Senior plc

senior

Interim Results for the half-year ended 30 June 2019

Growth in adjusted profit and EPS; Board expects to meet current expectations for 2019

FINANCIAL HIGHLIGHTS	Half-year to 30 June			
	2019	2018	change	change (constant currency)[4]
REVENUE	**£580.4m**	£523.3m	**+11%**	**+6%**
OPERATING PROFIT	**£39.2m**	£35.8m	**+9%**	**+3%**
ADJUSTED OPERATING PROFIT [1]	**£46.2m**	£43.4m	**+6%**	**+1%**
ADJUSTED OPERATING MARGIN [1]	**8.0%**	8.3%	**-30bps**	**-40bps**
PROFIT BEFORE TAX	**£26.5m**	£31.4m	**-16%**	
ADJUSTED PROFIT BEFORE TAX [1]	**£40.7m**	£39.0m	**+4%**	
BASIC EARNINGS PER SHARE	**4.81p**	5.90p	**-18%**	
ADJUSTED EARNINGS PER SHARE [1]	**7.84p**	7.36p	**+7%**	
INTERIM DIVIDEND PER SHARE	**2.28p**	2.19p	**+4%**	
FREE CASH FLOW [2]	**£13.2m**	£32.2m	**-59%**	
NET DEBT post IFRS 16 [2] – 30 JUNE 2019 / 1 JANUARY 2019	**£268.3m**	£249.1m	**£19m**	**Net Debt / EBITDA 1.2x**
ROCE post IFRS 16[3]	**11.7%**	11.5%	**+20bps**	

Headlines

- Half year 2019 Group trading in line with expectations
- 4% increase in adjusted profit before tax; 7% increase on a consistent post IFRS 16 basis
- Free cash inflow of £13.2m after investing £35.0m in capital expenditure for future growth
- Interim dividend increased by 4% to 2.28 pence per share
- The Board expects to meet current expectations for 2019

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

"Trading at the Group level in the first half of 2019 has been in line with expectations. Notwithstanding the reported 737 MAX production rate cuts and the ongoing uncertainty around the current geopolitical and macro-economic backdrop, overall the Board expects to meet current expectations for 2019.

Looking ahead, the Group is working to minimise the impact of the risk associated with the challenges described, with a renewed focus on cost and efficiencies. The Group is well-positioned, operating in attractive end markets and is financially robust. The Board remains confident of improving performance and returns for our shareholders."

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

(1) Adjusted figures are stated before a £7.0m charge for amortisation of intangible assets from acquisitions (H1 2018: £7.6m). Adjusted profit before tax is also stated before loss on disposal of £7.2m (H1 2018 - £nil). Adjusted earnings per share takes account of the tax impact of these items. See notes 4 and 7 for further information.

(2) See notes 12b) and 12c) for derivation of free cash flow and of net debt, respectively and note 19 for the IFRS 16 transitional impact on net debt on 1 January 2019.

(3) Return on capital employed ("ROCE") is derived from annual adjusted operating profit (as defined in note 4) divided by the average of the capital employed at the start and end of that twelve-month period, capital employed being total equity plus net debt (as derived in note 12c)). The effect of IFRS 16 on these figures prior to 2019 has been reflected by applying the transitional and annual impact that was disclosed in the Group's Annual Report & Accounts 2018 (Note 2c)).

(4) H1 2018 results translated using H1 2019 average exchange rates - constant currency.

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 Group's principal exchange rate for the US Dollar applied in the translation of 2019 first-half income statement and cash flow items at average rates was $1.29 (H1 2018: $1.38) and applied in the translation of balance sheet items at 30 June 2019 was $1.27 (December 2018: $1.28, June 2018: $1.32).

Webcast

There will be a presentation on Monday 5 August 2019 at 11.00am BST, 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 Interim Management Report ("IMR") has been prepared solely to provide additional information to enable shareholders to assess the Group's strategy and business objectives and the potential for the strategy and objectives to be fulfilled. It should not be relied upon by any other party or for any other purpose.

This IMR contains certain forward-looking statements. Such statements have been made by the Directors in good faith based on information available to them at the time of their approval of this Report. These statements should therefore be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking information.

INTERIM MANAGEMENT REPORT 2019

Overview

Trading across the Group in the first half of 2019 has been in line with expectations with growth in adjusted profit before tax of 4.4% and growth in adjusted earnings per share of 6.5%. Return on capital employed increased by 20 basis points to 11.7% as at 30 June 2019.

Group revenue increased by 10.9% to £580.4m (H1 2018: £523.3m). Excluding the favourable exchange rate impact of £22.4m, Group revenue was up £34.7m (6.4%) on a constant currency basis with growth in Aerospace partly offset by the expected decrease in Flexonics. The Group's book to bill ratio was slightly over 1.0x. Revenue growth in the Aerospace Division was driven by both the civil aerospace and defence markets. The Group was able to mitigate some of the 737 MAX revenue impact through stronger sales on other civil and military programmes. Revenue in the Flexonics Division decreased compared to prior year due to the sale of Senior Flexonics Blois SAS ("Blois") in February 2019 and softer demand in some of our land vehicle and industrial 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 £2.8m (6.5%) to £46.2m (H1 2018: £43.4m). Excluding the favourable exchange rate impact of £2.3m, adjusted operating profit increased by 1.1% on a constant currency basis. The Group's adjusted operating margin decreased by 30 basis points to 8.0%. As expected, the operating margin in the Aerospace Division was lower as increases from operational efficiencies and learning curve improvements were offset by the impact of the 737 MAX production rate decrease, volume reduction on mature programmes and the costs associated with the introduction and industrialisation of new programmes including the start-up of our second facility in Malaysia. The Flexonics Division delivered operating margin improvement as a consequence of our continued focus on cost management and efficiency initiatives, coupled with our "prune to grow" strategy.

Net finance costs increased by £1.1m to £5.5m (H1 2018: £4.4m) with an underlying decrease offset by £1.8m increase related to adoption of IFRS 16 Leases. Adjusted profit before tax increased by 4.4% to £40.7m (H1 2018: £39.0m) and on an IFRS 16 like-for-like basis, it increased 7%. Adjusted earnings per share increased by 6.5% to 7.84 pence (H1 2018: 7.36 pence).

Reported operating profit was £39.2m (H1 2018: £35.8m), reported profit before tax was £26.5m (H1 2018: £31.4m) and basic earnings per share was 4.81 pence (H1 2018: 5.90 pence).

The Group generated free cash inflow of £13.2m (H1 2018: £32.2m) after gross investment in capital expenditure of £35.0m (H1 2018: £22.0m). The reduction in free cash flow compared to prior year was mostly due to higher investment in capital expenditure to support future growth, including our facility expansions, and higher working capital. Working capital remained under our target of 15% of sales at 14.9% of sales at the end of June 2019 (December 2018: 14.4%). The increase in working capital of £13.2m in the period was partly as a consequence of the 737 MAX situation and partly to support new product introductions. The level of net debt at the end of June 2019 was £268.3m (December 2018: £153.0m). The adoption of IFRS 16 from 1 January 2019 increased opening net debt by £96.1m. The rest of the increase in net debt was principally due to £21.7m dividend payments, £6.3m purchase of shares by the employee benefit trust and £2.3m outflow with the disposal of Blois partly offset by the free cash inflow of £13.2m. The adoption of IFRS 16 does not impact the Group's lending covenants as these are currently based on frozen GAAP and on this basis, the ratio of net debt to EBITDA at the end of June 2019 was 1.2x.

