

Results for the year ended 31 December 2018

Profitable growth delivered

FINANCIAL HIGHLIGHTS	Year ended 31 December		change	change (constant currency)
	2018	2017		
REVENUE	£1,082.1m	£1,023.4m	+6%	+8%
OPERATING PROFIT	£69.9m	£65.5m	+7%	+9%
ADJUSTED OPERATING PROFIT ⁽¹⁾	£91.6m	£82.6m	+11%	+13%
ADJUSTED OPERATING MARGIN ⁽¹⁾	8.5%	8.1%	+40bps	+40bps
PROFIT BEFORE TAX	£61.3m	£52.2m	+17%	+19%
ADJUSTED PROFIT BEFORE TAX ⁽¹⁾	£83.0m	£73.1m	+14%	+15%
BASIC EARNINGS PER SHARE	11.99p	14.39p	-17%	
ADJUSTED EARNINGS PER SHARE ⁽¹⁾	16.08p	14.39p	+12%	
TOTAL DIVIDEND (PAID AND PROPOSED) PER SHARE	7.42p	6.95p	+7%	
FREE CASH FLOW ⁽²⁾	£45.3m	£58.3m	-22%	
NET DEBT ⁽²⁾	£153.0m	£155.3m	£2.3m decrease	

Highlights

- Sales increased to £1,082.1m; another record year with constant currency increase of 8%
- Operating profits rising faster than sales
- Adjusted profit before tax of £83.0m; constant currency year-on-year increase of 15%
- Adjusted earnings per share of 16.08p; year-on-year increase of 12%
- Healthy free cash flow of £45.3m after investing £56.3m in capital expenditure for further organic growth
- Full year dividend per share proposed to increase by 7%
- The Board anticipates that 2019 will be another year of improvement in performance for the Group

Commenting on the results, David Squires, Chief Executive of Senior plc, said:

“Senior delivered profitable growth in 2018. We had strong order intake, with a book-to-bill of 1.1x, and sales reached another record level. Adjusted profit before tax increased by 15%, exceeding sales growth of 8%, on a constant currency basis. Free cash flow remains healthy and Group margins improved as volumes increased and benefits from ongoing cost reduction efforts were realised.

2019 trading has started in line with expectations. The Board anticipates that, even with changeable geopolitical conditions, 2019 will be another year of improvement in performance for the Group.

Looking further ahead, the Group is well-positioned, financially robust and expects to continue to make good progress.”

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This Release represents the Company's dissemination announcement in accordance with the requirements of Rule 6.3.5 of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. The full Annual Report & Accounts 2018, together with other information on Senior plc, can be found at: www.seniorplc.com

The information contained in this Release is an extract from the Annual Report & Accounts 2018, however, some references to Notes and page numbers have been amended to reflect Notes and page numbers appropriate to this Release.

The Directors' Responsibility Statement has been prepared in connection with the full Financial Statements and Directors' Report as included in the Annual Report & Accounts 2018. Therefore, certain Notes and parts of the Directors' Report reported on are not included within this Release.

- (1) Adjusted operating profit and adjusted profit before tax are stated before £15.4m amortisation of intangible assets from acquisitions (2017 - £17.1m), £2.4m charge for UK Guaranteed Minimum Pensions (2017 - £nil) and £3.9m costs associated with the US class action lawsuits (2017 - £nil). Adjusted profit before tax is also stated before loss on disposal of £nil (2017 - £3.8m). See Note 4 for further details.
- (2) See Notes 11b and 11c for derivation of free cash flow and of net debt, respectively.

EBITDA is defined as adjusted profit before tax, and before interest, depreciation, amortisation and profit or loss on sale of property plant and equipment. It also excludes profit or loss before tax from disposed Operations and is based on frozen GAAP (pre-IFRS 16). This measure is used for the purpose of assessing covenant compliance and is reported to the Group Executive Committee.

The US Dollar exchange rate applied in the translation of revenue, profit and cash flow items at average 2018 rates was \$1.34 (2017 - \$1.29) and applied in the translation of Balance Sheet items at 31 December 2018 was \$1.28 (31 December 2017 - \$1.35). Comparisons on a constant currency basis are calculated by translating 2017 results using 2018 average exchange rates.

Annual Report

The full Annual Report & Accounts 2018 is now available online at www.seniorplc.com. Printed copies will be distributed on or soon after 15 March 2019.

Webcast

There will be a presentation on Monday 4 March 2019 at 11.00am GMT, with a live webcast that is accessible on Senior's website at www.seniorplc.com/investors. The webcast will be made available on the website for subsequent viewing.

Note to Editors

Senior is an international manufacturing Group with operations in 14 countries. It is listed on the main market of the London Stock Exchange (symbol SNR). Senior designs, manufactures and markets high technology components and systems for the principal original equipment producers in the worldwide aerospace, defence, land vehicle and power & energy markets.

Cautionary Statement

This Release contains certain forward-looking statements. Such statements are made by the Directors in good faith based on the information available to them at the time of the Release and they should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

CHIEF EXECUTIVE'S STATEMENT

Overview of 2018 Results

Senior delivered profitable growth in 2018 and generated healthy free cash flow.

Group revenue increased by 5.7% to another record level of £1,082.1m (2017 - £1,023.4m). Excluding the adverse exchange rate impact of £19.8m, Group revenue increased by £78.5m (7.8%) on a constant currency basis as sales grew across both Divisions. Group order intake in 2018 was encouraging with a book-to-bill of 1.1x. The revenue increase in the Aerospace Division was driven by growth across all key market sectors, particularly large commercial aerospace. Increased revenue in the Flexonics Division was driven by higher revenue from the truck, off-highway and power & energy markets, particularly in upstream oil & gas and power generation markets.

We measure the Group on an adjusted basis which excludes Group items that do not impact the operating performance (see Note 4). References below therefore focus on these adjusted measures. Adjusted operating profit increased by £9.0m (10.9%) to £91.6m (2017 - £82.6m), after charging research and development expenditure of £29.7m, an increase of £4.1m (16.0%) over the prior year. Excluding the adverse exchange rate impact of £1.5m, adjusted operating profit increased by 12.9% on a constant currency basis. The Group's adjusted operating margin increased by 40 basis points, to 8.5% for the full year. Margins in the Aerospace Division were stable as operational efficiencies and learning curve improvements offset the impact of volume reduction on mature programmes and product introduction costs on new programmes. Margin improvement in the Flexonics Division reflected the volume growth in the truck, off-highway and upstream oil & gas markets.

Adjusted profit before tax increased to £83.0m (2017 - £73.1m), up 13.5%, or 15.3% on a constant currency basis. Adjusted earnings per share increased by 11.7% to 16.08 pence (2017 - 14.39 pence).

Reported operating profit was £69.9m (2017 - £65.5m) and reported profit before tax was £61.3m (2017 - £52.2m). Basic earnings per share was 11.99 pence (2017 - 14.39 pence), with the Group benefiting in the prior year from a £16.0m exceptional non-cash tax credit related to US tax reform.

The Group continues to generate healthy cash flows and delivered free cash inflow of £45.3m (2017 - £58.3m) after gross investment in capital expenditure of £56.3m (representing 1.4x depreciation). As previously guided, working capital as a percentage of sales remained under the target ceiling of 15%, and was 14.4% at the end of 2018 (2017 - 13.4%). The year over year increase was to support new product introductions. The level of net debt at the end of December 2018 reduced to £153.0m (December 2017 - £155.3m). This decrease was principally due to free cash inflow of £45.3m, offset by £29.6m dividend payments, £7.2m purchase of shares by the employee benefit trust and adverse currency movements of £6.7m. The ratio of net debt to EBITDA at 31 December 2018 was 1.1x (31 December 2017 - 1.3x). Return on capital employed (ROCE) increased by 110 basis points to 13.0% (2017 - 11.9%).

The Board is proposing a final dividend of 5.23 pence per share. This would bring total dividends, paid and proposed for 2018 to 7.42 pence per share, representing an increase of 6.8% over the prior year.

