IAS21 was issued in December 2005 stating such exchange differences are to be taken to reserves. However, the amendment has not yet been endorsed by the EU and consequently the Group has recognised a gain of £2.0m (2004: £nil) in the income statement in respect of such loans. It is anticipated that the EU will endorse the amendment to the Standard in 2006 at which time the Group will recognise this £2.0m gain and any such future exchange differences in the translation reserve.

5. Tax charge

	Year ended 2005 £m	Year ended 2004 £m
Current tax:		
UK corporation tax	-	0.1
Foreign tax	2.3	2.5
Adjustments in respect of prior periods	(0.2)	(0.9)
	2.1	1.7
Deferred tax:		
Current year	0.7	-
Adjustments in respect of prior periods	(0.3)	-
	0.4	-
Continuing operations	2.5	1.6
Discontinued operations	-	0.1
	2.5	1.7

UK Corporation tax is calculated at 30% (2004: 30%), of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. Discontinued operations

There have been no disposals in 2005.

In August 2004, the Group's five Industrial Hose operations, comprising the share capitals of Senior Flexonics Limited, Flexonics SAS, Senior Flexonics B.V., Teknofluor Holding A.B. and the trade and assets of the US Hose Division of Senior Operations Inc, were sold.

6. Discontinued operations (continued)

The results of the discontinued operations which have been included in the consolidated income statement, were as follows:

	Year ended 2004 £m
Revenue	19.1
Expenses	(18.6)
Profit before tax	0.5
Attributable tax expense	(0.1)
Profit after tax	0.4
Loss on disposal of discontinued operations	(4.8)
Net loss attributable to discontinued operations	(4.4)

During the year, discontinued operations used £nil (2004: £1.2m) of the Group's net operating cash flows, paid £nil (2004: £0.3m) in respect of investing activities and paid £nil (2004: £nil) in respect of financing activities.
A loss of £nil (2004: £4.8m) arose on the disposal of discontinued operations, being the proceeds of disposal less the carrying amount of the subsidiary's net assets and attributable balance sheet goodwill.

7. Dividends

	Year ended 2005 £m	Year ended 2004 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2004 of 1.35p (2003: 1.35p) per share	4.1	4.1
Interim dividend for the year ended 31 December 2005 of 0.65p (2004: 0.65p) per share	2.0	2.0
	6.1	6.1
Proposed final dividend for the year ended 31 December 2005 of 1.35p (2004: 1.35p) per share	4.2	4.1

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

8. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

Number of shares

	Year ended 2005 millions	Year ended 2004 millions
Weighted average number of ordinary shares for the purposes of basic earnings per share	306.8	306.5
Effect of dilutive potential ordinary shares: Share options	5.6	4.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share	312.4	310.8

Earnings and earnings per share

	Year ended 2005		Year ended 2004	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period from continuing operations	14.1	4.59	10.9	3.56
Loss for the period from discontinued operations	-	-	(4.4)	(1.44)
Profit for the period from continuing and discontinued operations	14.1	4.59	6.5	2.12
Adjust:				
Loss/(profit) on sale of fixed assets net of tax of £nil (2004: £0.2m)	0.2	0.07	(0.3)	(0.10)
Exchange gain on long-term intercompany loan net of tax of £nil (2004: £nil)	(2.0)	(0.65)	-	-
Loss on disposal of discontinued operations	-	-	4.8	1.57
Adjusted earnings after tax	12.3	4.01	11.0	3.59
Earnings per share				
- basic continuing		4.59p		3.56p
- basic discontinued		-		(1.44)p
- basic		4.59p		2.12p
- diluted		4.51p		2.09p
- adjusted		4.01p		3.59p
- adjusted and diluted		3.94p		3.54p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2004: £nil).

The denominators used for all basic, diluted and adjusted earnings per share are as detailed in the "Number of shares" table above.

