

## Senior plc Corporate Profile

**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.

# Financial Highlights

	Notes	Half-year to 30 June		
		2005	2004	
Revenue from continuing operations		<b>£166.9m</b>	£157.1m	+6.2%
Operating profit from continuing operations		<b>£9.5m</b>	£8.3m	+14.5%
Profit before taxation from continuing operations		<b>£7.2m</b>	£6.2m	+16.1%
Basic earnings per share from continuing operations		<b>1.92p</b>	1.73p	+11.0%
Adjusted earnings per share	7	<b>1.99p</b>	1.85p	+7.6%
Interim dividend per share		<b>0.65p</b>	0.65p	–
Free cash flow	9b	<b>£1.4m</b>	£7.1m	
Net borrowings		<b>£59.1m</b>	£57.9m	

# Interim Statement

Senior has had a good first half. In Aerospace demand strengthened, in Industrial the benefits of the rationalisations undertaken in 2004 came through strongly and in Automotive further enquiries were received for the Group's new high-pressure diesel products, which start production in late 2006. Group profit before tax from continuing operations grew 16% and prospects for healthy organic growth in the medium-term are encouraging.

## Financial Results

Companies listed on security exchanges within the European Union are required to adopt International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 31 December 2004. Consequently, the Group's interim accounts for 2005 are the first time the Group has reported under IFRS. Unless otherwise stated, all figures included in this commentary and all amounts in the 2005 Interim Accounts themselves, including comparatives, have been prepared using accounting policies consistent with IFRS. Comparative figures included in this commentary are for the first six months of 2004 unless otherwise stated.

In the six months to 30 June 2005, Group revenues from continuing operations were £166.9m, an increase of 6.2% over the comparable period in 2004 (£157.1m). Operating profit from continuing operations was £9.5m and represented an improvement of 14.5% over the £8.3m reported for the first half of 2004. Compared to the first six months of 2004, currency effects on the translation of overseas revenues and earnings into sterling were not significant.

Operating profit is reported after a loss on disposal of fixed assets of £0.2m (2004 – £nil) and reorganisation and redundancy costs of £0.3m (2004 – £1.1m).

Finance costs, consisting of interest payable of £2.5m (2004 – £2.4m) and interest on defined benefit pension obligations of £0.5m (2004 – £0.6m), remained unchanged at £3.0m. Investment income

reduced slightly to £0.7m (2004 – £0.9m) as the prior period benefited from a one-off recovery of interest from the USA tax authorities.

Profit before tax from continuing operations improved by 16.1% to £7.2m (2004 – £6.2m) and, with an effective tax rate of 18.1% (2004 – 14.5%), profit after tax from continuing operations was £5.9m (2004 – £5.3m). Basic earnings per share from continuing operations of 1.92p was 11.0% ahead of the equivalent figure for 2004 (1.73p).

In addition to the statutory information, the Group has consistently reported an adjusted earnings per share figure in order to reflect the underlying performance of the business. This is calculated before profit/loss on disposal of fixed assets and before profit/loss on disposal of operations but includes the operating results of discontinued operations up to their point of disposal. Adjusted earnings per share for the first half of 2005 was 1.99p, 7.6% ahead of the comparative period in 2004 (1.85p).

## Cash Flow and Borrowings

Free cash flow (net cash flow from operating activities after net capital expenditure, interest and tax but before acquisitions, disposals, share issues and dividend payments) was £1.4m (2004 – £7.1m). The reduced cash flow was largely due to supplementary pension payments of £1.2m (2004 – £nil) and the higher level of gross capital expenditure. This amounted to £9.1m compared to £5.0m for the first half of 2004, as the Group began to invest in the plant and equipment required to manufacture the new heavy duty diesel products in North America.

The US \$ strengthened from \$1.92 : £1 at the end of December 2004 to \$1.77 : £1 at the end of June 2005. The Group has most of its borrowings in US \$, as a match against its US \$ assets, and the strengthening US \$ caused the reported sterling net debt to increase by £5.1m in the period.

In total, net debt increased by £8.5m in the six month period to stand at £59.1m at the end of June 2005. The increase was due to the £5.1m adverse currency movement discussed above, an additional £0.7m of debt being brought onto the balance sheet in accordance with IAS 39 (the International Accounting Standard dealing with Financial Instruments), which was implemented by the Group with effect from 1 January 2005, and dividend payments of £4.1m. These were partially offset by the free cash inflow of £1.4m.