Delivery of Group Strategy

From a strategic perspective, the Group continues to benefit from retaining a balance between Aerospace and Flexonics, drawing on shared technology and intellectual property. We are investing in new technology and product developments that will underpin future growth in both segments of our business. We undertake regular reviews of the Group's portfolio as we seek to increase shareholder value by leveraging our current operations, and where appropriate, acquisitions, disposals or mergers of operations will be considered to optimise returns on capital.

During 2018, the Group made good progress against our six strategic priorities which were identified as key elements of our business model, underpinning the continued delivery of shareholder value:

1. Enhance Senior's Autonomous and Collaborative Business Model.
2. Focus on Growth.
3. Introduce a High Performance Operating System.
4. Competitive Cost Country Strategy.
5. Considered and Effective Capital Deployment.
6. Talent Development.

Further details including our plans for 2019 are noted on pages 14 to 17 of the Annual Report & Accounts 2018. However, some of the 2018 highlights include those set out below.

Under our Focus on Growth strategic priority we have made good progress on technology projects that will lead to future growth in the medium and long term:

- We have commenced investment in our Advanced Additive Manufacturing Centre in Burbank, California and secured a launch customer for first parts.
- We have been developing our thermal management capability to cool battery packs for electric vehicles. First prototype orders have been received and initial deliveries made.
- Our novel RT2i™ process for designing and manufacturing lightweight low pressure ducts has been proven and the first development and production contract incorporating RT2i™ parts has been secured.

In 2018 we continued with the deployment of the Senior Operating System across the business with a focus on driving efficiencies and learning curve improvements through rollout of the best in class processes and lean manufacturing.

In February 2019, the Group sold its French Flexonics land vehicle business, Senior Flexonics Blois (“Blois”). Blois’ main end market was European passenger vehicles and the sale enables us to have greater focus on our core activities.

We will continue to “prune to grow” where it makes sense to do so while maintaining a disciplined approach to additions to our portfolio.

Market Conditions

Our Aerospace end markets remain healthy. We are watching with care for any geopolitical impact from the ongoing trade discussions, which could impact our Flexonics markets in particular.

The outlook for the civil commercial aerospace sector continues to be strong with good visibility due to the production ramp-up of new aircraft programmes. IATA reported air traffic growth of 6.5% in 2018 and demand for new aircraft remains robust with Boeing, Airbus and independent forecasters predicting air traffic to grow in excess of 4% per annum over the next 20 years. Senior has good shipset content on all key commercial aircraft platforms. 2018 was a cross-over year with a significant increase in production of newer aircraft platforms and a similar significant decrease in production of mature aircraft platforms. Production of the 737 MAX and A320neo, as well as the 787 and A350 ramped up during 2018; however, as anticipated, production of the classic 737, A320, A330 as well as the 777, 747 and A380 ramped-down in the year. The A330neo entered into service in November 2018 and Airbus delivered three A330neos in 2018. The 777X is scheduled to enter service in 2020.

In the regional and business jet market, 2018 saw significant momentum with Embraer’s E2-Jet entering into service in April and Bombardier’s Global 7500 securing US certification and entering into service at the end of 2018. The A220 continues to ramp up deliveries. The Group expects to benefit from the Mitsubishi Regional Jet (MRJ), which is scheduled to enter into service in 2020. In the defence sector, market growth is being supported by the F-35 Joint Strike Fighter, CH-53K King Stallion helicopter and T-X trainer programmes, which are expected to grow significantly over the long term, while the near-term outlook for the UH-60 Black Hawk helicopter programme has been reaffirmed in the Budget Act of 2018.

Our Flexonics Division end markets are less certain and somewhat dependent on geopolitical factors such as the ongoing trade discussions between the US and China. Market production of North American heavy-duty trucks increased 26.9% in 2018. Industry analysts are currently forecasting a low level of production growth in this market in 2019, with growth in the first half of the year partly offset by a decrease in the second half of the year. In the upstream oil and gas market, we saw improved drilling activity in the US Permian Basin in 2018, however, output may be restricted in the first half of 2019 due to infrastructure constraints. These constraints are currently expected to alleviate in the second half of 2019. Downstream oil and gas activity remains stable.

Operational Review

To enable us to meet increasing customer demand and to ensure we remain competitive and profitable, the Group continues to invest in capacity for both our Aerospace and Flexonics businesses.

- Construction of our new Aerospace factory in Malaysia is at an advanced stage. This investment was a direct consequence of winning new commercial aerospace business and the new facility is anticipated to be operational during the second half of 2019.
- To support upcoming planned growth, construction has commenced on the expansion of the Aerospace Fluid Systems Metal Bellows facility in Massachusetts. This expansion is anticipated to complete in the first half of 2020.

- In 2020 we will also be increasing the footprint of our Aerospace Fluids Systems BWT facility in the UK from 112,000 sq. feet to 140,000 sq. feet as a direct consequence of winning new civil aerospace business.
- Our plans to relocate our Flexonics Crumlin operation in South Wales to a new dedicated high-tech, design and development centre are continuing. We anticipate construction to commence in the second half of 2019.

In 2018, we continued to balance ongoing cost reduction and learning curve improvements on newer programmes, with the cost of further new product introductions and industrialisation. We will see a similar pattern in 2019 based on the work we have already won. As we have consistently outlined, any new work packages we take on meet our return on capital targets and are in line with our capital deployment strategy.

Outlook

2019 trading has started in line with expectations. Overall, our visibility in the Aerospace Division remains good and our future prospects remain strong.

Market conditions in our Flexonics Division are less certain. After adjusting for the sale of Blois, we expect a slight decline in Flexonics top line which is potentially due to softer demand in some of our industrial markets. However, we currently expect margin progression in this Division in 2019 to offset the sales decline.

The Board anticipates that, even with changeable geopolitical conditions, 2019 will be another year of improvement in performance for the Group. Looking further ahead, the Group is well-positioned, financially robust and expects to continue to make good progress.

DAVID SQUIRES

Group Chief Executive

DIVISIONAL REVIEW

Aerospace Division

The Aerospace Division represents 70% (2017 - 71%) of Group revenue and consists of 19 operations. These are located in North America (ten), the United Kingdom (four), continental Europe (three), Thailand and Malaysia. This Divisional review is on a constant currency basis, whereby 2017 results have been translated using 2018 average exchange rates and on an adjusted basis to exclude the charge relating to amortisation of intangible assets from acquisitions. The Division's operating results on a constant currency basis are summarised below:

	2018	2017 ⁽¹⁾	Change
	£m	£m	
Revenue	760.4	711.0	+6.9%
Adjusted operating profit	80.4	75.2	+6.9%
Adjusted operating margin	10.6%	10.6%	-

⁽¹⁾ 2017 translated using 2018 average exchange rates – constant currency.

Divisional revenue increased by £49.4m (6.9%) to £760.4m (2017 - £711.0m) whilst adjusted operating profit increased by £5.2m (6.9%) to £80.4m (2017 - £75.2m).

Revenue Reconciliation	£m
2017 revenue	711.0
Large commercial	31.4
Regional & business jets	7.7
Military	6.0
Other	4.3
2018 revenue	<u>760.4</u>

Senior's sales in the large commercial aircraft sector increased by 6.9% during the year. The Group benefited from increased production of the 737 MAX, A320neo, 787 and A350; however, these increases were partly offset by decreased production of the 777, 747, A330, A380, and the current engine versions of the 737 and A320.

The Division's sales to the regional and business jet markets increased by 11.4% during the year. This reflected the increased production of the A220 and Embraer E2-Jet which were partially offset by lower production of legacy jets.

Revenue from the military and defence sector increased by 5.0% during the year, primarily due to the ramp-up of the Joint Strike Fighter which was partially offset by the anticipated Black Hawk build rate reductions.

Around 9% of the Aerospace Division's revenue was derived from other markets such as space, non-military helicopters, power & energy, medical and semi-conductor equipment, where the Group manufactures products using very similar technology to that used for certain aerospace products. Revenue derived from these markets increased by 6.4%, mainly due to demand for Senior's proprietary products for the semi-conductor and medical equipment market.