Return on capital employed (ROCE) increased by 20 basis points to 11.7% (H1 2018: 11.5%, on a post IFRS 16 basis) and was in excess of the Group's cost of capital. The increase in ROCE was achieved through the improvement in adjusted operating profit for the last 12 months compared to prior year, which offset the increase in capital employed as a result of investments for future growth.

The Board has approved an interim dividend of 2.28 pence per share, an increase of 4.1% over the prior year (H1 2018: 2.19 pence). It will be paid on 29 November 2019 to shareholders on the register at the close of business on 1 November 2019.

Market conditions

The outlook for the civil aerospace market remains positive as new, more efficient, aircraft programmes continue to ramp-up in production. Nevertheless, this sector has been impacted by the grounding of the 737 MAX fleet following the Lion Air and Ethiopian Airlines tragic air accidents. Boeing subsequently cut production rates on the 737 MAX programme from 52 airplanes per month to 42 per month, in mid-April, instead of increasing to rate 57 as had been planned.

For the first five months of 2019, IATA reported air traffic growth of 4.5% and demand for new aircraft remains robust with Boeing, Airbus and independent forecasters continuing to predict air traffic growth in excess of 4% per annum over the next 20 years.

2019 is the peak transition year with the largest increase in production of newer aircraft platforms and a similar large decrease in production of mature aircraft platforms. In the first half of 2019, production of the A320neo, 787, A350 and A220 ramped up and as anticipated, production of the classic 737, A320, A330, 777 and A380 ramped-down. Following the entry into service in November 2018, Airbus delivered 13 A330neos in the first half of 2019. Boeing have advised that the 777X first flight will be in early 2020 and first delivery is scheduled for the end of 2020 albeit there is some risk to that schedule. Mitsubishi Aircraft rebranded the former MRJ90 as the SpaceJet M90 and announced details of the stretched MRJ70 redesign, which will now be called the M100 with a predicted entry into service of 2023. The Bombardier Global 7500 was awarded certification by EASA in February 2019 and 3 aircraft were delivered in the first half of 2019.

In the defence sector, market growth has been primarily driven by the ramp up of the F-35 Joint Strike Fighter. Longer term growth will be supported by further increases in the F-35 programme as well as new programmes such as the CH-53K King Stallion helicopter and the USAF T-X trainer. These programmes are expected to grow significantly, while the near-term outlook for the C-130 transport aircraft and UH-60 Black Hawk helicopter programmes continue to be reaffirmed.

Our Flexonics Division end markets are less certain and somewhat dependent on macroeconomic and geopolitical factors such as the ongoing trade discussions between the US and China. Market production of North American heavy-duty diesel trucks increased 20% in the first half of 2019 compared to first half of 2018 which helped to offset softness in off highway markets. Industry analysts are currently forecasting a low level of production growth in the North American heavy-duty diesel trucks market in 2019, with the growth in the first half of the year partly offset by a decrease in the second half of the year. For the upstream oil and gas markets, as anticipated, output was restricted in the first half of 2019 due to infrastructure constraints. While new oil pipelines have been installed, work is ongoing around the associated natural gas infrastructure and the US rig count has decreased 10% in the first half of 2019. Downstream oil and gas activity remained stable.

Delivery of Group Strategy

Senior is focused on delivering improved returns for shareholders and is targeting ROCE of 13.5% over the medium term. The Group benefits from its balance between Aerospace and Flexonics, drawing on shared technology and intellectual property in its fluid conveyance businesses. 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.

The Group continues to make good progress against our six strategic priorities which were identified as key elements of our business model, underpinning the continued delivery of improved 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.

We continue to implement and deliver our specific plans for 2019 which we laid out on pages 14 and 17 of the Annual Report & Accounts 2018. We will give a full update on these when we announce our full year 2019 results.

In February 2019, the Group sold its French Flexonics land vehicle business, Senior Flexonics Blois SAS ("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.

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 and capabilities for both our Aerospace and Flexonics businesses. In the first half of 2019:

- Our second Aerospace facility in Malaysia was officially opened in June 2019.
- To support planned growth, construction is continuing for the expansion of the Aerospace Fluid Systems Metal Bellows facility in Massachusetts and is expected to complete in the first quarter of 2020.
- Our plans to relocate our Flexonics Crumlin operation in South Wales to a new dedicated, design and development centre are continuing. We anticipate construction to commence towards the end of 2019.
- We continue to invest in our Advanced Additive Manufacturing Centre in Burbank, California.

We are in a period which is unprecedented in the scale of its transition from mature aircraft programmes to newer aircraft programmes, with 2019 being the peak year of transition. Senior has been working hard to ensure that we maximise our content on these new aircraft programmes, hence the high levels of new product introduction and industrialisation activity. In the first half of 2019 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 are making satisfactory progress in line with our plans and as expected, industrialisation costs remain high in 2019. We continue to see improving returns in those businesses where new product introduction and industrialisation activity is near completion. Naturally, those businesses with ongoing high levels of new product introduction and industrialisation activity have significant opportunities for improvement.

As we have outlined consistently, any new work packages that we take on meet our return on capital targets and are in line with our capital deployment strategy. Similarly, when bidding for renewals of existing work we ensure our pricing discipline is firm, preferring to forego sales if the returns are not sufficient to meet our expectations.

Our operating businesses are working hard to mitigate the impact of the rate cut on the 737 MAX programme by Boeing, for example by substituting sales in those businesses that have strong order cover. As highlighted in the April trading update, our Senior Aerospace AMT (“AMT”) business in the Seattle area, which is our Structures Division’s largest business and has the largest content within Senior on the 737 MAX, is unable to fully mitigate the rate cut to 42 airplanes per month. AMT, having secured a high level of new content on the Boeing 777X, is already absorbing high new product introduction and industrialisation costs as that platform moves closer to entry into service. Our current working assumption is that rate 42 will now continue until at least the end of 2019. As a consequence we expect there to be some ongoing impact on Aerospace margins for 2019 and we will continue to take steps across the Group as necessary to mitigate this.

Outlook

Trading at the Group level in the first half of 2019 has been in line with expectations. Notwithstanding the reported 737 MAX production rate cuts and the ongoing uncertainty around the current geopolitical and macro-economic backdrop, overall the Board expects to meet current expectations for 2019.

In the second half we expect to make progress across our Aerospace division however we continue to monitor the developments on the 737 MAX situation closely. While we have yet to receive definitive information from Boeing about how long rate 42 per month build rate will be in place, our current working assumption is that rate 42 will now continue until at least the end of 2019. Despite this, we expect to maintain Aerospace margins at a similar level in the second half of the year compared to the first half of the year.

The outlook for our Flexonics Division remains consistent with the position set out in the announcement of 4 March 2019 and for the full year we continue to expect margin progression in this Division to offset the sales decline.