#### **Dividend**

The Board has declared an unchanged interim dividend of 0.65p. This will be paid on 25 November 2005 to shareholders on the register on 28 October 2005.

#### **Aerospace**

Sales in the Aerospace Division for the first six months of 2005 increased by 6.4% to £74.5m (2004 – £70.0m) and operating profit, before the loss on disposal of fixed assets of £0.2m (2004 – £nil), increased by 21.2% to £6.3m (2004 – £5.2m). On the same basis, operating margins improved to 8.5% (2004 – 7.4%).

The civil aerospace industry increased build rates during the period, as demand from the airlines improved. The Airbus A380 recently flew for the first time and production is currently in the process of ramping up. Boeing and Airbus collectively delivered 344 aircraft in the six months, up 10% from the 312 aircraft delivered in the first half of 2004. Order intake was strong, with their combined order book at the end of June 2005 of 2,938 aircraft being 21% ahead of June 2004. The engine builders saw similar increases.

It is anticipated that the civil aerospace industry will remain strong for the foreseeable future, fuelled by recovering confidence and growing markets particularly in the Middle East and Far East, including India and China.

Elsewhere, there was weakness in the regional jet market but a strengthening demand among the business jet builders. The defence and military sectors remained solid. Revenue is now being generated from the pre-production development phase of the Joint Strike Fighter programme although full production volumes remain a number of years away.

A facility improvement programme commenced at Bird Bellows, UK, and new machining capability is being installed at Jet Products and Ketema, both in California. Overall, capital expenditure in the period amounted to 65% of depreciation.

#### **Automotive**

Sales in the Automotive Division rose by 4.9% to £68.1m (2004 – £64.9m) but operating profit,

## Interim Statement continued

as anticipated, reduced to £3.7m (2004 – £5.0m). The operating margin was 5.4% (2004 – 7.7%). The Division improved its performance compared to the second half of 2004, when sales were £58.0m and operating profit, before profit on disposal of fixed assets of £0.5m, was £3.0m. The main reason for the improving trend was the fact that the Group's French automotive facility, which had operational problems in the second half of 2004, returned to profit during the second quarter of 2005.

The principal automotive markets remained flat – North American passenger vehicle sales were up year on year by 2% whilst those in Europe were down by 1%. The “Big 3” continued to see their market share eroded in North America and diesel continued to gain market share in Europe.

Capital investment was 2.4 times depreciation for the Division. This is mainly due to the high level of plant and equipment currently being installed in North America to manufacture the new heavy duty diesel engine products. These are required as a result of the industry converting to “common rail” diesel technology to meet more stringent emissions standards from 1 January 2007.

In addition to this booked volume for heavy duty vehicles, the North American passenger car assemblers have started to develop diesel engine options for their larger vehicles. If a market for medium size diesel engines materialises, volume production would commence between 2008 and 2010. This offers Senior Automotive a potentially significant additional opportunity for its diesel

products. Consequently, the engineering resource necessary to service the many enquiries being received is currently being enhanced.

### Industrial

Sales in the Industrial Division grew by 10.7% to £24.9m (2004 – £22.5m) with a significantly improved operating profit of £1.8m being reported (2004 – £0.2m).

The reason for the dramatic profit increase was the turnaround at Pathway, Texas, a world leader in the design and manufacture of metal and fabric expansion joints. There were two major factors – a significantly lower cost base as a result of the factory rationalisation carried out during 2004 and improved markets, principally for oil and gas.

### Outlook

The aerospace industry is expected to continue its recovery. Airlines, whilst not universally profitable, are reporting increased passenger numbers and are ordering new aircraft at a faster rate than a year ago. The Group's aerospace order book, following that of its customers, continues to strengthen as a result.

Automotive markets are expected to be stable, both in North America and Europe. The future growth of Senior Automotive, however, will come from supplying the growing market for high specification diesel engine products. Revenues are already resulting from the pre-production and prototype phase of the new heavy duty diesel products and full production is scheduled to commence in late 2006. In the meantime, capital

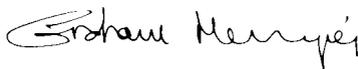
expenditure is at a high level and the Division's engineering resource is being expanded to meet the growth expectations.