The divisional adjusted operating margin was stable at 10.6% (2017 - 10.6%). As anticipated, margins were impacted by the year-on-year volume reductions on mature programmes such as the 777, 747, A330, A380, and the current engine versions of the 737 and A320, and the costs associated with the introduction and industrialisation of new programmes. The deployment of the Senior Operating System in 2018 helped to offset these impacts by delivering efficiency and learning curve improvements.

During 2018, Senior successfully won significant additional content on platforms such as the 777X (+55%), which is scheduled to enter service in 2020, and Global 7500 (+91%), which entered into service in December 2018 and will ramp up over the coming years. Based on the work we have already won, we will continue to balance ongoing cost reduction and learning curve improvements on newer programmes, with the cost of further new product introductions and industrialisation in 2019.

Overall, the future prospects for the Group's Aerospace Division are visible and strong.

Flexonics Division

The Flexonics Division represents 30% (2017 - 29%) of Group revenue and prior to the sale of Blois in February 2019, consisted of 14 operations which are located in North America (four), continental Europe (three), the United Kingdom (two), South Africa, India, Brazil, Malaysia and China where the Group also has a 49% equity stake in a land vehicle product joint venture. This Divisional review is on a constant currency basis, whereby 2017 results have been translated using 2018 average exchange rates and on an adjusted basis to exclude the charge relating to amortisation of intangible assets from acquisitions. The Division's operating results on a constant currency basis are summarised below:

	2018	2017 ⁽¹⁾	Change
	£m	£m	
Revenue	322.9	293.3	+10.1%
Adjusted operating profit	26.1	19.7	+32.5%
Adjusted operating margin	8.1%	6.7%	+140bps

⁽¹⁾ 2017 results translated using 2018 average exchange rates – constant currency.

Divisional revenue increased by £29.6m (10.1%) to £322.9m (2017 - £293.3m) and adjusted operating profit increased by £6.4m (32.5%) to £26.1m (2017 - £19.7m).

Revenue Reconciliation	£m
2017 revenue	293.3
Truck and off-highway	17.3
Passenger vehicles	(5.0)
Power and energy	16.6
Other	0.7
2018 revenue	<u><u>322.9</u></u>

Group sales to truck and off-highway markets increased by 17.3%. Senior's sales to the North American truck and off-highway market increased by £14.3m (19.8%), primarily due to higher sales of EGR coolers for new vehicles as heavy-duty truck and off-highway production increased, partly offset by the expected decrease in sales of service parts for older models. Sales to European truck and off-highway markets grew by £4.0m (21.7%), due to ramp-up of new programmes. Sales to India and China decreased by £1.0m (10.5%) as growth from the ramp-up in new programmes in India was offset by lower direct sales to China as some products transitioned to our China joint venture.

Group sales to passenger vehicle markets decreased by £5.0m (9.2%) in the year. As mentioned previously, we elected not to add new business at low margins with high capital requirements in passenger vehicle, electing instead to deploy capital in other parts of the Group with higher returns.

Sales from the Group's power and energy markets increased by £16.6m (12.7%). Sales to oil and gas markets were up £6.9m (11.4%) primarily due to increased drilling activity in upstream oil and gas related markets in North America, while downstream oil and gas related activity was stable. Sales to power generation markets increased by £6.9m (21.5%) due to higher North American and European activity. Sales from other power & energy markets increased by £2.8m (7.3%).

The adjusted operating margin increased by 140 basis points to 8.1% (2017 - 6.7%) principally due to higher demand and volume from trucks, off-highway and upstream oil and gas. This was also coupled with benefits from our focus on cost management and efficiency initiatives.

In February 2019, the Group sold its French Flexonics land vehicle business, Senior Flexonics Blois ("Blois"). Blois' main end market was European passenger vehicle and the sale enables us to have greater focus on our core activities.

Our Flexonics Division end markets are less certain and somewhat dependent on geopolitical factors such as the ongoing trade discussions between the US and China. Industry analysts are currently forecasting a low level of production growth for North American heavy-duty trucks in 2019, with growth in the first half of the year partly offset by a decrease in the second half of the year. In the upstream oil and gas related market output in the first half of 2019 may be restricted due to infrastructure constraints in the US Permian Basin, with these expected to alleviate in the second half of 2019. Downstream oil and gas activity remains stable for 2019.

After adjusting for the sale of Blois, we expect a slight decline in Flexonics top line which is potentially due to softer demand in some of our industrial markets. However, we currently expect margin progression in this Division in 2019 as a consequence of our continued focus on cost management and efficiency initiatives, coupled with our “prune to grow” strategy.

Looking further ahead, global emissions standards and environmental legislation continues to tighten, which coupled with projected increases in global energy usage, will drive increased demand for many of the Flexonics Division’s products. Senior is developing solutions for the next generation of more efficient internal combustion engines, as well as electrified land vehicle applications. As a result of its global footprint, technical innovation and customer relationships, the Group remains well positioned for the future as new Flexonics programmes and products enter production.

OTHER FINANCIAL INFORMATION

Central costs

Central costs increased by £0.8m to £15.5m (2017 - £14.7m) due to higher share-based payment charges and consultancy and other costs to strengthen the Group central capabilities, partly offset by lower legal costs incurred related to actions as described in Note 15.

Finance costs

Total finance costs, net of investment income of £0.6m (2017 - £0.2m) decreased to £8.6m (2017 - £9.5m) mainly due to favourable foreign exchange impact on the translation of interest charges on US Dollar denominated borrowings, the repayment in October 2018 of \$75.0m (£58.6m) US private placement carrying a high interest rate and net IAS 19 pension finance credit of £0.2m (2017 - £0.2m charge).

Tax charge

The adjusted tax rate for the year was 19.0% (2017 – 17.5%), being a tax charge of £15.8m (2017 - £12.8m) on adjusted profit before tax of £83.0m (2017 - £73.1m). The increase in rate is attributed to changes in the tax treatment of items in the US following the enactment of the US Tax Cuts and Jobs Act in December 2017, which outweigh the positive benefit from the cut in the US Federal corporate income tax rate.

The reported tax rate was 18.3% charge (2017 – 15.5% credit), being a tax charge of £11.2m (2017 - £8.1m credit) on reported profit before tax of £61.3m (2017 - £52.2m). The reported tax charge for the year included the tax credit of items excluded from adjusted operating profit of £4.6m (2017 - £4.9m), and an exceptional non-cash tax credit related to US tax reform of £nil (2017 - £16.0m).

Cash tax paid was £6.0m (2017 - £4.9m) and is stated net of refunds received of £2.0m (2017 - £1.9m) of tax paid in prior periods. The rate of cash tax paid is lower than our adjusted tax rate in both years due to accelerated tax relief for capital expenditure in the US, the availability of tax losses and tax deductible items that do not affect adjusted profit.

Earnings per share

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, decreased to 417.8 million (2017 - 418.9 million). The decrease arose principally due to shares purchased by the employee benefit trust. Adjusted earnings per share increased by 11.7% to 16.08 pence (2017 - 14.39 pence). Basic earnings per share decreased by 16.7% to 11.99 pence (2017 – 14.39 pence) primarily due to the benefit of the exceptional non-cash tax credit in 2017 described above. See Note 7 for details of the basis of these calculations.

Research and development

The Group’s expenditure on research and development increased to £29.7m during 2018 (2017 - £25.6m). Expenditure was incurred mainly on funded and unfunded work, which relates to designing and engineering products in accordance with individual customer specifications and investigating specific manufacturing processes for their production. The Group also incurs costs on general manufacturing improvement processes which are similarly expensed. Unfunded costs in the year have been expensed, consistent with the prior year, as they did not meet the strict criteria required for capitalisation.

Exchange rates

A proportion of the Group’s operating profit in 2018 was generated outside the UK and consequently, foreign exchange rates, principally the US Dollar against Sterling, can affect the Group’s results.

The 2018 average exchange rate for the US Dollar applied in the translation of income statement and cash flow items was \$1.34 (2017 - \$1.29). The exchange rate for the US Dollar applied to the translation of Balance Sheet items at 31 December 2018 was \$1.28 (31 December 2017 - \$1.35).