Looking ahead, the Group is working to minimise the impact of the risk associated with the challenges described, with a renewed focus on cost and efficiencies. The Group is well-positioned, operating in attractive end markets and is financially robust. The Board remains confident of improving performance and returns for our shareholders.

DIVISIONAL REVIEW

Aerospace Division

The Aerospace Division represents 74% (H1 2018: 69%) 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 H1 2018 results have been translated using H1 2019 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 are summarised below:

	Half-year ended 30 June 2019	Half-year ended 30 June 2018 [(1)]	Change
	£m	£m	
Revenue	**431.2**	381.4	+13.1%
Adjusted operating profit	**38.9**	39.9	-2.5%
Adjusted operating margin	**9.0%**	10.5%	-150bps

(1) H1 2018 results translated using H1 2019 average exchange rates - constant currency.

Divisional revenue increased by £49.8m (13.1%) to £431.2m (H1 2018: £381.4m) and adjusted operating profit decreased by £1.0m (2.5%) to £38.9m (H1 2018: £39.9m).

Revenue Reconciliation	**£m**
H1 2018 revenue	381.4
Civil	40.7
Military	13.9
Other	(4.8)
H1 2019 revenue	431.2

Senior's sales in the civil aerospace sector increased by 14.5% during the six-month period to 30 June 2019. The Group benefited from increased production of the A320neo, A350, 787, A220 and E190 - E2; however, these increases were partly offset by the decline in build rates of the 777, A330, A380 and the current engine versions of the 737, A320 and ERJ 190/195. The Group's direct sales to Boeing on the 737 MAX were impacted from the production rate decrease from mid-April 2019; however, we were able to mitigate some of this revenue impact at businesses that had strong order cover on other programmes.

Total revenue from the military and defence sector increased by 23.0% during the period, primarily due to the ramp-up of the Joint Strike Fighter and higher demand for other defence products.

Around 8% of the Aerospace Division's revenue was derived from other markets such as space, non-military helicopters, power and 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 decreased by £4.8m, due to lower revenue from space and lower demand from the semi-conductor equipment market.

As anticipated, the divisional adjusted operating margin decreased by 150 basis points to 9.0% (H1 2018: 10.5 %). Whilst margins benefitted in increases from operational efficiencies and learning curve improvements, these were offset by volume reductions on mature programmes such as the 777, A330, A380 and the current engine versions of the 737 and A320 and the costs associated with the introduction and industrialisation of new programmes, including the start-up of our second facility in Malaysia. Margins were also impacted by the 737 MAX production rate decrease as noted in the Operational review above.

In the second half we expect to make progress across our Aerospace division however, we continue to monitor the developments on the 737 MAX situation closely. While we have yet to receive definitive information from Boeing about how long rate 42 per month build rate will be in place, our current working assumption is that rate 42 will now continue until at least the end of 2019. Despite this, we expect to maintain Aerospace margins at a similar level in the second half of the year compared to the first half of the year.

Flexonics Division

The Flexonics Division represents 26% (H1 2018: 31%) of Group revenue and consists of 13 operations which are located in North America (four), continental Europe (two), the United Kingdom (two), South Africa, India, Brazil, Malaysia, and China where the Group has a 49% equity stake in a land vehicle joint venture. This Divisional review is on a constant currency basis, whereby H1 2018 results have been translated using H1 2019 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 are summarised below:

	Half-year ended 30 June 2019	Half-year ended 30 June 2018 [(1)]	Change
	£m	£m	
Revenue	**149.6**	165.1	-9.4%
Adjusted operating profit	**14.4**	13.3	+8.3%
Adjusted operating margin	**9.6%**	8.1%	+150bps

(1) H1 2018 results translated using H1 2019 average exchange rates - constant currency.

Divisional revenue decreased by £15.5m (9.4%) to £149.6m (H1 2018: £165.1m) and adjusted operating profit increased by £1.1m (8.3%) to £14.4m (H1 2018: £13.3m).

Revenue Reconciliation	**£m**
H1 2018 revenue	165.1
Land vehicles	(7.1)
Power & energy	-
Blois disposal	(8.4)
H1 2019 revenue	149.6

As previously stated, we sold the Flexonics operating business in France, Senior Flexonics Blois SAS ("Blois"), on 15 February 2019. Blois' main end market was European passenger vehicles and the sale enables us to have greater focus on our core activities and to deploy capital in other parts of the Group with higher returns.

Group sales to land vehicles markets decreased by 9.3%. Senior's sales to the North American truck and off-highway market decreased by £3.8m (8.8%), primarily due to lower sales of EGR coolers as off-highway production decreased, partly offset by increased sales to the North American truck market. Sales to the rest of world truck and off-highway markets decreased by £0.9m (6.4%) as growth from the ramp-up of new programmes in India was offset by lower sales to China. Group sales to passenger vehicle markets decreased by £2.4m (12.5%) in the period, reflecting lower end market demand.

In the Group's power & energy markets, sales were flat in the period. Sales to oil and gas markets decreased by £3.0m (8.8%), primarily due to decreased drilling activity in upstream oil and gas related markets, while downstream oil and gas benefitted from increased repair and overhaul activity due to the spring outage season. Sales to power generation markets increased by £2.4m (12.1%) due to higher nuclear sales. Sales to other markets increased by £0.6m.

The adjusted operating margin increased by 150 basis points to 9.6% (H1 2018: 8.1%), due to higher revenue from downstream oil and gas repair and overhaul activity coupled with benefits from our focus on cost management and efficiency initiatives and the disposal of Blois.

Our Flexonics Division end markets remain less certain and somewhat dependent on macro-economic and geopolitical factors including 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 diesel trucks in 2019, with growth in the first half of the year partly offset by a decrease in the second half of the year. For the upstream oil and gas market, as anticipated, output was restricted in the first half of 2019 due to infrastructure constraints and the US rig count decreased 10% since the start of the year. While new oil pipelines have been installed, work is ongoing around the associated natural gas infrastructure. Downstream oil and gas activity remains stable, with the first half benefitting from increased repair and overhaul activity in the spring outage season.

As set out in the announcement of 4 March 2019, for the full year we continue to expect margin progression in this Division to offset the sales decline.

Looking further ahead, 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

IFRS 16 Leases

Effective for annual periods beginning 1 January 2019, IFRS 16 Leases has replaced 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), with optional application for those leases with a term of 12 months or less where the underlying asset is low value. The adoption of IFRS 16 Leases and its effect on the financial reporting of the Group was reviewed in detail in the Annual Report & Accounts 2018.

As at 30 June 2019 the Group's right of use assets were £93.8m (1 January 2019: £96.7m) and lease liabilities were £94.2m (1 January 2019: £96.3m). In the six-month period to 30 June 2019, depreciation on the right of use assets was £4.8m while interest incurred against lease liabilities was £1.8m. These charges to the Consolidated Income Statement were partly offset by operating lease rentals costs of £5.5m that are no longer expensed to the Consolidated Income Statement.