Having completed the rationalisations last year, the improved performance of the Industrial Division is expected to be maintained, with the high oil price and tougher power generation emission standards contributing to a healthy market place.

Senior remains committed to its strategy of improving the value of the Group through product and process design and development in conjunction with operational improvement and cost control. The results of this strategy, particularly the new business now being won by the Group, allow the Directors to view the medium-term prospects with confidence.



**James Kerr-Muir** Chairman



**Graham Menzies** Chief Executive

3 August 2005

# Consolidated Income Statement

for the half-year ended 30 June 2005 (unaudited)

	Notes	Half-year ended 30 June 2005	Half-year ended 30 June 2004 (restated)	Year ended 31 Dec 2004 (restated)
		£m	£m	£m
<b>Continuing operations</b>				
Revenue	3	166.9	157.1	306.8
Trading profit		9.7	8.3	16.3
(Loss)/profit on sale of fixed assets		(0.2)	–	0.5
Operating profit	3	9.5	8.3	16.8
Investment income		0.7	0.9	2.1
Finance costs		(3.0)	(3.0)	(6.2)
Profit before tax		7.2	6.2	12.7
Tax	4	(1.3)	(0.9)	(1.6)
Profit for the period from continuing operations		5.9	5.3	11.1
<b>Discontinued operations</b>				
Profit/(loss) for the period from discontinued operations	5	–	0.4	(4.4)
<b>Profit for the period</b>		<b>5.9</b>	<b>5.7</b>	<b>6.7</b>
Attributable to:				
Equity holders of the parent		5.9	5.7	6.7
Earnings per share				
From continuing operations				
Basic	7	1.92p	1.73p	3.62p
Diluted	7	1.89p	1.70p	3.57p
From continuing and discontinued operations				
Basic	7	1.92p	1.85p	2.19p
Diluted	7	1.89p	1.83p	2.16p

The comparative figures for the half-year ended 30 June 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 11 for details.

The comparative figures for the year ended 31 December 2004 have been restated to reflect the proposed amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates". See Note 2 for details.

# Consolidated Statement of Recognised Income and Expense

for the half-year ended 30 June 2005 (unaudited)

	Half-year ended 30 June 2005	Half-year ended 30 June 2004 (restated)	Year ended 31 Dec 2004 (restated)
	£m	£m	£m
Initial recognition of financial instruments	(0.2)	–	–
Losses on cash flow hedges	(0.7)	–	–
Exchange differences on translation of foreign operations	0.9	0.2	(0.3)
Actuarial (losses)/gains on retirement benefit obligations	(0.3)	2.6	(0.3)
Tax on items taken directly to equity	(0.9)	0.4	1.0
<b>Net (loss)/income recognised directly in equity</b>	<b>(1.2)</b>	<b>3.2</b>	<b>0.4</b>
Amounts transferred to profit or loss on cash flow hedges	(0.1)	–	–
<b>Profit for the period</b>	<b>5.9</b>	<b>5.7</b>	<b>6.7</b>
<b>Total recognised income and expense for the period</b>	<b>4.6</b>	<b>8.9</b>	<b>7.1</b>
Attributable to:			
Equity holders of the parent	4.6	8.9	7.1

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 the half-year ended 30 June 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 11 for details.

The comparative figures for the year ended 31 December 2004 have been restated to reflect the proposed amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates". See Note 2 for details.

# Consolidated Balance Sheet

for the half-year ended 30 June 2005 (unaudited)