Using 2018 average exchange rates would have decreased 2017 revenue by £19.8m and decreased 2017 adjusted operating profit by £1.5m. A 10 cents movement in the £:\$ exchange rate is estimated to affect full-year revenue by £48m, adjusted operating profit by £5m and net debt by £9m.

Cash flow

The Group generated healthy free cash flow of £45.3m in 2018 (2017 - £58.3m) as set out in the table below:

	2018	2017
	£m	£m
Operating profit	69.9	65.5
Depreciation (including amortisation of software)	41.5	40.8
Amortisation of intangibles assets from acquisitions	15.4	17.1
Share of joint venture	(0.6)	(0.7)
Working capital and provisions movement	(11.1)	12.4
Pension payments above service cost	(10.3)	(9.7)
Other items	11.2	0.4
Cash generated by operations	116.0	125.8
Interest paid (net)	(8.9)	(9.6)
Income tax paid	(6.0)	(4.9)
Capital expenditure	(56.3)	(54.8)
Sale of plant, property and equipment	0.5	1.8
Free cash flow	45.3	58.3
Dividends paid	(29.6)	(27.9)
Proceeds on disposal	-	0.4
Loan repayment by joint venture	0.5	0.3
Purchase of shares held by employee benefit trust	(7.2)	(0.1)
Foreign exchange variations	(6.7)	11.0
Movement in non-cash items	-	0.8
Change in net debt	2.3	42.8
Opening net debt	(155.3)	(198.1)
Closing net debt	(153.0)	(155.3)

Capital expenditure

Gross capital expenditure of £56.3m (2017 - £54.8m) was 1.4 times depreciation (2017 - 1.3 times), with the majority of investment related to growth programmes in the Aerospace Division including ramp up related capacity expansion for 737 Max, A320neo and A350 as well as investment in setting up our Advance Additive Manufacturing Centre. The disposal of plant, property and equipment raised £0.5m (2017 - £1.8m). Capital expenditure is anticipated to be higher in 2019, as investments continue to support future growth programmes already won.

Working capital

Working capital increased by £18.9m in 2018 to £156.1m (2017 - £137.2m) to support new product introductions. Working capital as a percentage of sales increased by 100 basis points from 13.4% at 31 December 2017 to 14.4% at 31 December 2018, principally due to 80 basis points increase from exchange differences and 40 basis points increase from inventory, partly offset by 20 basis points reduction from receivables in excess of payables.

Dividend

The Group has a long and stable track record of dividend growth and the Board intends to continue to pay a progressive dividend reflecting earnings per share, free cash flow generation and dividend cover over the medium term.

A final dividend of 5.23 pence per share is proposed for 2018 (2017 - 4.90 pence), payment of which, if approved, would total £21.8m (2017 final dividend - £20.5m) and would be paid on 31 May 2019 to shareholders on the register at close of business on 3 May 2019. This would deliver total dividends paid and proposed in respect of 2018 of 7.42 pence per share, an increase of 6.8% over 2017. At the level recommended, the full-year dividend would be covered 2.2 times (2017 - 2.1 times) by adjusted earnings per share. The cash outflow incurred during 2018 in respect of the final dividend for 2017 and the interim dividend for 2018 was £29.6m (2017 - £27.9m).

Goodwill

The change in goodwill from £302.4m at 31 December 2017 to £312.9m at 31 December 2018 is due to foreign exchange differences on translation only.

Retirement benefit schemes

The retirement benefit surplus in respect of the Group's UK defined benefit pension plan increased by £11.5m to £30.9m (31 December 2017 - £19.4m), principally due to £8.2m cash contributions in excess of running costs made by the Group and £5.1m net actuarial gains. This was partly offset by a £2.4m past service charge in relation to the equalisation of historical Guaranteed Minimum Pensions (GMPs) for men and women which follows a High Court ruling in the UK that clarified the legal obligation on pension schemes. Retirement benefit deficits in respect of the US and other territories decreased by £2.3m to £12.4m (31 December 2017 - £14.7m).

Net debt

Net debt decreased by £2.3m to £153.0m at 31 December 2018 (31 December 2017 - £155.3m). This decrease was due to £45.3m free cash inflow and £0.5m loan repayment by the joint venture, partially offset by £29.6m dividend payments, £7.2m purchase of own shares held by the employee benefit trust and £6.7m unfavourable foreign currency movements.

Funding and Liquidity

As at 31 December 2018, the Group's gross borrowings excluding finance leases and transaction costs directly attributable to borrowings were £170.8m (31 December 2017 - £168.0m), with 68% of the Group's gross borrowings denominated in US Dollars (31 December 2017 - 78%). Cash and bank balances were £17.2m (31 December 2017 - £12.6m).

The maturity of these borrowings, together with the maturity of the Group's committed facilities, can be analysed as follows:

	Gross borrowings ⁽¹⁾	Committed facilities
	£m	£m
Within one year	2.7	20.0
In the second year	15.6	15.6
In years three to five	29.9	112.8
After five years	122.6	122.6
	170.8	271.0

(1) Gross borrowings include the use of bank overdrafts, other loans and committed facilities, but exclude finance leases of £0.2m and transaction costs directly attributable to borrowings of (£0.8m).

At the year-end, the Group had committed facilities of £271.0m comprising private placement debt of £153.8m and revolving credit facilities of £117.2m. The Group is in a strong funding position, with headroom at 31 December 2018 of £118.0m under its committed facilities.

In January 2018, a new £27.0m 7-year private placement carrying interest at the rate of 2.35% per annum was drawn down and a new \$30.0m (£23.4m) 10-year private placement carrying interest at the rate of 4.18% per annum was drawn down in September 2018. These two new private placements have replaced the \$75.0m (£58.6m) private placement carrying interest at the rate of 6.84% per annum that matured in October 2018.

In February 2019, the Group refinanced its main UK revolving credit facilities of £80.0m by increasing the committed facilities to £120.0m and extended the maturity to February 2024. Allowing for this transaction and the related cancellation of £80.0m committed revolving credit facilities (£20.0m that had been due to mature in March 2019 and £60.0m that had been due to mature in November 2021), the weighted average maturity of the Group's committed facilities is currently 5.3 years.

The Group has £0.2m of uncommitted borrowings which are repayable on demand.

The Group's committed borrowing facilities at 31 December 2018 contain a requirement that the ratio of EBITDA (as defined above) to net interest costs must exceed 3.5x, and that the ratio of net debt to EBITDA must not exceed 3.0x. At 31 December 2018, the Group was operating well within these covenants as the ratio of EBITDA to net interest costs was 15.2x (31 December 2017 – 13.3x) and the ratio of net debt to EBITDA was 1.1x (31 December 2017 - 1.3x).

IFRS 16 Leases

Effective for annual periods beginning 1 January 2019, IFRS 16 Leases will replace IAS 17 Leases and requires lessees to recognise right of use assets and lease liabilities for all leases (be they operating or financing in classification under IAS 17), unless the lease term is 12 months or less or the underlying asset is low value. As at 31 December 2018, the Group holds a significant number of operating leases which under IAS 17 were expensed on a straight-line basis over the lease term.

The Group has undertaken a comprehensive review across all lease commitments and performed the required assessment of its cumulative adjustment on transition to IFRS 16 on 1 January 2019 and applied the standard from the transitional date using the modified retrospective approach and not restating comparatives. As at 1 January 2019, the Group's audited right of use assets were £96.7m, lease liabilities were £96.3m and working capital and non-current liabilities decreased by £0.4m in total.

The estimated annual financial impact has also been updated from prior guidance in order to reflect the lease portfolio and financial conditions at the date of transition; actual financial impacts will differ as these conditions change. From the financial year ending 31 December 2019, depreciation (£10.2m annually as determined at the date of transition) on the right of use assets will be charged to the Consolidated Income Statement while interest (£3.6m annually as determined at the date of transition) will be accrued against the lease liabilities. These charges to the Consolidated Income Statement will be partly offset by operating lease rentals that will no longer be expensed to the Consolidated Income Statement (£11.3m annually as determined at the date of transition).