The adoption of IFRS 16 does not impact the Group's lending covenants as these are currently based on frozen GAAP. There is no impact on the underlying cash flows associated with our lease agreements.

Finance costs and investment income

Total finance costs, net of investment income, increased to £5.5m (H1 2018: £4.4m) and comprise IFRS 16 interest charge on lease liabilities of £1.8m (H1 2018: not applicable), net finance income on retirement benefits of £0.4m (H1 2018: £0.1m) and net interest charge of £4.1m (H1 2018: £4.5m).

Tax charge

The adjusted tax rate for the period was 19.9% (H1 2018: 21.0%), being a tax charge of £8.1m (H1 2018: £8.2m) on adjusted profit before tax of £40.7m (H1 2018: £39.0m). After including the tax benefit of £1.5m (H1 2018: £1.5m) arising from amortisation of intangible assets from acquisitions and £0.1m (H1 2018: £nil) arising from the loss on disposal, the reported tax charge was £6.5m (H1 2018: £6.7m) resulting in a reported tax rate of 24.5% (H1 2018: 21.3%) on profit before tax. The adoption of IFRIC 23 has resulted in the recognition of tax liabilities and interest thereon of £4.8m which have been recognised through opening reserves.

Earnings per share

The weighted average number of shares, for the purposes of calculating undiluted earnings per share, reduced to 415.8 million (H1 2018: 418.6 million). The reduction arose principally from the timing of purchases of shares by the employee benefit trust to satisfy anticipated future share awards. Adjusted earnings per share increased by 6.5% to 7.84 pence (H1 2018: 7.36 pence). Basic earnings per share decreased by 18.5% to 4.81 pence (H1 2018: 5.90 pence). See note 7 for details of the basis of these calculations.

Working capital

Working capital increased by £13.2m in the first half of the year to £169.3m (31 December 2018: £156.1m) to support new product introductions and as a consequence of the 737 MAX situation. Working capital as a percentage of sales increased by 50 basis points from 14.4% at 31 December 2018 to 14.9% at 30 June 2019, principally due to increases of 90 basis points from receivables in excess of payables, partly offset by 40 basis points reduction from exchange and other differences. As previously advised, working capital is expected to be around 15% of sales for the full year 2019.

Capital expenditure

Capital expenditure of £35.0m (H1 2018: £22.0m) was 1.6 times depreciation (excluding impact of IFRS 16), (H1 2018: 1.1 times), with the majority of investment related to growth programmes in the Aerospace Division including our second facility in Malaysia, the expansion of our Metal Bellows facility in Massachusetts and our technology investment in our Advanced Additive Manufacturing Centre. Capital expenditure is expected to be 1.6 times depreciation (excluding impact of IFRS 16), in the second half of the year, as previously advised, as investments continue to support these facility expansions and future growth programmes already won.

Retirement benefit schemes

In the six-month period to 30 June 2019, the retirement benefit surplus in respect of the Group's UK defined benefit pension plan decreased by £0.9m to £30.0m (30 June 2018: £34.0m; 31 December 2018: £30.9m), due to net actuarial loss of £5.5m partly offset by £4.1m cash contributions in excess of running costs made by the Group and £0.5m net interest income. Retirement benefit deficits in respect of the US and other territories decreased by £3.0m to £9.4m (30 June 2018: £13.8m; 31 December 2018: £12.4m), principally due to the disposal of Blois whose retirement benefit liability was £1.7m and cash contributions in excess of service costs made by the Group of £0.9m.

Refinancing

In February 2019, the Group refinanced its main UK revolving credit facilities of £80.0m, comprising £20.0m that had been due to mature in March 2019 and £60.0m that had been due to mature in November 2021, by increasing the committed facilities to £120.0m and extending the maturity to February 2024.

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.

Going concern basis

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Risks and uncertainties

During the first half of 2019 the principal risks and uncertainties faced by the Group have been reassessed. Following this review, the Group's principal risks and uncertainties remain unchanged from those set out in detail on pages 23 to 25 of the Annual Report & Accounts 2018 (available at www.seniorplc.com). The Group's principal risks and uncertainties as at 30 June 2019 and for the remaining six months of the financial year are summarised as:

Risks and Uncertainties	Descriptions
Supply Chain	Significant shipset content has been secured on a number of new aircraft platforms currently under development or in initial phases of production. As new aircraft platforms begin to ramp-up and end markets grow, the business and/or the supply chain is facing challenges in meeting demand due to capacity constraints and/or quality issues. Delays in the ramp-up in production of new platforms could have a material adverse impact on the Group's rate of organic growth.
Price-down pressures	Customer pricing pressure is an ongoing challenge within our industries, driven by the expectations of original equipment manufacturers, airlines, land vehicle operators and governments seeking to purchase more competitively priced products in the future. This may put some pressure on the Group's future operating margins.
Acquisitions	Failure to execute an effective acquisition and integration programme would have a significant impact on the Group's ability to generate long-term value for shareholders.
Corporate governance risk	Corporate governance legislation (such as the UK Bribery Act and the US Foreign Corrupt Practices Act), regulations and guidance (such as the UK Corporate Governance Code and global health and safety regulations) are increasingly complex and onerous. A serious breach of these rules and regulations could have a significant impact on the Group's reputation, lead to a loss of confidence on the part of investors, customers or other stakeholders and ultimately have a material adverse impact on the Group's enterprise value.
Financing and liquidity	The Group could have insufficient financial resources to fund its growth strategy or meet its financial obligations as they fall due. Foreign exchange movements could have a significant impact on the Group's financial performance, both on the balance sheet (translation risk) and income statement (transaction risk).
Geopolitical impact	Trade relations, for example imposing of tariffs in the US, the UK decision to leave the EU and other likely geo-political events have created uncertainty over the future impact on international trade and the ability to retain and recruit foreign nationals. There is a risk that there will be a global economic downturn impacting on some or all of the sectors within which the Group operates.
Cyber/Information security	The risk that the Group is subjected to external threats from hackers or viruses potentially causing critical or sensitive data to be lost, corrupted, made inaccessible, or accessed by unauthorised users, resulting in financial loss.
Innovation and technological change	In order to continue to win new business and achieve profitable growth the Group must innovate. There is a risk that the Group does not continue to innovate and implement technological change resulting in its technology becoming uncompetitive or obsolete.
New product introduction	The ability to introduce new products in line with the plan at point of contract award is important if the Group is to achieve its strategic objectives. There is a risk that new programmes or products are not introduced to schedule, quality and cost, or potentially be delayed or cancelled. This could result in delays, cost overruns, asset write downs and disappointed customers.
Shortage of key skills	Competition for skilled labour has increased. There is a risk that operating businesses will be unable to recruit and retain key skills, particularly machinists and welders.

Overall, the Board does not anticipate any significant change on the likely impact of the principal risks.