The provision of an adjusted earnings per share, derived in accordance with the table above, has been included to identify the performance of operations, from the time of acquisition or until the time of disposal, prior to the impact of the following items:

- gains or losses arising from the disposal of fixed assets
- gains or losses arising from the disposal of discontinued operations
- gains or losses arising from the re-translation of long-term intercompany loans

9. Acquisitions

The amount of £0.1m (2004: £0.2m) shown in the consolidated cash flow statement relates to deferred consideration payable in respect of previous acquisitions.

10. Notes to the cash flow statement

a) Reconciliation of operating profit to net cash from operating activities

	Year ended 2005 £m	Year ended 2004 £m
Operating profit from continuing operations	19.6	16.6
Discontinued operations profit before tax	-	0.5
Adjustments for:		
Depreciation of property, plant and equipment	11.5	12.8
Amortisation of intangible assets	0.5	0.5
Share options	0.2	0.1
Loss/(gain) on disposal of property, plant and equipment	0.2	(0.5)
Pension payments in excess of service cost	(2.8)	(4.0)
Operating cash flows before movements in working capital	29.2	26.0
Increase in inventories	(9.3)	(4.4)
Increase in receivables	(8.1)	(3.3)
Increase in payables	7.9	3.1
Working capital currency movements	2.6	(1.0)
Cash generated by operations	22.3	20.4
Income taxes (paid)/received	(0.9)	2.7
Interest paid	(4.9)	(5.4)
Net cash from operating activities	16.5	17.7
Cash and cash equivalents comprise:		
Cash	8.5	7.4
Bank overdrafts	-	(1.5)
Total	8.5	5.9

Additions to property, plant and equipment during the year amounting to £nil (2004: £0.4m) were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

10. Notes to the cash flow statement (continued)

b) Free cash flow

Free cash flow, a non statutory item, highlights the total net cash generated by the Group prior to corporate activity such as acquisitions and disposals and transactions with shareholders. It is derived as follows:

		Year ended 2005 £m	Year ended 2004 £m
Net cash from operating activities		16.5	17.7
Interest received		1.4	2.5
Proceeds on disposal of property, plant and equipment		0.9	0.7
Purchases of property, plant and equipment	- cash	(16.3)	(9.8)
	- finances leases	-	(0.4)
Purchase of intangible assets		(0.3)	(0.2)
Free cash flow		2.2	10.5

c) Analysis of net debt

	At 1 January 2005 £m	Cash Flow £m	Non cash Items £m	Exchange Movement £m	At 31 December 2005 £m
Cash	7.4	0.6	-	0.5	8.5
Overdrafts	(1.5)	1.5	-	-	-
Cash and cash equivalents	5.9	2.1	-	0.5	8.5
Debt due within one year	(1.1)	1.0	(0.2)	0.1	(0.2)
Debt due after one year	(52.6)	(7.1)	(0.3)	(6.3)	(66.3)
Finance leases	(2.1)	0.3	-	-	(1.8)
Forward exchange contract losses	(0.7)	0.2	-	(2.1)	(2.6)
Total	(50.6)	(3.5)	(0.5)	(7.8)	(62.4)

Debt due within one year shown above includes short-term bank borrowings of £nil (2004: £1.1m).

The forward exchange contract losses shown above are reported as £2.8m (2004: £0.7m) in current liabilities within trade and other payables, and £0.2m (2004: £nil) in current assets within trade and other receivables.

Non cash items shown above relate to the recognition of financial instruments under IAS 39.

Additions to property, plant and equipment during the period of £nil (2004: £0.4m) were financed by new finance leases.

11. Retirement benefit schemes

Defined Benefit Schemes

Aggregate post-retirement benefit liabilities are £39.9m (2004: £41.4m). The primary components of this liability are the Group's UK pension plan and US pension plans, with deficits of £31.3m (2004: £33.7m) and £4.9m (2004: £4.2m) respectively. These values have been assessed by an independent actuary using current market values and discount rates.