The adoption of IFRS 16 does not impact the Group's lending covenants, as noted above, as these are currently based on frozen GAAP.

Brexit

While we do not anticipate a significant direct impact from Brexit on the Group's activities, we remain alert to the impact any final deal will have on the macro economic conditions. Our assessment is that any direct or indirect impact from Brexit will be limited and not significant given the Group's global positioning.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have concluded that there is a reasonable expectation as to the Group's longer-term viability and have continued to adopt the going concern basis in preparing the Financial Statements. The full viability statement can be found on page 29 of the Annual Report & Accounts 2018.

Risks and uncertainties

The principal risks and uncertainties faced by the Group are set out in detail on pages 20 to 25 of the Annual Report & Accounts 2018.

BINDI FOYLE

Group Finance Director

Responsibility Statement of the Directors in Respect of the Annual Report & Accounts 2018

We confirm that to the best of our knowledge:

1. the Financial Statements, as included in the Annual Report & Accounts 2018, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
2. the Strategic Report, set out in the Annual Report & Accounts 2018, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
3. the Annual Report & Accounts 2018, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By Order of the Board

David Squires
Group Chief Executive

1 March 2019

Bindi Foyle
Group Finance Director

1 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Notes	Year ended 2018 £m	Year ended 2017 £m
Revenue	3	1,082.1	1,023.4
Trading profit		69.3	64.8
Share of joint venture profit	13	0.6	0.7
Operating profit ⁽¹⁾	3	69.9	65.5
Investment income		0.6	0.2
Finance costs		(9.2)	(9.7)
Loss on disposal	14	-	(3.8)
Profit before tax ⁽²⁾		61.3	52.2
Tax (charge)/credit	5	(11.2)	8.1
Profit for the period		50.1	60.3
Attributable to:			
Equity holders of the parent		50.1	60.3
Earnings per share			
Basic ⁽³⁾	7	11.99p	14.39p
Diluted ⁽⁴⁾	7	11.83p	14.30p

⁽¹⁾ Adjusted operating profit	4	91.6	82.6
⁽²⁾ Adjusted profit before tax	4	83.0	73.1
⁽³⁾ Adjusted earnings per share	7	16.08p	14.39p
⁽⁴⁾ Adjusted and diluted earnings per share	7	15.87p	14.30p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Year ended 2018 £m	Year ended 2017 £m
Profit for the period	50.1	60.3
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
(Losses)/gains on foreign exchange contracts - cash flow hedges during the period	(8.0)	12.9
Reclassification adjustments for losses/(profits) included in profit	1.3	(1.4)
(Losses)/gains on foreign exchange contracts - cash flow hedges	(6.7)	11.5
Exchange differences on translation of foreign operations	20.3	(18.2)
Tax relating to items that may be reclassified	1.3	(2.3)
	14.9	(9.0)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains on defined benefit pension schemes	5.8	5.2
Tax relating to items that will not be reclassified	(0.8)	0.7
	5.0	5.9
Other comprehensive income/(expense) for the period, net of tax	19.9	(3.1)
Total comprehensive income for the period	70.0	57.2
Attributable to:		
Equity holders of the parent	70.0	57.2

Consolidated Balance Sheet

As at 31 December 2018

	Notes	Year ended 2018 £m	Year ended 2017 £m
Non-current assets			
Goodwill	8	312.9	302.4
Other intangible assets		26.7	41.6
Investment in joint venture	13	3.0	2.4
Property, plant and equipment	9	285.6	256.1
Deferred tax assets		2.4	1.6
Loan to joint venture	13	-	0.3
Retirement benefits	12	30.9	19.4
Trade and other receivables		0.5	0.5
Total non-current assets		662.0	624.3
Current assets			
Inventories		177.8	154.5
Loan to joint venture	13	-	0.2
Current tax receivables		2.7	1.0
Trade and other receivables		165.0	154.3
Cash and bank balances	11c)	17.2	12.6
Assets classified as held for sale	14	-	3.9
Total current assets		362.7	326.5
Total assets		1,024.7	950.8
Current liabilities			
Trade and other payables		196.0	173.0
Current tax liabilities		21.5	21.2
Obligations under finance leases		0.2	0.3
Bank overdrafts and loans	11c)	2.7	60.5
Provisions		11.3	5.5
Total current liabilities		231.7	260.5
Non-current liabilities			
Bank and other loans	11c)	167.3	106.7
Retirement benefits	12	12.4	14.7
Deferred tax liabilities		42.2	34.3
Obligations under finance leases		-	0.2
Provisions		0.2	0.2
Others		2.7	2.6
Total non-current liabilities		224.8	158.7
Total liabilities		456.5	419.2
Net assets		568.2	531.6
Equity			
Issued share capital	10	41.9	41.9
Share premium account		14.8	14.8
Equity reserve		5.7	3.9
Hedging and translation reserve		48.2	33.3
Retained earnings		465.6	438.8
Own shares		(8.0)	(1.1)
Equity attributable to equity holders of the parent		568.2	531.6
Total equity		568.2	531.6

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

All equity is attributable to equity holders of the parent

	Issued share capital £m	Share premium account £m	Equity reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
Balance at 1 January 2017	41.9	14.8	3.0	42.3	400.0	(1.5)	500.5
Profit for the year 2017	-	-	-	-	60.3	-	60.3
Gains on foreign exchange contracts - cash flow hedges	-	-	-	11.5	-	-	11.5
Exchange differences on translation of foreign operations	-	-	-	(18.2)	-	-	(18.2)
Actuarial gains on defined benefit pension schemes	-	-	-	-	5.2	-	5.2
Tax relating to components of other comprehensive income	-	-	-	(2.3)	0.7	-	(1.6)
Total comprehensive income for the period	-	-	-	(9.0)	66.2	-	57.2
Share-based payment charge	-	-	1.9	-	-	-	1.9
Purchase of shares held by employee benefit trust	-	-	-	-	-	(0.1)	(0.1)
Use of shares held by employee benefit trust	-	-	-	-	(0.5)	0.5	-
Transfer to retained earnings	-	-	(1.0)	-	1.0	-	-
Dividends paid	-	-	-	-	(27.9)	-	(27.9)
Balance at 31 December 2017	41.9	14.8	3.9	33.3	438.8	(1.1)	531.6
Profit for the year 2018	-	-	-	-	50.1	-	50.1
Losses on foreign exchange contracts - cash flow hedges	-	-	-	(6.7)	-	-	(6.7)
Exchange differences on translation of foreign operations	-	-	-	20.3	-	-	20.3
Actuarial gains on defined benefit pension schemes	-	-	-	-	5.8	-	5.8
Tax relating to components of other comprehensive income	-	-	-	1.3	(0.8)	-	0.5
Total comprehensive income for the period	-	-	-	14.9	55.1	-	70.0
Share-based payment charge	-	-	3.4	-	-	-	3.4
Purchase of shares held by employee benefit trust	-	-	-	-	-	(7.2)	(7.2)
Use of shares held by employee benefit trust	-	-	-	-	(0.3)	0.3	-
Transfer to retained earnings	-	-	(1.6)	-	1.6	-	-
Dividends paid	-	-	-	-	(29.6)	-	(29.6)
Balance at 31 December 2018	41.9	14.8	5.7	48.2	465.6	(8.0)	568.2

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Notes	Year ended 2018 £m	Year ended 2017 £m
Net cash from operating activities	11a)	100.7	110.9
Investing activities			
Interest received		0.4	0.4
Proceeds on disposal of property, plant and equipment		0.5	1.8
Purchases of property, plant and equipment		(54.6)	(52.3)
Purchases of intangible assets		(1.7)	(2.5)
Proceeds on disposal	14	-	0.4
Loan repayment by joint venture	13	0.5	0.3
Net cash used in investing activities		(54.9)	(51.9)
Financing activities			
Dividends paid		(29.6)	(27.9)
New loans		111.9	78.7
Repayment of borrowings		(114.3)	(115.8)
Repayments of obligations under finance leases		(0.3)	(0.5)
Purchase of shares held by employee benefit trust		(7.2)	(0.1)
Net cash used in financing activities		(39.5)	(65.6)
Net increase/ (decrease) in cash and cash equivalents		6.3	(6.6)
Cash and cash equivalents at beginning of period		9.7	16.8
Effect of foreign exchange rate changes		1.0	(0.5)
Cash and cash equivalents at end of period	11c)	17.0	9.7

Notes to the above Financial Statements

For the year ended 31 December 2018

1. General information

These results for the year ended 31 December 2018 are an excerpt from the Annual Report & Accounts 2018 and do not constitute the Group's statutory accounts for 2018 or 2017. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 will be delivered following the Company's Annual General Meeting. The Auditor has reported on both those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under Sections 498(2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

2. Significant accounting policies

Whilst the financial information included in this Annual Results Release has been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the Annual Report & Accounts 2018 which is available at www.seniorplc.com, hard copies of which will be distributed on or soon after 15 March 2019.