Responsibility statement of the Directors in respect of the half-year financial report

We confirm that to the best of our knowledge:

1. the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the European Union;
2. the Interim Management Report herein includes a fair review of the information required by:
    a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

    b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board

David Squires Group Chief Executive	Bindi Foyle Group Finance Director
2 August 2019	2 August 2019

INDEPENDENT REVIEW REPORT TO SENIOR PLC

Conclusion

We have been engaged by the company to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed consolidated financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in Note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed consolidated set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Robert Brent
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL
2 August 2019

Condensed Consolidated Income Statement

For the half-year ended 30 June 2019

	Notes	Half-year ended 30 June 2019	Half-year ended 30 June 2018	Year ended 31 Dec 2018
		£m	£m	£m
Revenue	3	580.4	523.3	1,082.1
Trading profit	3	39.0	35.4	69.3
Share of joint venture profit	9	0.2	0.4	0.6
Operating profit (1)	3	39.2	35.8	69.9
Investment income		0.5	0.3	0.6
Finance costs		(6.0)	(4.7)	(9.2)
Loss on disposal	13	(7.2)	-	-
Profit before tax (2)		26.5	31.4	61.3
Tax charge	5	(6.5)	(6.7)	(11.2)
Profit for the period		20.0	24.7	50.1
Attributable to:				
Equity holders of the parent		20.0	24.7	50.1
Earnings per share				
Basic (3)	7	4.81p	5.90p	11.99p
Diluted (4)	7	4.73p	5.82p	11.83p

(1) Adjusted operating profit	4	46.2	43.4	91.6
(2) Adjusted profit before tax	4	40.7	39.0	83.0
(3) Adjusted earnings per share	7	7.84p	7.36p	16.08p
(4) Adjusted and diluted earnings per share	7	7.71p	7.26p	15.87p

Condensed Consolidated Statement of Comprehensive Income

For the half-year ended 30 June 2019

	Half-year ended 30 June 2019	Half-year ended 30 June 2018	Year ended 31 Dec 2018
	£m	£m	£m
Profit for the period	20.0	24.7	50.1
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Gains/(losses) on foreign exchange contracts- cash flow hedges during the period	1.2	(5.6)	(8.0)
Reclassification adjustments for (profits)/losses included in profit	(0.9)	0.9	1.3
Gains/(losses) on foreign exchange contracts- cash flow hedges	0.3	(4.7)	(6.7)
Foreign exchange gain recycled to the Income Statement on disposal	(1.5)	-	-
Exchange differences on translation of overseas operations	6.2	6.1	20.3
Tax relating to items that may be reclassified	(0.2)	0.9	1.3
	4.8	2.3	14.9
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension schemes	(5.0)	10.3	5.8
Tax relating to items that will not be reclassified	0.6	-	(0.8)
	(4.4)	10.3	5.0
Other comprehensive income for the period, net of tax	0.4	12.6	19.9
Total comprehensive income for the period	20.4	37.3	70.0
Attributable to:			
Equity holders of the parent	20.4	37.3	70.0

Condensed Consolidated Balance Sheet

As at 30 June 2019	Notes	30 June 2019	30 June 2018	31 Dec 2018
		£m	£m	£m
Non-current assets				
Goodwill	8	314.5	306.9	312.9
Other intangible assets		19.5	33.9	26.7
Investment in joint venture	9	3.2	2.7	3.0
Property, plant and equipment	10	390.1	265.0	285.6
Deferred tax assets		2.4	2.4	2.4
Loan to joint venture	9	-	0.3	-
Retirement benefits	11	30.0	34.0	30.9
Trade and other receivables		0.2	0.5	0.5
Total non-current assets		759.9	645.7	662.0
Current assets				
Inventories		182.7	169.5	177.8
Current tax receivables		1.8	1.4	2.7
Trade and other receivables		178.5	161.3	165.0
Cash and bank balances	12c)	24.0	34.9	17.2
Total current assets		387.0	367.1	362.7
Total assets		1,146.9	1,012.8	1,024.7
Current liabilities				
Trade and other payables		200.0	200.4	196.0
Current tax liabilities		23.2	21.8	21.5
Lease liabilities	12c)	0.3	0.2	0.2
Bank overdrafts and loans	12c)	2.8	56.9	2.7
Provisions	14	13.9	7.1	11.3
Total current liabilities		240.2	286.4	231.7
Non-current liabilities				
Bank and other loans	12c)	195.3	126.8	167.3
Retirement benefits	11	9.4	13.8	12.4
Deferred tax liabilities		45.0	36.4	42.2
Lease liabilities	12c)	93.9	0.1	-
Provisions	14	0.4	0.3	0.2
Others		4.7	2.5	2.7
Total non-current liabilities		348.7	179.9	224.8
Total liabilities		588.9	466.3	456.5
Net assets		558.0	546.5	568.2
Equity				
Issued share capital	15	41.9	41.9	41.9
Share premium account		14.8	14.8	14.8
Equity reserve		6.9	4.5	5.7
Hedging and translation reserve		53.0	35.6	48.2
Retained earnings		455.4	454.0	465.6
Own Shares		(14.0)	(4.3)	(8.0)
Equity attributable to equity holders of the parent		558.0	546.5	568.2
Total equity		558.0	546.5	568.2

Condensed Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2019

	All equity is attributable to equity holders of the parent						
	Issued share capital	Share premium account	Equity reserve	Hedging and translation reserve	Retained earnings	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2018	41.9	14.8	3.9	33.3	438.8	(1.1)	531.6
Profit for the period	-	-	-	-	50.1	-	50.1
Losses on foreign exchange contracts- cash flow hedges	-	-	-	(6.7)	-	-	(6.7)
Exchange differences on translation of overseas 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
Profit for the period	-	-	-	-	20.0	-	20.0
Gains on foreign exchange contracts- cash flow hedges	-	-	-	0.3	-	-	0.3
Foreign exchange gain recycled to the Income Statement on disposal	-	-	-	(1.5)	-	-	(1.5)
Exchange differences on translation of overseas operations	-	-	-	6.2	-	-	6.2
Actuarial losses on defined benefit pension schemes	-	-	-	-	(5.0)	-	(5.0)
Tax relating to components of other comprehensive income	-	-	-	(0.2)	0.6	-	0.4
Total comprehensive income for the period	-	-	-	4.8	15.6	-	20.4
IFRIC 23 Opening balance adjustments - Note 2b)	-	-	-	-	(4.8)	-	(4.8)
Share-based payment charge	-	-	2.2	-	-	-	2.2
Purchase of shares held by employee benefit trust	-	-	-	-	-	(6.3)	(6.3)
Use of shares held by employee benefit trust	-	-	-	-	(0.3)	0.3	-
Transfer to retained earnings	-	-	(1.0)	-	1.0	-	-
Dividends paid	-	-	-	-	(21.7)	-	(21.7)
Balance at 30 June 2019	41.9	14.8	6.9	53.0	455.4	(14.0)	558.0

Condensed Consolidated Statement of Changes in Equity (continued)