12. Events after the balance sheet date

On 27 January 2006, the Group acquired Sterling Machine Co., Inc, a manufacturer of precision machined parts for the aerospace industry, based in Enfield, Conneticut, USA. The cash consideration, including assumed net debt, was £21.4m including costs, of which £1.2m related to the purchase of property. The acquisition was funded in part by a placing of 15m ordinary shares generating net proceeds of £8.8m, the balance being funded by the Group's existing revolving credit facilities.

13. Explanation of transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition was therefore 1 January 2004.

(a) Reconciliation of equity at 1 January 2004 (date of transition to IFRS)

	Notes	UK GAAP £m	Adjustment £m	IFRS £m
Non-current assets				
Goodwill		76.7	-	76.7
Intangible assets	(i)	-	1.6	1.6
Property, plant and equipment	(i)	79.1	(1.6)	77.5
Deferred tax assets		0.1	-	0.1
Financial assets		1.0	-	1.0
Total non-current assets		156.9	-	156.9
Current assets				
Inventories		40.1	-	40.1
Construction contracts		4.9	-	4.9
Trade and other receivables		62.0	-	62.0
Cash and cash equivalents		11.6	-	11.6
Total current assets		118.6	-	118.6
Total assets		275.5	-	275.5
Liabilities				
Trade and other payables	(ii)	65.6	(4.1)	61.5
Current tax liabilities		6.0	-	6.0
Obligations under finance leases		2.0	-	2.0
Interest bearing loans		77.1	-	77.1
Retirement benefit obligations	(iii)	44.0	0.2	44.2
Deferred tax liabilities	(iv)	0.8	0.6	1.4
Others		0.5		0.5
Total liabilities		196.0	(3.3)	192.7
Total assets less total liabilities		79.5	3.3	82.8
Equity				
Issued share capital		30.7	-	30.7
Share premium account		3.5	-	3.5
Equity reserve	(v)	-	0.1	0.1
Other reserve	(vi)	17.7	(0.7)	17.0
Hedging and translation reserve	(vi)	-	-	-
Retained earnings	(vi)	28.9	3.9	32.8
Own shares		(1.3)		(1.3)
Total equity		79.5	3.3	82.8

13. Explanation of transition to IFRS (continued)

Notes to the reconciliation of equity at 1 January 2004

i. Intangible assets

IFRS requires computer software to be recorded as an intangible asset and amortised over its useful life. Accordingly, £1.6m of net book value has been transferred from within plant and equipment to intangible assets.

ii. Dividends

Under UK GAAP, any dividend proposed in respect of a year is recognised in the profit and loss account and provided for in the closing balance sheet. Under IFRS, a declared dividend does not constitute an adjusting post balance sheet event. Hence, the provision for the final dividend of £4.1m at the end of 2003 under UK GAAP has been reversed under IFRS.

iii. Retirement benefit obligations

IFRS requires that invested assets be valued at bid price, rather than at mid-price as required under UK GAAP, by FRS17. This revaluation causes the assets held by the funded plans to reduce in value by £0.2m, and consequently the net balance sheet pension deficit to increase by the same amount.

iv. Deferred tax

IFRS changes the focus of deferred tax from the income statement to the balance sheet and to the differences between the book value and tax base of assets and liabilities. Under IFRS, deferred tax is provided on all temporary differences, albeit that deferred tax assets are only recognised to the extent that they may be regarded as recoverable. The Group has recognised a net increase in deferred tax liabilities of £0.6m relating to the taxation of deferred foreign exchange gains arising in overseas territories.

v. Share based payments

Under IFRS there is an aggregate provision of £nil in respect of cash settled share option plans, and a provision of £0.1m in respect of equity settled share option plans.

vi. Share capital and reserves

In line with the available exemptions in IFRS1, the cumulative translation differences were set to zero at the transition date. Also, as allowed under IFRS1 exemptions, the existing UK GAAP value of property, plant and equipment was taken as the deemed cost for IFRS. Hence, the revaluation reserve has been reset to zero, with the previous balance of £0.7m having been transferred to the retained earnings reserve.