During the year, no new accounting standards or amendments to existing standards became effective which had a material impact on the Group's Financial Statements. At the date of authorisation of the Group's Financial Statements, a number of new standards and amendments to existing standards have been issued, all of which are effective, apart from IFRS 16, which is effective on 1 January 2019 and has not been adopted early. A summary of the impact review performed on each standard is given below. None of these changes will have an effect on cash generated by Operations nor on free cash flow, apart from IFRS 16, which is explained below.

- a) IFRS 9 Financial Instruments. This standard covers the classification, measurement, impairment and derecognition of financial assets and financial liabilities together with a new hedge accounting model. It replaced IAS 39 Financial Instruments from 1 January 2018. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated with the exception of certain aspects of hedge accounting. There is no material impact for the Group on transition to the new standard.
- b) IFRS 15 Revenue from Contracts with Customers. This standard, which has replaced existing revenue standards, requires the separation of performance obligations within contracts with customers and the contractual value to be allocated to each of the performance obligations. Revenue is then recognised as each performance obligation is satisfied. The Group has adopted this standard using the cumulative effect method, therefore the information presented for 2017 has not been restated. This involved calculating the relevant adjustments required for contracts not completed as at the transition date of 1 January 2018. The impact of the transition on the Financial Statements for 2018 is not material. Market practice and industry interpretations of IFRS 15 are continuing to evolve. The Group will continue to monitor these developments and will re-evaluate the transitional adjustments as necessary, but we do not anticipate any material adjustments being required given the Group's operating model.
- c) IFRS 16 Leases. Effective for annual periods beginning 1 January 2019, IFRS 16 Leases will replace IAS 17 Leases and requires lessees to recognise right of use assets and lease liabilities for all leases (be they operating or financing in classification under IAS 17), unless the lease term is 12 months or less or the underlying asset is low value. As at 31 December 2018, the Group holds a significant number of operating leases which under IAS 17 were expensed on a straight-line basis over the lease term.

The Group has undertaken a comprehensive review across all lease commitments and performed the required assessment of its cumulative adjustment on transition to IFRS 16 on 1 January 2019 and applied the standard from the transitional date using the modified retrospective approach and not restating comparatives. As at 1 January 2019, the Group's audited right of use assets were £96.7m, finance lease liabilities were £96.3m and working capital and non-current liabilities decreased by £0.4m in total.

2. Significant accounting policies (continued)

The estimated annual financial impact has also been updated from prior guidance in order to reflect the lease portfolio and financial conditions at the date of transition; actual financial impacts will differ as these conditions change. From the financial year ending 31 December 2019, depreciation (£10.2m annually as determined at the date of transition) on the right of use assets will be charged to the Consolidated Income Statement while interest (£3.6m annually as determined at the date of transition) will be accrued against the lease liabilities. These charges to the Consolidated Income Statement will be partly offset by operating lease rentals that will no longer be expensed to the Consolidated Income Statement (£11.3m annually as determined at the date of transition).

As a result of this accounting change and the related classification of certain items in the Consolidated Cash Flow Statement, in the financial year ending 31 December 2019, cash generated by Operations and free cash flow (as defined in note 11) are expected to increase by £11.3m and £7.7m respectively. Capital repayments of lease liabilities will be classified to net cash used in financing activities, resulting in a neutral effect on the movement in cash and cash equivalents.

The adoption of IFRS 16 does not impact the Group's lending covenants, as these are currently based on frozen GAAP.

- d) None of the amendments to existing standards are expected to have a significant impact on the Financial Statements when they are adopted. IFRIC 23, which clarifies accounting for uncertainties in income taxes, is effective on 1 January 2019 and is not expected to have a significant impact on the Consolidated Financial Statements of the Group.

3. Segment information

The Group reports its segment information as two operating Divisions according to the market segments they serve, Aerospace and Flexonics, which is consistent with the oversight employed by the Executive Committee. The chief operating decision maker, as defined by IFRS 8, is the Executive Committee. For management purposes, the Aerospace Division is managed as two sub-divisions, Aerostructures and Fluid Systems; however, these are aggregated as one reporting segment in accordance with IFRS 8 as they serve similar markets and customers. The Flexonics Division is managed as a single division.

3. Segment information (continued)

Segment information for revenue, operating profit and a reconciliation to entity and profit after tax is presented below:

	2018				2017			
	Aerospace	Flexonics	Eliminations / central costs	Total	Aerospace	Flexonics	Eliminations / central costs	Total
	Year ended 2018 £m	Year ended 2018 £m	Year ended 2018 £m	Year ended 2018 £m	Year ended 2017 £m	Year ended 2017 £m	Year ended 2017 £m	Year ended 2017 £m
External revenue	759.4	322.7	-	1,082.1	724.7	298.7	-	1,023.4
Inter-segment revenue	1.0	0.2	(1.2)	-	0.6	0.1	(0.7)	-
Total revenue	760.4	322.9	(1.2)	1,082.1	725.3	298.8	(0.7)	1,023.4
Adjusted trading profit	80.4	26.1	(15.5)	91.0	76.6	20.0	(14.7)	81.9
Share of joint venture profit	-	0.6	-	0.6	-	0.7	-	0.7
Adjusted operating profit (note 4)	80.4	26.7	(15.5)	91.6	76.6	20.7	(14.7)	82.6
UK Guaranteed Minimum Pensions (note 4)	-	-	(2.4)	(2.4)	-	-	-	-
US class action lawsuits (note 4)	-	-	(3.9)	(3.9)	-	-	-	-
Amortisation of intangible assets from acquisitions	(8.3)	(7.1)	-	(15.4)	(8.5)	(8.6)	-	(17.1)
Operating profit	72.1	19.6	(21.8)	69.9	68.1	12.1	(14.7)	65.5
Investment income				0.6				0.2
Finance costs				(9.2)				(9.7)
Loss on disposal				-				(3.8)
Profit before tax				61.3				52.2
Tax				(11.2)				8.1
Profit after tax				50.1				60.3

Trading profit and adjusted trading profit is operating profit and adjusted operating profit respectively before share of joint venture profit. See note 4 for the derivation of adjusted operating profit.

3. Segment information (continued)

Segment information for assets and liabilities is presented below:

Assets	Year ended 2018 £m	Year ended 2017 £m
Aerospace	723.1	667.8
Flexonics	244.1	244.2
Segment assets for reportable segments	<u>967.2</u>	<u>912.0</u>
Unallocated		
Central	4.0	3.7
Cash	17.2	12.6
Deferred and current tax	5.1	2.6
Retirement benefits	30.9	19.4
Others	0.3	0.5
Total assets per Consolidated Balance Sheet	<u>1,024.7</u>	<u>950.8</u>
Liabilities	Year ended 2018 £m	Year ended 2017 £m
Aerospace	134.7	120.3
Flexonics	58.3	48.1
Segment liabilities for reportable segments	<u>193.0</u>	<u>168.4</u>
Unallocated		
Central	14.1	11.0
Debt	170.0	167.2
Finance leases	0.2	0.5
Deferred and current tax	63.8	55.5
Retirement benefits	12.4	14.7
Others	3.0	1.9
Total liabilities per Consolidated Balance Sheet	<u>456.5</u>	<u>419.2</u>

3. Segment information (continued)

Total revenue is disaggregated by market sectors as follows:

	Year ended 2018	Year ended 2017
	£m	£m
Civil Aerospace	563.6	533.4
Military Aerospace	125.6	123.6
Other	71.2	68.3
Aerospace	760.4	725.3
Land Vehicles	167.0	157.8
Power & Energy	147.8	133.3
Other	8.1	7.7
Flexonics	322.9	298.8
Eliminations	(1.2)	(0.7)
Total revenue	1,082.1	1,023.4

Other Aerospace comprises Space and Non-Military Helicopters and other markets, principally including semiconductor, medical, and industrial applications.