	Notes 30 June 2005	30 June 2004 (restated)	31 Dec 2004 (restated)
	£m	£m	£m
<b>Non-current assets</b>			
Goodwill	76.1	75.8	73.1
Other intangible assets	1.1	1.4	1.2
Property, plant and equipment	72.7	73.4	68.8
Deferred tax assets	0.1	0.1	0.1
Trade and other receivables	3.9	0.9	3.8
<b>Total non-current assets</b>	<b>153.9</b>	<b>151.6</b>	<b>147.0</b>
<b>Current assets</b>			
Inventories	44.9	41.8	38.4
Construction contracts	5.1	5.4	4.5
Trade and other receivables	62.9	62.1	55.5
Cash and cash equivalents	8.2	12.4	7.4
<b>Total current assets</b>	<b>121.1</b>	<b>121.7</b>	<b>105.8</b>
<b>Total assets</b>	<b>275.0</b>	<b>273.3</b>	<b>252.8</b>
<b>Current liabilities</b>			
Trade and other payables	70.8	64.5	59.6
Tax liabilities	10.0	6.4	9.5
Obligations under finance leases	0.2	0.2	0.3
Bank overdrafts and loans	2.3	3.0	2.6
<b>Total current liabilities</b>	<b>83.3</b>	<b>74.1</b>	<b>72.0</b>
<b>Non-current liabilities</b>			
Bank and other loans	62.1	65.8	52.6
Retirement benefit obligations	10 41.2	42.0	41.4
Deferred tax liabilities	1.9	1.3	0.9
Obligations under finance leases	1.7	1.9	1.8
Others	0.2	0.6	0.3
<b>Total non-current liabilities</b>	<b>107.1</b>	<b>111.6</b>	<b>97.0</b>
<b>Total liabilities</b>	<b>190.4</b>	<b>185.7</b>	<b>169.0</b>
<b>Net assets</b>	<b>84.6</b>	<b>87.6</b>	<b>83.8</b>

	30 June 2005	30 June 2004 (restated)	31 Dec 2004 (restated)
	£m	£m	£m
<b>Equity</b>			
Issued share capital	30.8	30.7	30.7
Share premium account	3.5	3.5	3.5
Equity reserve	0.3	0.1	0.1
Other reserve	17.0	17.0	17.0
Hedging and translation reserve	(0.3)	0.6	0.7
Retained earnings	34.6	37.0	33.1
Own shares	(1.3)	(1.3)	(1.3)
<b>Equity attributable to equity holders of the parent</b>	<b>84.6</b>	87.6	83.8
<b>Total equity</b>	<b>84.6</b>	87.6	83.8

The comparative figures for the half-year ended 30 June 2004 have been restated to reflect the adoption of International Financial Reporting Standards. See Note 11 for details.

The comparative figures for the year ended 31 December 2004 have been restated to reflect the proposed amendment to International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates". See Note 2 for details.

# Consolidated Cash Flow Statement

for the half-year ended 30 June 2005 (unaudited)

	Notes	Half-year ended 30 June 2005	Half-year ended 30 June 2004	Year ended 31 Dec 2004
		£m	£m	£m
<b>Net cash from operating activities</b>	9a	<b>9.0</b>	10.7	17.7
<b>Investing activities</b>				
Interest received		0.8	1.3	2.5
Disposal of subsidiary		–	–	4.7
Proceeds on disposal of property, plant and equipment		0.7	0.1	0.7
Purchases of property, plant and equipment		(9.0)	(4.6)	(9.8)
Purchases of intangible assets		(0.1)	(0.1)	(0.2)
Acquisition of subsidiary		(0.1)	(0.1)	(0.2)
<b>Net cash used in investing activities</b>		<b>(7.7)</b>	(3.4)	(2.3)
<b>Financing activities</b>				
Dividends paid		(4.1)	(4.1)	(6.1)
Repayment of borrowings		(0.1)	(6.2)	(18.9)
Repayments of obligations under finance leases		(0.1)	(0.1)	(0.3)
Share issues		0.1	–	–
New loans raised		5.4	–	–
Net cash (outflow)/inflow on forward contracts		(0.4)	4.3	4.5
<b>Net cash from/(used in) financing activities</b>		<b>0.8</b>	(6.1)	(20.8)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2.1</b>	1.2	(5.4)
<b>Cash and cash equivalents at beginning of period</b>		<b>5.9</b>	11.5	11.5
Effect of foreign exchange rate changes		–	(0.4)	(0.2)
<b>Cash and cash equivalents at end of period</b>	9c	<b>8.0</b>	12.3	5.9

# Notes to the Interim Financial Statements

for the half-year ended 30 June 2005 (unaudited)

## 1 General Information

The information for the year ended 31 December 2004 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts (reported under UK GAAP) for that year has been delivered to the Registrar of Companies. The Auditors' report on those accounts was unqualified.