	All equity is attributable to equity holders of the parent						
	Issued share capital	Share premium account	Equity reserve	Hedging and translation reserve	Retained earnings	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2018	41.9	14.8	3.9	33.3	438.8	(1.1)	531.6
Profit for the period	-	-	-	-	24.7	-	24.7
Losses on foreign exchange contracts- cash flow hedges	-	-	-	(4.7)	-	-	(4.7)
Exchange differences on translation of overseas operations	-	-	-	6.1	-	-	6.1
Actuarial gains on defined benefit pension schemes	-	-	-	-	10.3	-	10.3
Tax relating to components of other comprehensive income	-	-	-	0.9	-	-	0.9
Total comprehensive income for the period	-	-	-	2.3	35.0	-	37.3
Share-based payment charge	-	-	1.6	-	-	-	1.6
Purchase of shares held by employee benefit trust	-	-	-	-	-	(3.5)	(3.5)
Use of shares held by employee benefit trust	-	-	-	-	(0.3)	0.3	-
Transfer to retained earnings	-	-	(1.0)	-	1.0	-	-
Dividends paid	-	-	-	-	(20.5)	-	(20.5)
Balance at 30 June 2018	41.9	14.8	4.5	35.6	454.0	(4.3)	546.5

Condensed Consolidated Cash Flow Statement

For the half-year ended 30 June 2019

	Notes	Half-year ended 30 June 2019	Half-year ended 30 June 2018	Year ended 31 Dec 2018
		£m	£m	£m
Net cash from operating activities	12a)	46.2	53.8	100.7
Investing activities				
Interest received		0.1	0.1	0.4
Proceeds on disposal of property, plant and equipment		0.2	0.3	0.5
Purchases of property, plant and equipment		(34.4)	(21.6)	(54.6)
Purchases of intangible assets		(0.6)	(0.4)	(1.7)
Proceeds on disposal	13	0.4	-	-
Loan repayment by joint venture	9	-	0.2	0.5
Net cash used in investing activities		(34.3)	(21.4)	(54.9)
Financing activities				
Dividends paid		(21.7)	(20.5)	(29.6)
New loans		43.2	42.0	111.9
Repayment of borrowings		(18.5)	(25.6)	(114.3)
Repayments of lease liabilities		(3.7)	(0.2)	(0.3)
Purchase of shares held by employee benefit trust		(6.3)	(3.5)	(7.2)
Net cash used in financing activities		(7.0)	(7.8)	(39.5)
Net increase in cash and cash equivalents		4.9	24.6	6.3
Cash and cash equivalents at beginning of period		17.0	9.7	9.7
Cash held by disposed subsidiary		(1.1)	-	-
Effect of foreign exchange rate changes		0.4	0.5	1.0
Cash and cash equivalents at end of period	12c)	21.2	34.8	17.0

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

These Condensed Consolidated Interim Financial Statements of Senior plc ("the Group"), which were approved by the Board of Directors on 2 August 2019, have been reviewed by KPMG LLP, the Group's auditor, whose report is set out after the Directors' Responsibility Statement.

The comparative figures for the year ended 31 December 2018 do not constitute the Group's statutory accounts for 2018 as defined in Section 434(3) of the Companies Act 2006. Statutory accounts for 2018 have been delivered to the Registrar of Companies. The auditor's report on those accounts was 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.

2. Accounting policies

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 "Interim Financial Reporting" as adopted by the European Union. The Directors have, at the time of approving these Condensed Consolidated Interim Financial Statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of at least 12 months from this reporting date. Accordingly, they continue to adopt the going concern basis of accounting in preparing these Condensed Consolidated Interim Financial Statements.

The accounting policies, presentation and methods of computation adopted in the preparation of these Condensed Consolidated Interim Financial Statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, aside from the adoption of IFRS 16 and IFRIC 23 from 1 January 2019.

These Condensed Consolidated Interim Financial Statements do not include all the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Group as at and for the year ended 31 December 2018.

At the date of authorisation of these Condensed Consolidated Interim Financial Statements, a number of new standards and amendments to existing standards have been issued, all of which are effective. A summary of the impact from each standard is given below. Only IFRS 16 will have an effect on net cash from operating activities and free cash flow, which is explained in Note 19.

a) IFRS 16 Leases – Effective for annual periods beginning 1 January 2019, IFRS 16 Leases replaced 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), with optional application for those leases with a term of 12 months or less or where the underlying asset is low value.

The Group has performed the required assessment of its cumulative adjustment on transition to IFRS 16 with effect from 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. A reconciliation between the IAS 17 operating lease commitments disclosed in the Consolidated Financial Statements of the Group as at 31 December 2018 and Lease liabilities recognised on 1 January 2019 is shown in Note 19.

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

b) IFRIC 23 Uncertainty over income tax treatments – This interpretation clarifies accounting for uncertainties for income taxes. On 1 January 2019, the Group recognised additional current tax liabilities of £4.8m as an opening retained earnings adjustment, with an immaterial impact on profit.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

2. Accounting policies (continued)

There are no other material new standards, amendments to standards or interpretations which are effective for the half-year ended 30 June 2019.

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The resulting accounting estimates will, by definition, seldom equal the related actual results. In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made were the same as those that applied to the Consolidated Financial Statements for the year ended 31 December 2018, which are available via Senior's website www.seniorplc.com.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

3. Segmental analysis

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.

Business Segments

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

	Aerospace	Flexonics	Eliminations / central costs	**Total**	Aerospace	Flexonics	Eliminations / central costs	**Total**
	Half-year ended 30 June 2019	Half-year ended 30 June 2019	Half-year ended 30 June 2019	**Half-year ended 30 June 2019**	Half-year ended 30 June 2018	Half-year ended 30 June 2018	Half-year ended 30 June 2018	**Half-year ended 30 June 2018**
	£m	£m	£m	**£m**	£m	£m	£m	**£m**
External revenue	431.0	149.4	-	**580.4**	362.8	160.5	-	**523.3**
Inter-segment revenue	0.2	0.2	(0.4)	**-**	0.7	0.1	(0.8)	**-**
Total revenue	431.2	149.6	(0.4)	**580.4**	363.5	160.6	(0.8)	**523.3**
Adjusted trading profit	38.9	14.4	(7.3)	**46.0**	38.0	12.8	(7.8)	**43.0**
Share of joint venture profit	-	0.2	-	**0.2**	-	0.4	-	**0.4**
Adjusted operating profit	38.9	14.6	(7.3)	**46.2**	38.0	13.2	(7.8)	**43.4**
Amortisation of intangible assets from acquisitions	(3.8)	(3.2)	-	**(7.0)**	(4.0)	(3.6)	-	**(7.6)**
Operating profit	35.1	11.4	(7.3)	**39.2**	34.0	9.6	(7.8)	**35.8**
Investment income				**0.5**				**0.3**
Finance costs				**(6.0)**				**(4.7)**
Loss on disposal				**(7.2)**				**-**
Profit before tax				**26.5**				**31.4**
Tax				**(6.5)**				**(6.7)**
Profit after tax				**20.0**				**24.7**

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.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

3. Segmental analysis (continued)

Segment information for assets and liabilities is presented below.