13. Explanation of transition to IFRS (continued)

(b) Reconciliation of equity at 31 December 2004 (date of last UK GAAP financial statements)

	Notes	UK GAAP £m	Adjustment £m	IFRS £m
Non-current assets				
Goodwill	(i)	68.0	5.1	73.1
Intangible assets	(ii)	-	1.2	1.2
Property, plant and equipment	(ii)	70.0	(1.2)	68.8
Deferred tax assets		0.1	-	0.1
Financial assets		3.8	-	3.8
Total non-current assets		141.9	5.1	147.0
Current assets				
Inventories		38.4	-	38.4
Construction contracts		4.5	-	4.5
Trade and other receivables		55.5	-	55.5
Cash and cash equivalents		7.4	-	7.4
Total current assets		105.8	-	105.8
Total assets		247.7	5.1	252.8
Liabilities				
Trade and other payables	(iii)	63.7	(4.1)	59.6
Current tax liabilities		9.5	-	9.5
Obligations under finance leases		2.1	-	2.1
Interest bearing loans		55.2	-	55.2
Retirement benefit obligations	(iv)	41.2	0.2	41.4
Deferred tax liabilities	(v)	0.4	0.5	0.9
Others	(vi)	0.3	0.1	0.4
Total liabilities		172.4	(3.3)	169.1
Total assets less total liabilities		75.3	8.4	83.7
Equity				
Issued share capital		30.7	-	30.7
Share premium account		3.5	-	3.5
Equity reserve	(vii)	-	0.2	0.2
Other reserve	(viii)	17.7	(0.7)	17.0
Hedging and translation reserve	(viii)	-	0.7	0.7
Retained earnings	(viii)	24.7	8.2	32.9
Own shares		(1.3)	-	(1.3)
Total equity		75.3	8.4	83.7

13. Explanation of transition to IFRS (continued)

Notes to the reconciliation of equity at 31 December 2004

i) Goodwill amortisation

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRS, goodwill is held at its carrying value (the UK GAAP net book value as at 31 December 2003) and subjected to annual impairment testing. Hence the goodwill amortisation charge of £5.1m has been reversed, leading to an equivalent increase in the goodwill value on the balance sheet at the end of 2004 under IFRS.

ii) Intangible assets

IFRS requires computer software to be recorded as an intangible asset and amortised over its useful life. Accordingly, £1.2m of net book value has been transferred from within plant and equipment to intangible assets.

iii) Dividends

Under UK GAAP, any dividend proposed in respect of a year is recognised in the profit and loss account and provided for in the closing balance sheet. Under IFRS, a declared dividend does not constitute an adjusting post balance sheet event. Hence, the provision for the final dividend of £4.1m at the end of 2004 under UK GAAP has been reversed under IFRS.

iv) Retirement benefit obligations

IFRS requires that invested assets be valued at bid price, rather than at mid-price as required under UK GAAP, by FRS17. This revaluation causes the assets held by the funded plans to reduce in value by £0.2m, and consequently the net balance sheet pension deficit to increase by the same amount.

v) Deferred tax

IFRS changes the focus of deferred tax from the income statement to the balance sheet and to the differences between the book value and tax base of assets and liabilities. Under IFRS, deferred tax is provided on all temporary differences, albeit that deferred tax assets are only recognised to the extent that they may be regarded as recoverable. The Group has recognised a net increase in deferred tax liabilities of £0.5m relating to the taxation of deferred foreign exchange gains arising in overseas territories.

vi) Liabilities

IFRS requires that the charge to the income statement for operating leases is adjusted to take account of fixed inflationary elements over the period of a lease, instead of when the payment is made. An additional £0.1m charge has been made in 2004, resulting in an additional accrual of the same amount.

vii) Share based payments

Under IFRS, there is an aggregate provision of £nil in respect of cash settled share option plans, and a provision of £0.2m in respect of equity settled share option plans.

13. Explanation of transition to IFRS (continued)

Notes to the reconciliation of equity at 31 December 2004

viii) Share capital and reserves

As stated above in Note 13 (a), the cumulative translation differences were set to zero at the transition date. An amount of £0.7m has arisen in the year. Also, as stated in Note 13 (a) above, the existing UK GAAP value of property, plant and equipment was taken as the deemed cost for IFRS. Hence, the revaluation reserve has been reset to zero, with the previous balance of £0.7m having been transferred to the retained earnings reserve.