These interim financial statements, which were approved by the Board of Directors on 3 August 2005, have not been audited or reviewed by the Auditors.

## 2 Accounting Policies

The Company issued an announcement on 17 June 2005 entitled "Adoption of International Financial Reporting Standards (IFRS), Restatement of 2004 Financial Information". This document can be viewed on the Company's website, [www.seniorplc.com](http://www.seniorplc.com).

The document includes a description of the significant accounting policies to be adopted under IFRS. These interim financial statements have been prepared using those accounting policies and methods of computation.

When the restated figures for 2004 were prepared, an unrealised gain of £0.2m arising on long-term intercompany loans was credited to the income statement in order to comply with IAS 21. However, it should be noted that on 30 June 2005 the International Accounting Standards Board published an update following its June meeting. This indicated that IAS 21 "The Effects of Changes in Foreign Exchange Rates" will be amended. The suggested amendment will result in this item being credited directly to the Statement of Recognised Income and Expense, which is consistent with the previous treatment under UK GAAP. These interim financial statements have been prepared in accordance with the proposed amendment to IAS 21 and the December 2004 comparatives have been adjusted accordingly.

## 3 Business Segments

For management purposes, the Group is organised into three operating divisions according to the market segments that they serve. These divisions are the basis on which the Group reports its primary segment information. The three divisions are Aerospace, Automotive and Industrial. The Industrial Hose operations, previously reported within Industrial, were sold in August 2004. Note 5 provides further information on the discontinued operations.

# Notes to the Interim Financial Statements continued

for the half-year ended 30 June 2005 (unaudited)

## 3 Business Segments continued

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

	External revenue	Inter segment revenue	Total revenue	Segment result	External revenue	Inter segment revenue	Total revenue	Segment result
	Half- year ended	Half- year ended	Half- year ended	Half- year ended	Half- year ended	Half- year ended	Half- year ended	Half- year ended
	June 2005	June 2005	June 2005	June 2005	June 2004	June 2004	June 2004	June 2004
	£m	£m	£m	£m	£m	£m	£m	£m
Aerospace	74.3	0.2	74.5	6.1	70.0	–	70.0	5.2
Automotive	67.8	0.3	68.1	3.7	64.7	0.2	64.9	5.0
Industrial	24.8	0.1	24.9	1.8	22.4	0.1	22.5	0.2
Sub total	166.9	0.6	167.5	11.6	157.1	0.3	157.4	10.4
Eliminations		(0.6)	(0.6)			(0.3)	(0.3)	
Central costs				(2.1)				(2.1)
Total continuing operations	166.9	–	166.9	9.5	157.1	–	157.1	8.3
Investment income				0.7				0.9
Finance costs				(3.0)				(3.0)
Profit before tax				7.2				6.2
Tax				(1.3)				(0.9)
Profit for the period from discontinued operations				–				0.4
Profit after tax and discontinued operations				5.9				5.7

Segment results shown above are stated after charging £0.2m (2004 – £nil) loss on sale of fixed assets, attributed wholly to the Aerospace segment.

The total Group revenue was £166.9m (2004 – £173.7m), with discontinued operations contributing £nil (2004 – £16.6m). Details of the profit for the 2004 half-year from discontinued operations are shown in Note 5.

## 4 Tax Charge

	Half-year ended 30 June 2005	Half-year ended 30 June 2004
	£m	£m
Current tax:		
UK corporation tax	–	–
Foreign tax	1.2	1.0
	1.2	1.0
Deferred tax:		
Current year	0.1	–
	1.3	1.0
Continuing operations	1.3	0.9
Discontinued operations	–	0.1
	1.3	1.0

Corporation tax for the interim period is charged at 18.1% (2004 – 14.9%), representing the best estimate of the weighted average annual corporation tax rate expected for the full financial year.

## 5 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.

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

	Half-year ended 30 June 2004
	£m
Revenue	16.6
Expenses	(16.1)
Profit before tax	0.5
Attributable tax expense	(0.1)
Profit after tax	0.4
Loss on disposal of discontinued operations	–
Net profit attributable to discontinued operations	0.4

During the half-year ended 30 June 2005, discontinued operations used £nil (2004 – £1.0m) of the Group's net operating cash flows, paid £nil (2004 – £0.2m) in respect of investing activities and paid £nil (2004 – £nil) in respect of financing activities.