	30 June 2019	30 June 2018	31 Dec 2018
Assets	£m	£m	£m
Aerospace	838.8	686.5	723.1
Flexonics	243.1	248.8	244.1
Segment assets for reportable segments	1,081.9	935.3	967.2
Unallocated			
Central	6.6	4.1	4.0
Cash	24.0	34.9	17.2
Deferred and current tax	4.2	3.8	5.1
Retirement benefits	30.0	34.0	30.9
Others	0.2	0.7	0.3
Total assets per Consolidated Balance Sheet	1,146.9	1,012.8	1,024.7

	30 June 2019	30 June 2018	31 Dec 2018
Liabilities	£m	£m	£m
Aerospace	223.9	131.9	134.7
Flexonics	65.5	63.2	58.3
Segment liabilities for reportable segments	289.4	195.1	193.0
Unallocated			
Central	15.2	12.0	14.1
Debt	198.1	183.7	170.0
Lease liabilities	-	0.3	0.2
Deferred and current tax	68.2	58.2	63.8
Retirement benefits	9.4	13.8	12.4
Others	8.6	3.2	3.0
Total liabilities per Consolidated Balance Sheet	588.9	466.3	456.5

Following the adoption of IFRS 16 on 1 January 2019, right-of-use assets and lease liabilities are shown under segment assets and liabilities, respectively, for reportable segments.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

3. Segmental analysis (continued)

Total revenue is disaggregated by market sectors as follows:

	Half-year ended 30 June 2019	Half-year ended 30 June 2018	Year ended 31 Dec 2018
	£m	£m	£m
Civil Aerospace	321.3	267.7	563.6
Military Aerospace	74.4	57.1	125.6
Other	35.5	38.7	71.2
Aerospace	431.2	363.5	760.4
Land Vehicles	71.1	83.6	167.0
Power & Energy	78.5	77.0	155.9
Flexonics	149.6	160.6	322.9
Eliminations	(0.4)	(0.8)	(1.2)
Total revenue	580.4	523.3	1,082.1

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

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 Flexonics Blois operation.

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 period. 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 the Flexonics Blois operation are reflective of in-year performance. They are therefore excluded by the Board and Executive Committee when measuring the operating performance of the businesses.

	Half-year ended 30 June 2019	Half-year ended 30 June 2018	Year ended 31 Dec 2018
	£m	£m	£m
Operating profit	39.2	35.8	69.9
Amortisation of intangible assets from acquisitions	7.0	7.6	15.4
UK Guaranteed Minimum Pensions	-	-	2.4
US class action lawsuits	-	-	3.9
Adjusted operating profit	46.2	43.4	91.6
Profit before tax	26.5	31.4	61.3
Adjustments to profit before tax as above	7.0	7.6	21.7
Loss on disposal	7.2	-	-
Adjusted profit before tax	40.7	39.0	83.0

5. Tax charge

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Current tax:		
Current year	3.7	5.2
Withholding tax:		
Current year	0.1	0.1
Deferred tax:		
Current year	2.7	1.4
	6.5	6.7

Corporation tax for the half-year ended 30 June 2019 is calculated at 24.5% (H1 2018: 21.3%) on profit before tax. On adjusted profit before tax, an adjusted tax rate of 19.9% (H1 2018: 21.0%) is charged, representing the estimate of the weighted average annual corporation tax rate expected for the full financial year.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

6. Dividends

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2018 of 5.23p (2017: 4.90p) per share	21.7	20.5
Interim dividend for the year ending 31 December 2019 of 2.28p (2018: 2.19p) per share	9.4	9.1

The interim dividend was approved by the Board of Directors on 2 August 2019 and has not been included as a liability in these Interim Condensed Consolidated Financial Statements, in accordance with the requirements of IFRS.

7. Earnings per share

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

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
Number of shares	million	million
Weighted average number of ordinary shares for the purposes of basic earnings per share	415.8	418.6
Effect of dilutive potential ordinary shares:		
Share options	6.9	5.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share	422.7	424.1

Notes to the Condensed Consolidated Interim Financial Statements (continued)

7. Earnings per share (continued)

	Half-year ended 30 June 2019	Half-year ended 30 June 2019	Half-year ended 30 June 2018	Half-year ended 30 June 2018
	Earnings	EPS	Earnings	EPS
Earnings and earnings per share ("EPS")	£m	pence	£m	pence
Profit for the period	20.0	4.81	24.7	5.90
Adjust:				
Amortisation of intangible assets from acquisitions net of tax of £1.5m (H1 2018: £1.5m)	5.5	1.32	6.1	1.46
Loss on disposal net of tax of £0.1m (H1 2018- £nil)	7.1	1.71	-	-
Adjusted earnings after tax	32.6	7.84	30.8	7.36
Earnings per share				
- basic		4.81p		5.90p
- diluted		4.73p		5.82p
- adjusted		7.84p		7.36p
- adjusted and diluted		7.71p		7.26p

The effect of dilutive shares on the earnings for the purposes of diluted earnings per share is £nil (2018: £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 and the loss on disposal of the Flexonics Blois operation. See note 4 for further details.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

8. Goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The change in goodwill from £312.9m at 31 December 2018 (30 June 2018: £306.9m) to £314.5m at 30 June 2019 reflects an increase of £1.6m due to foreign exchange differences.

9. Investment in joint venture

The Group has a 49% interest in Senior Flexonics Technologies (Wuhan) Limited, a jointly controlled entity incorporated in China. The Group's investment of £3.2m (30 June 2018: £2.7m; 31 December 2018: £3.0m) represents the Group's share of the joint venture's net assets as at 30 June 2019.

At the end of June 2019, the Group had provided loans of £nil (30 June 2018: £0.3m; 31 December 2018: £nil) to the joint venture, £nil (30 June 2018: £nil; 31 December 2018: £nil) is reported as a current asset and £nil (30 June 2018: £0.3m; 31 December 2018: £nil) as a non-current asset.

10. Property, plant and equipment

During the period, the Group invested £34.4m (H1 2018: £21.6m) on the acquisition of property, plant and equipment. The Group also disposed of machinery with a carrying value of £0.2m (H1 2018: £0.3m) for proceeds of £0.2m (H1 2018: £0.3m).

On transition to IFRS 16 on 1 January 2019, the Group recognised £96.7m of right-of-use assets. At 30 June 2019, right-of-use assets were £93.8m (See Note 19)

11. Retirement benefit schemes

Aggregate retirement benefit liabilities of £9.4m (30 June 2018: £13.8m; 31 December 2018: £12.4m) comprise the Group's US defined benefit pension funded schemes with a total deficit of £3.8m (30 June 2018: £6.5m; 31 December 2018: £5.2m) and other unfunded schemes, with a deficit of £5.6m (30 June 2018: £7.3m; 31 December 2018: £7.2m).

The retirement benefit surplus of £30.0m (30 June 2018: £34.0m; 31 December 2018: £30.9m) comprises the Group's UK defined benefit pension funded scheme.