4. Adjusted operating profit and adjusted profit before tax

The presentation of adjusted operating profit and adjusted profit before tax measures, derived in accordance with the table below, has been included to identify the performance of the Group prior to the impact of amortisation of intangible assets from acquisitions, the UK Guaranteed Minimum Pensions charge, the costs associated with the US class action lawsuits and loss on disposal of the BWT Ilkeston facility. The Board has adopted a policy to separately disclose those items that it considers are outside the operating results for the particular year under review and against which the Board measures and assesses the performance of the businesses.

The adjustments are made on a consistent basis and also reflect how the business is managed on a day-to-day basis.

The amortisation charge relates to prior years' acquisitions. It is charged on a straight line basis and reflects a non-cash item for the reported year. The UK Guaranteed Minimum Pensions charge is isolated and one-off in nature. The US class action lawsuits relates to an historic legal matter. None of these charges, including the loss on the sale of BWT Ilkeston facility in the prior year, are reflective of in-year performance. They are therefore excluded by the Board when measuring the operating performance of the businesses.

	Year ended 2018 £m	Year ended 2017 £m
Operating profit	69.9	65.5
Amortisation of intangible assets from acquisitions	15.4	17.1
UK Guaranteed Minimum Pensions	2.4	-
US class action lawsuits	3.9	-
Adjusted operating profit	<u>91.6</u>	<u>82.6</u>
Profit before tax	61.3	52.2
Adjustments to profit before tax as above	21.7	17.1
Loss on disposal	-	3.8
Adjusted profit before tax	<u>83.0</u>	<u>73.1</u>

UK Guaranteed Minimum Pensions

In October 2018 the High Court ruled on the Guaranteed Minimum Pensions (GMPs) which requires an equalisation payment to be made to remedy historical discrimination and inequality between male and female members. GMP has widely been interpreted as the High Court instructing trustees to make amendments to pension schemes with any associated payments treated as past service costs (being a plan amendment i.e. change to benefits entitlement). Accordingly the resulting £2.4m charge has been taken through the Consolidated Income Statement and presented as an adjusted item, as it is one-off in nature, relates to past service costs and is therefore not reflective of in year performance.

US class action lawsuits

As previously reported, in March 2018 a wage and hour class action lawsuit was filed against Steico Industries, Inc and Senior Aerospace SSP in California, USA. This alleged breaches of regulations concerning meal and rest breaks, unpaid wages and related penalties covering the period 2014 to 2016. Mediations took place in the second half of 2018, resulting in a Company agreed settlement and related costs of £3.9m, charged to the Consolidated Income Statement, of which £0.2m was paid in 2018. At 31 December 2018 the carrying amount was a provision of £3.9m which included an adverse exchange effect of £0.2m. The charge has been reported as an adjusted item given its nature and materiality and the fact that it is related to prior years and not reflective of in year performance. Court approval of the settlements for both lawsuits is expected in the second half of 2019.

5. Taxation

	Year ended 2018 £m	Year ended 2017 £m
Current tax:		
Current year	11.7	11.8
Adjustments in respect of prior periods	(6.3)	(5.7)
	<u>5.4</u>	<u>6.1</u>
Deferred tax:		
Current year	4.5	(15.5)
Adjustments in respect of prior periods	1.3	1.3
	<u>5.8</u>	<u>(14.2)</u>
Total tax charge/(credit)	<u>11.2</u>	<u>(8.1)</u>

The adjusted tax rate for the year was 19.0% (2017 – 17.5%), being a tax charge of £15.8m (2017 - £12.8m) on adjusted profit before tax of £83.0m (2017 - £73.1m). The increase in rate is attributed to changes in the tax treatment of items in the US following the enactment of the US Tax Cuts and Jobs Act in December 2017, which outweigh the positive benefit from the cut in the US Federal corporate income tax rate.

The reported tax rate was 18.3% charge (2017 – 15.5% credit), being a tax charge of £11.2m (2017 - £8.1m credit) on reported profit before tax of £61.3m (2017 - £52.2m). The reported tax charge for the year included the tax credit on items excluded from adjusted operating profit of £4.6m (2017 - £4.9m), and an exceptional non-cash tax credit related to US tax reform of £nil (2017 - £16.0m).

Cash tax paid was £6.0m (2017 - £4.9m) and is stated net of refunds received of £2.0m (2017 - £1.9m) of tax paid in prior periods. The rate of cash tax paid is lower than our adjusted tax rate in both years due to accelerated tax relief for capital expenditure in the US, other timing differences and tax deductible items that do not affect adjusted profit.

6. Dividends

	Year ended 2018 £m	Year ended 2017 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2017 of 4.90p (2016 – 4.62p) per share	20.5	19.4
Interim dividend for the year ended 31 December 2018 of 2.19p (2017 - 2.05p) per share	9.1	8.5
	<u>29.6</u>	<u>27.9</u>
Proposed final dividend for the year ended 31 December 2018 of 5.23p (2017 – 4.90p) per share	<u>21.8</u>	<u>20.5</u>

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting for 2018 on 26 April 2019 and has not been included as a liability in the Financial Statements.

7. Earnings per share

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

Number of shares	Year ended 2018 million	Year ended 2017 million
Weighted average number of ordinary shares for the purposes of basic earnings per share	417.8	418.9
Effect of dilutive potential ordinary shares:		
Share options	5.7	2.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share	423.5	421.8

Earnings and earnings per share	Year ended 2018		Year ended 2017	
	Earnings £m	EPS pence	Earnings £m	EPS pence
Profit for the period	50.1	11.99	60.3	14.39
Adjust:				
Amortisation of intangible assets from acquisitions net of tax of £3.2m (2017 - £4.5m)	12.2	2.93	12.6	3.01
UK Guaranteed Minimum Pensions net of tax of £0.4m (2017 - £nil)	2.0	0.47	-	-
US class action lawsuits net of tax of £1.0m (2017 - £nil)	2.9	0.69	-	-
Loss on disposal net of tax of £nil (2017 - £0.4m)	-	-	3.4	0.81
Exceptional non-cash tax credit of £nil (2017 - £16.0m)	-	-	(16.0)	(3.82)
Adjusted earnings after tax	67.2	16.08	60.3	14.39
Earnings per share				
- basic		11.99p		14.39p
- diluted		11.83p		14.30p
- adjusted		16.08p		14.39p
- adjusted and diluted		15.87p		14.30p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2017 - £nil).

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

The presentation of adjusted earnings per share, derived in accordance with the table above, has been included to identify the performance of the Group prior to the impact of amortisation of intangible assets from acquisitions, the UK Guaranteed Minimum Pensions charge, the costs associated with the US class action lawsuits, loss on disposal of the BWT Ilkeston facility and exceptional non-cash tax credit. The Board has adopted a policy to separately disclose those items that it considers are outside the earnings for the particular year under review and against which the Board measures and assesses the performance of the businesses.

The adjustments are made on a consistent basis and also reflect how the business is managed on a day-to-day basis.

The amortisation charge relates to prior years' acquisitions. It is charged on a straight line basis and reflects a non-cash item for the reported year. The UK Guaranteed Minimum Pensions charge is isolated and one-off in nature. The US class action lawsuits relates to an historic legal matter. None of these charges, including the loss on the sale of BWT Ilkeston facility and exceptional non-cash tax credit in the prior year, are reflective of in-year performance. They are therefore excluded by the Board when measuring the earnings of the businesses.