## 6 Dividends

	Half-year ended 30 June 2005	Half-year ended 30 June 2004
	£m	£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
Proposed interim dividend for the year ended 31 December 2005 of 0.65p (2004 – 0.65p) per share	2.0	2.0

A proposed interim dividend, as follows, was approved by the Board of Directors on 3 August 2005. This proposed dividend has not been included as a liability in these financial statements.

# Notes to the Interim Financial Statements continued

for the half-year ended 30 June 2005 (unaudited)

## 7 Earnings per Share

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

### Number of shares

	Half-year ended 30 June 2005 000's	Half-year ended 30 June 2004 000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	306,700	306,500
Effect of dilutive potential ordinary shares:		
Share options	4,800	4,400
Weighted average number of ordinary shares for the purposes of diluted earnings per share	311,500	310,900

### Earnings and earnings per share

	Half-year ended 30 June 2005		Half-year ended 30 June 2004	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period from continuing operations	5.9	1.92	5.3	1.73
Profit for the period from discontinued operations	–	–	0.4	0.12
Profit for the period from continuing and discontinued operations	5.9	1.92	5.7	1.85
Adjust:				
Loss on sale of fixed assets net of tax of £nil (2004 – £nil)	0.2	0.07	–	–
Adjusted earnings after tax	6.1	1.99	5.7	1.85
Earnings per share				
– basic continuing		1.92p		1.73p
– basic discontinued		–		0.12p
– basic		1.92p		1.85p
– diluted		1.89p		1.83p
– adjusted		1.99p		1.85p
– adjusted and diluted		1.96p		1.83p

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
- charges for the impairment of goodwill

## 8 Acquisitions

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

## 9 Notes to the Cash Flow Statement

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

	Half-year ended 30 June 2005	Half-year ended 30 June 2004
	£m	£m
Operating profit from continuing operations	9.5	8.3
Discontinued operations profit before tax	–	0.5
Adjustments for:		
Depreciation of property, plant and equipment	5.7	7.0
Amortisation of intangible assets	0.3	0.2
Share options	0.2	–
Loss on disposal of property, plant and equipment	0.2	–
Pension payments in excess of service cost	(1.2)	–
Operating cash flows before movements in working capital	14.7	16.0
Increase in working capital	(3.5)	(3.5)
Cash generated by operations	11.2	12.5
Income taxes (paid)/received	(0.1)	0.7
Interest paid	(2.1)	(2.5)
Net cash from operating activities	9.0	10.7

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:

	Half-year ended 30 June 2005	Half-year ended 30 June 2004	Year ended 31 Dec 2004
	£m	£m	£m
Net cash from operating activities	9.0	10.7	17.7
Interest received	0.8	1.3	2.5
Proceeds on disposal of property, plant and equipment	0.7	0.1	0.7
Purchases of property, plant and equipment – cash	(9.0)	(4.6)	(9.8)
– finance leases	–	(0.3)	(0.4)
Purchase of intangible assets	(0.1)	(0.1)	(0.2)
Free cash flow	1.4	7.1	10.5

# Notes to the Interim Financial Statements continued

for the half-year ended 30 June 2005 (unaudited)

## 9 Notes to the Cash Flow Statement continued

### c) Analysis of net debt

	At 1 January 2005	Cash flow	Non cash items	Exchange movement	At 30 June 2005
	£m	£m	£m	£m	£m
Cash	7.4	0.8	–	–	8.2
Overdrafts	(1.5)	1.3	–	–	(0.2)
Cash and cash equivalents	5.9	2.1	–	–	8.0
Debt due within one year	(1.1)	(0.8)	(0.2)	–	(2.1)
Debt due after one year	(52.6)	(4.5)	(0.5)	(4.5)	(62.1)
Finance leases	(2.1)	0.1	–	0.1	(1.9)
Forward exchange contract losses	(0.7)	0.4	–	(0.7)	(1.0)
<b>Total</b>	<b>(50.6)</b>	<b>(2.7)</b>	<b>(0.7)</b>	<b>(5.1)</b>	<b>(59.1)</b>

Debt due within one year shown above includes short-term bank borrowings of £1.9m (1 January 2005 – £1.1m).