The Group adjustment to retained earnings reserve is shown below.

	£m
Opening adjustments	3.9
Profit for the period	13.4
Goodwill on Hose disposal	(8.7)
Transfer from hedging and translation reserve	(0.4)
	8.2

(c) Reconciliation of income statement for the year ended 31 December 2004

	Notes	UK GAAP Reformatted 2004 £m	Adjustment 2004 £m	IFRS 2004 £m
Continuing operations				
Revenue		306.8	-	306.8
Trading profit	(i), (ii)	16.9	(0.3)	16.6
Amortisation of goodwill	(iii)	(5.1)	5.1	-
Operating profit		11.8	4.8	16.6
Interest receivable	(iv)	2.2	(0.1)	2.1
Interest payable and similar charges	(iv)	(5.1)	0.1	(5.0)
Finance cost of net pension liability		(1.2)	-	(1.2)
Profit before taxation		7.7	4.8	12.5
Taxation	(v)	(1.7)	0.1	(1.6)
Profit for the period from continuing operations		6.0	4.9	10.9
Discontinued operations				
Profit from operations before taxation	(i)	0.4	0.1	0.5
Taxation	(v)	-	(0.1)	(0.1)
Loss on disposal	(vi)	(13.3)	8.5	(4.8)
Loss for the period from discontinued operations		(12.9)	8.5	(4.4)
Profit for the period		(6.9)	13.4	6.5

13. Explanation of transition to IFRS (continued)

Notes to the reconciliation of income statement for the year ended 31 December 2004

(i) Trading profit

Trading profit of continuing businesses is reduced by £0.1m, which is offset by the equivalent improvement in discontinued businesses. This relates to £0.1m of central cost previously allocated to discontinued operations. Central costs will now be disclosed separately within the segmental analysis, rather than being allocated to segments as occurred previously under UK GAAP. Trading profit is further reduced by £0.1m by the additional operating lease charge, as stated in Note 13 (b) (vi).

(ii) Share based payments

Share based payment arrangements exist in relation to share and share option schemes offered to senior management. Share options were issued in March 2003 and it is considered that these may ultimately vest. No cost was included in UK GAAP accounts as the intrinsic value was nil. A cost of £0.1m has been included in the IFRS financial statements. This expense has been based on the fair value at the date of the award, as calculated according to the Black-Scholes pricing model.

(iii) Goodwill amortisation

Under UK GAAP, goodwill arising on acquisitions subsequent to 1 January 1998 was capitalised and amortised over a period of up to 20 years. Under IFRS, goodwill is held at its carrying value (the UK GAAP net book value as at 31 December 2003) and subjected to annual impairment testing. Hence the goodwill amortisation charge of £5.1m for 2004 under UK GAAP has been reversed for IFRS purposes.

(iv) Interest receivable and interest payable

A benefit of £0.1m arising from interest rate swap agreements was previously shown as interest receivable. This has now been offset against the related interest payable amount.

(v) Tax charge

The tax charge has been analysed between that attributable to continuing operations and that attributable to discontinued operations.

(vi) Loss on disposal of discontinued operations

Under UK GAAP, goodwill arising on acquisitions prior to 1 January 1998 was written off directly to equity. When such a company was subsequently disposed, the goodwill was 'recycled' through the profit and loss account as part of the profit or loss on disposal. There is no such requirement under IFRS. Hence, the UK GAAP loss is reduced by £8.7m. Additionally, IFRS requires cumulative translation differences to be recognised in the disposal transaction. These amount to £0.2m, making the aggregate adjustment £8.5m.

(d) Explanation of material adjustments to the cash flow statement for 2004

Income taxes received of £2.7m and interest payments of £5.4m are classified as part of operating cash flows under IFRS, but were included in separate categories under UK GAAP. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.