8. Goodwill

Goodwill increased by £10.5m during the year to £312.9m (2017 - £302.4m) due to exchange translation differences.

9. Property, plant and equipment

During the period, the Group spent £54.6m (2017 - £52.3m) on the acquisition of property, plant and equipment. The Group also disposed of property, plant and equipment with a carrying value of £0.9m (2017 - £1.6m) for proceeds of £0.5m (2017 - £1.8m).

10. Share capital

Share capital as at 31 December 2018 amounted to £41.9m. No shares were issued during 2018. 1,832 shares were issued during 2017.

11. Notes to the Consolidated Cash Flow statement

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

	Year ended 2018 £m	Year ended 2017 £m
Operating profit	69.9	65.5
Adjustments for:		
Depreciation of property, plant and equipment	39.5	38.8
Amortisation of intangible assets	17.4	19.1
Loss/(profit) on sale of fixed assets	0.4	(0.2)
Share-based payment charges	3.4	1.9
Pension payments in excess of service cost	(10.3)	(9.7)
Costs on disposal	-	(0.8)
Pension curtailment gain	(0.4)	-
UK Guaranteed Minimum Pensions	2.4	-
Share of joint venture	(0.6)	(0.7)
Increase in inventories	(16.8)	(7.9)
Increase in receivables	(7.6)	(7.6)
Increase in payables and provisions	13.3	27.9
US class action lawsuits	3.7	-
Working capital and provisions currency movements	1.7	(0.5)
Cash generated by operations	116.0	125.8
Income taxes paid	(6.0)	(4.9)
Interest paid	(9.3)	(10.0)
Net cash from operating activities	100.7	110.9

11. Notes to the Consolidated Cash Flow statement (continued)

b) Free cash flow

Free cash flow, a non-statutory item, enhances the reporting of the cash-generating ability of the Group prior to corporate activity such as acquisitions, disposals, financing and transactions with shareholders. It is used as a performance measure by the Board and Executive Committee and is derived as follows:

	Year ended 2018 £m	Year ended 2017 £m
Net cash from operating activities	100.7	110.9
Interest received	0.4	0.4
Proceeds on disposal of property, plant and equipment	0.5	1.8
Purchases of property, plant and equipment	(54.6)	(52.3)
Purchases of intangible assets	(1.7)	(2.5)
Free cash flow	<u>45.3</u>	<u>58.3</u>

c) Analysis of net debt

	At 1 Jan 2018 £m	Cash £m	Exchange movement £m	At 31 Dec 2018 £m
Cash and bank balances	12.6	3.6	1.0	17.2
Overdrafts	(2.9)	2.7	-	(0.2)
Cash and cash equivalents	<u>9.7</u>	<u>6.3</u>	<u>1.0</u>	<u>17.0</u>
Debt due within one year	(57.6)	56.8	(1.7)	(2.5)
Debt due after one year	(106.7)	(54.4)	(6.2)	(167.3)
Finance leases	(0.5)	0.3	-	(0.2)
Foreign exchange contracts - held for trading	(0.2)	-	0.2	-
Total	<u>(155.3)</u>	<u>9.0</u>	<u>(6.7)</u>	<u>(153.0)</u>

	Year ended 2018 £m	Year ended 2017 £m
Cash and cash equivalents comprise:		
Cash and bank balances	17.2	12.6
Bank overdrafts	(0.2)	(2.9)
Total	<u>17.0</u>	<u>9.7</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the Consolidated Balance Sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

12. Retirement benefit schemes

Defined Benefit Schemes

Aggregate retirement benefit liabilities are £12.4m and the aggregate retirement benefit surplus is £30.9m (2017 - £14.7m liabilities, £19.4m surplus). The primary components of these liabilities and surplus are the Group's UK and US defined benefit pension schemes, with a surplus of £30.9m (2017 – surplus of £19.4m) and deficit of £5.2m (2017 - £7.2m) respectively, and a liability on unfunded schemes of £7.2m (2017 - £7.5m). These values have been assessed by independent actuaries using current market values and discount rates.

The retirement benefit surplus in respect of the Group's UK defined benefit pension funded scheme increased by £11.5m to £30.9m (31 December 2017 - £19.4m), principally due to £8.2m cash contributions in excess of running costs made by the Group and £5.1m net actuarial gains mainly relating to changes in financial and demographic assumptions offsetting adverse returns from scheme assets, partly offset by the past service charge relating to Guaranteed Minimum Pensions of £2.4m. Retirement benefit obligations in respect of the US and other territories decreased by £2.3m to £12.4m (31 December 2017 - £14.7m).

13. Investment in joint venture

The Group has a 49% interest in Senior Flexonics Technologies (Wuhan) Limited, a jointly controlled entity incorporated in China which was set up in 2012. The Group's investment of £3.0m (2017 - £2.4m) represents the Group's share of the joint venture's net assets as at 31 December 2018.

At the year end the Group had provided loans of £nil (2017 - £0.5m) to the joint venture, £nil (2017 - £0.2m) is reported as a current asset and £nil (2017 - £0.3m) as a non-current asset.

During the year, £0.5m of the loans were repaid (2017 - £0.3m repaid), with £nil of foreign exchange losses.

14. Disposal and assets held for sale

During the first half of 2018, the sale agreement that the Group had entered into to dispose of a property (land and building) in the Senior Flexonics Bartlett operation did not complete and the property is no longer marketed for sale. As a result, the property has been re-classified from held for sale as at 31 December 2017 into property, plant and equipment as at 31 December 2018. The net book value of the property at 31 December 2018 was £3.5m (31 December 2017 - £3.9m).

On 9 September 2017, the Group sold the BWT Ilkeston facility. The sale enabled management to have greater focus on opportunities in its core activities. A loss of £3.8m arose on disposal after taking into account exit costs together with fair value of net assets disposed (£4.2m including £0.9m of inventories, £0.7m of property, plant and equipment and £1.7m of goodwill), offset by cash consideration of £0.4m.

15. Contingent liabilities

Contingent liabilities exist in respect of guarantees provided by the Group in the ordinary course of business for product delivery, performance and reliability. Various Group undertakings are parties to legal actions or claims which arise in the ordinary course of business, some of which could be for substantial amounts. In May 2015, Senior Aerospace Ketema was named as co-defendant in a putative class action lawsuit and a related lawsuit alleging property damage filed against Ametek, Inc. in the USA. Subsequently, Senior Aerospace Ketema was named as a co-defendant in a number of similar lawsuits filed by additional plaintiffs. Each of the lawsuits claim that Ametek had polluted the groundwater during its tenure as owners of the site where Senior Aerospace Ketema is currently located, allegedly causing harm to neighbouring properties and/or creating health risks. On 16 November 2017, the European Commission published its preliminary decision on the Group Financing Exemption in the UK's Controlled Foreign Company legislation, finding that the legislation is in breach of the EU State Aid rules. Like many other multinational groups that have acted in accordance with this UK legislation, the Group may be affected by the final outcome of this investigation. While the outcome of some of these matters cannot precisely be foreseen, the Directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made where appropriate, to result in significant loss to the Group.

16. Subsequent events

On 15 February 2019, the Group sold its Flexonics operating company in France, Senior Flexonics Blois SAS ("Blois"). The sale enables management to have greater focus on opportunities in its core activities and to deploy capital in other parts of the Group with higher returns. For the financial year ended 31 December 2018, Blois external revenue was £19.6m and it incurred an operating loss of £0.9m.

The financial effect of this transaction is being processed. Currently, the loss on disposal is estimated to be in the range of £6m to £8m, after taking into account the fair value of net assets disposed and an initial estimate of the cost of disposal offset by an initial cash consideration and the previously recorded foreign exchange gain that will be recycled to the Consolidated Income Statement. The actual loss on disposal is subject to change from this estimate as costs of disposal are incurred and deferred consideration received. This one-off charge will be presented separately as an adjusting item in the Consolidated Income Statement for the year ending 31 December 2019.