The forward exchange contract losses shown above are included in current liabilities within trade and other payables.

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 half-year – £0.3m) were financed by new finance leases.

## 10 Retirement Benefit Schemes

### Defined Benefit Schemes

Aggregate post-retirement benefit liabilities are £41.2m (31 December 2004 – £41.4m, 30 June 2004 – £42.0m). The primary components of this liability are the Group's UK pension plan and US pension plans, with deficits of £32.9m and £5.0m respectively. These values have been assessed by an independent actuary using current market values and discount rates.

## 11 Explanation of Transition to IFRS

The reconciliations of equity at 1 January 2004 (date of transition to IFRS) and at 31 December 2004 (date of last UK GAAP financial statements) and the reconciliation of income statement for 2004, as required by IFRS 1, including the significant accounting policies and notes to 31 December 2004, were included in an announcement on 17 June 2005. A copy of the announcement may be found on the Company's website [www.seniorplc.com](http://www.seniorplc.com).

### a) Reconciliation of equity at 30 June 2004

	Notes	UK GAAP (restated) £m	Adjustment £m	IFRS £m
<b>Non-current assets</b>				
Goodwill	(i)	73.2	2.6	75.8
Intangible assets	(ii)	–	1.4	1.4
Property, plant and equipment	(ii)	74.8	(1.4)	73.4
Deferred tax asset		0.1		0.1
Trade and other receivables		0.9		0.9
<b>Total non-current assets</b>		<b>149.0</b>	<b>2.6</b>	<b>151.6</b>
<b>Current assets</b>				
Inventories		41.8		41.8
Construction contracts		5.4		5.4
Trade and other receivables		62.1		62.1
Cash and cash equivalents		12.4		12.4
<b>Total current assets</b>		<b>121.7</b>	<b>–</b>	<b>121.7</b>
<b>Total assets</b>		<b>270.7</b>	<b>2.6</b>	<b>273.3</b>
<b>Liabilities</b>				
Trade and other payables	(iii)	66.5	(2.0)	64.5
Current tax liabilities		6.4		6.4
Obligations under finance leases		2.1		2.1
Interest bearing loans		68.8		68.8
Retirement benefit obligations	(iv)	41.8	0.2	42.0
Deferred tax liabilities	(v)	0.7	0.6	1.3
Others		0.6		0.6
<b>Total liabilities</b>		<b>186.9</b>	<b>(1.2)</b>	<b>185.7</b>
<b>Total assets less total liabilities</b>		<b>83.8</b>	<b>3.8</b>	<b>87.6</b>
<b>Equity</b>				
Issued share capital		30.7		30.7
Share premium account		3.5		3.5
Equity reserve	(vi)	–	0.1	0.1
Other reserve	(vii)	17.7	(0.7)	17.0
Hedging and translation reserve	(vii)	–	0.6	0.6
Retained earnings		33.2	3.8	37.0
Own shares		(1.3)		(1.3)
<b>Total equity</b>		<b>83.8</b>	<b>3.8</b>	<b>87.6</b>

The Group equity under UK GAAP as at 30 June 2004 has been restated to reflect the adoption of Financial Reporting Standard No 17 "Retirement Benefits".

# Notes to the Interim Financial Statements continued

for the half-year ended 30 June 2005 (unaudited)

## 11 Explanation of Transition to IFRS continued

### Notes to the reconciliation of equity at 30 June 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 £2.6m has been reversed, leading to an equivalent increase in the goodwill value on the balance sheet at 30 June 2004 under IFRS.

#### (ii) Intangible assets

IFRS requires computer software to be recorded as an intangible asset and amortised over its useful life. Accordingly, £1.4m 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 period 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 interim dividend of £2.0m at 30 June 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 by FRS 17, under UK GAAP. 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 £0.6m relating to the taxation of deferred foreign exchange gains arising in overseas territories.

#### (vi) 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.

#### (vii) Share capital and reserves

In line with the available exemptions in IFRS 1, the cumulative translation differences were set to zero at the transition date. An amount of £0.6m has arisen in the period. Also, as allowed under IFRS 1 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 profit and loss reserve.

## b) Reconciliation of income statement for the half-year ended 30 June 2004

	Notes	UK GAAP (restated and reformatted) £m	Adjustment £m	IFRS £m
<b>Continuing operations</b>				
Revenue		157.1		157.1
Trading profit	(i), (ii)	8.4	(0.1)	8.3
Amortisation of goodwill	(iii)	(2.6)	2.6	–
Operating profit		5.8	2.5	8.3
Interest receivable	(iv)	1.0	(0.1)	0.9
Interest payable and similar charges	(iv)	(2.5)	0.1	(2.4)
Finance cost of net pension liability		(0.6)		(0.6)
Profit before tax		3.7	2.5	6.2
Tax	(v)	(1.0)	0.1	(0.9)
Profit for the period from continuing operations		2.7	2.6	5.3
<b>Discontinued operations</b>				
Profit from operations before tax	(i)	0.4	0.1	0.5
Tax	(v)	–	(0.1)	(0.1)
Profit for the period from discontinued operations		0.4	–	0.4
Profit for the period		3.1	2.6	5.7

The Group income statement under UK GAAP for the half-year ended 30 June 2004 has been restated to reflect the adoption of Financial Reporting Standard No 17 "Retirement Benefits".

**Notes to the reconciliation of income statement for the half-year ended 30 June 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.

**(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 small cost (less than £0.1m) has been included in the IFRS accounts. This expense has been based on the fair value at the date of the award, as calculated according to the Black-Scholes pricing model.

# Notes to the Interim Financial Statements continued

for the half-year ended 30 June 2005 (unaudited)

## 11 Explanation of Transition to IFRS continued

### (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 £2.6m 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.

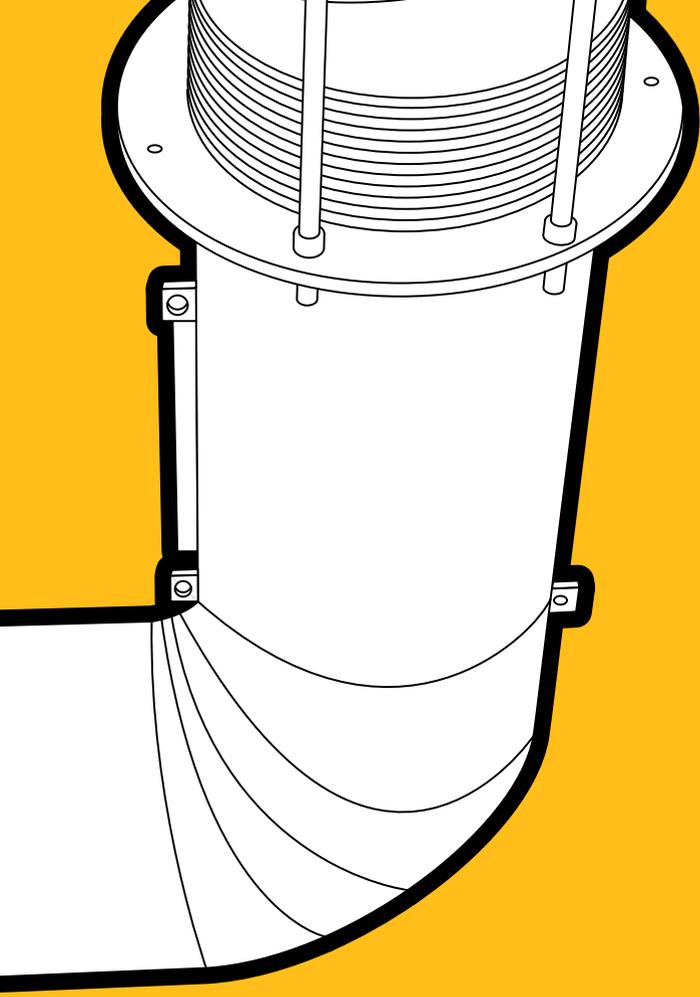
### (v) Tax charge

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

Copies of this Interim Report and other investor relations information can be found at [www.seniorplc.com](http://www.seniorplc.com).

Lloyds TSB Registrars provide a range of shareholder information on their site at [www.shareview.co.uk](http://www.shareview.co.uk). Why not sign up and receive shareholder communications electronically; you can also check your holdings, update details and obtain practical help on transferring shares.





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