The liability and asset values of the funded schemes have been assessed by independent actuaries using current market values and discount rates.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

12. Notes to the cash flow statement

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

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Operating profit	39.2	35.8
Adjustments for:		
Depreciation of property, plant and equipment	25.5	19.3
Amortisation of intangible assets	8.0	8.6
Share of joint venture	(0.2)	(0.4)
Share-based payment charges	2.2	1.6
Pension payments in excess of service cost	(5.0)	(4.9)
Costs of disposal	(1.7)	-
Pension curtailment gain	-	(0.4)
Increase in inventories	(5.5)	(12.8)
Increase in receivables	(15.5)	(6.2)
Increase in payables and provisions	10.7	22.0
Working capital and provisions currency movements	(0.1)	0.4
Cash generated by operations	57.6	63.0
Income taxes paid	(5.7)	(4.8)
Interest paid	(5.7)	(4.4)
Net cash from operating activities	46.2	53.8

Notes to the Condensed Consolidated Interim Financial Statements (continued)

12. Notes to the 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 derived as follows:

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Net cash from operating activities	46.2	53.8
Costs of disposal	1.7	-
Interest received	0.1	0.1
Proceeds on disposal of property, plant and equipment	0.2	0.3
Purchases of property, plant and equipment	(34.4)	(21.6)
Purchase of intangible assets	(0.6)	(0.4)
Free cash flow	13.2	32.2

c) Analysis of net debt

	At 31 December 2018	IFRS 16 Opening Balance	At 1 January 2019	Disposals	Cash flow	Exchange movement	Other Lease Move-ments[1]	At 30 June 2019
	£m	£m	£m	£m	£m	£m	£m	£m
Cash and bank balances	17.2	-	17.2	(1.1)	7.5	0.4	-	24.0
Overdrafts	(0.2)	-	(0.2)	-	(2.6)	-	-	(2.8)
Cash and cash equivalents	17.0	-	17.0	(1.1)	4.9	0.4	-	21.2
Debt due within one year	(2.5)	-	(2.5)	-	2.5	-	-	-
Debt due after one year	(167.3)	-	(167.3)	-	(27.2)	(0.8)	-	(195.3)
Lease liabilities (Note 19)	(0.2)	(96.1)	(96.3)	0.1	3.7	(0.7)	(1.0)	(94.2)
Total	(153.0)	(96.1)	(249.1)	(1.0)	(16.1)	(1.1)	(1.0)	(268.3)

[1]Other lease movements include lease additions and modifications.

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Cash and bank balances	24.0	34.9
Overdrafts	(2.8)	(0.1)
Total	21.2	34.8

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

13. Disposal

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 half-year ended 30 June 2019, Blois external revenue was £2.4m (H1 2018: £10.9m) and it incurred an operating loss of £0.3m (H1 2018 £nil). A loss of £7.2m arose on disposal after taking into account exit costs together with fair value of net assets disposed (£9.1m including £2.3m of inventories and £5.6m of property, plant and equipment), offset by cash consideration of £0.4m and the previously recorded foreign exchange gain that has been recycled to the Income Statement of £1.5m.

14. Provisions

Current and non-current provisions include warranty costs of £6.6m (30 June 2018: £5.4m; 31 December 2018: £5.5m), claims and legal costs that arise in the ordinary course of business of £3.8m (30 June 2018: £2.0m; 31 December 2018: £1.8m) and costs associated with the US class action lawsuits of £3.9m (30 June 2018: £nil; 31 December 2018: £3.9m).

15. Share capital

Share capital as at 30 June 2019 amounted to £41.9m (30 June 2018: £41.9m, 31 December 2018: £41.9m). No shares were issued during the period.

16. 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 3 April 2019, the European Commission provided its final decision that certain aspects of the UK's rules for Controlled Foreign Company (CFC) taxation gave rise to State Aid. The UK government is seeking an annulment of this decision but is nonetheless required under EU law to recover the State Aid from beneficiaries in line with the Commission's decision, together with interest thereon. 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.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

17. Financial Instruments

Categories of financial instruments

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Carrying value of financial assets:		
Cash and cash equivalents	24.0	34.9
Trade receivables	161.2	144.3
Other receivables	1.7	1.0
Financial assets at amortised cost	186.9	180.2
Foreign exchange contracts- cash flow hedges	1.7	2.0
Foreign exchange contracts- held for trading	-	0.3
Total financial assets	188.6	182.5
Carrying value of financial liabilities:		
Bank overdrafts and loans	198.1	183.7
Lease liabilities	94.2	0.3
Trade payables	114.9	119.3
Other payables	63.7	59.4
Financial liabilities at amortised cost	470.9	362.7
Foreign exchange contracts- cash flow hedges	9.8	8.9
Total financial liabilities	480.7	371.6

Notes to the Condensed Consolidated Interim Financial Statements (continued)

17. Financial Instruments (continued)

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Undiscounted contractual maturity of financial liabilities at amortised cost:		
Amounts payable:		
On demand or within one year	198.8	242.1
In the second to fifth years inclusive	130.4	44.6
After five years	216.6	104.6
	545.8	391.3
Less: future finance charges	(74.9)	(28.6)
Financial liabilities at amortised cost	470.9	362.7

The carrying amount is a reasonable approximation of fair value for the financial assets and liabilities noted above except for bank overdrafts and loans, where the Directors estimate the fair value to be £205.1m (30 June 2018: £185.9m). The fair value has been determined by applying a make-whole calculation using prevailing treasury bill yields plus the applicable credit spread for the Group.

Fair values

The following table presents an analysis of financial instruments that are measured subsequent to initial recognition at fair value. All financial instruments are measured at level 2, i.e. those fair values derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). There has not been any transfer of assets or liabilities between levels. There are no non-recurring fair value measurements.

	Half-year ended 30 June 2019	Half-year ended 30 June 2018
	£m	£m
Assets:		
Foreign exchange contracts – cash flow hedges	1.7	2.0
Foreign exchange contracts- held for trading	-	0.3
Total assets	1.7	2.3
Liabilities:		
Foreign exchange contracts – cash flow hedges	9.8	8.9
Total liabilities	9.8	8.9

18. Related party transaction

Bloom Energy Corporation is a related party of the Group as Susan Brennan, an independent non-executive Director of the Group, is its Executive Vice-President and Chief Operations Officer. In the first six months of 2019, the Group sold £0.7m (H1 2018: £1.2m) of components to Bloom Energy Corporation. The gross receivable position as at 30 June 2019 was £0.4m (30 June 2018: £0.4m; 31 December 2018: £0.2m).

The Group have related party relationships with a number of pension schemes (see Note 11) and with Directors and Senior Managers of the Group.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

19. IFRS 16 transitional impact

On transition to IFRS 16 on 1 January 2019, the Group recognised right-of-use assets of £96.7m, lease liabilities of £96.3m, with working capital and non-current liabilities decreasing by £0.4m in total.

The adoption of IFRS 16 from 1 January 2019 resulted in £4.8m increase in depreciation, £5.5m reduction in lease expenses and £1.8m increase in finance costs recognised in the Condensed Consolidated Income Statement during the half-year ended 30 June 2019; and £93.8m right-of-use assets and £94.2m lease liabilities recognised in the Condensed Consolidated Balance Sheet at 30 June 2019.

The estimated annual financial impact following the adoption of IFRS 16 has also been updated from prior guidance in order to reflect the lease portfolio and financial conditions at the half-year ended 30 June 2019; actual financial impact for the year ending 31 December 2019 will differ as these conditions change. In the Consolidated Income Statement, annual depreciation would increase by £10.3m, annual interest would increase by £3.6m; partly offset by annual operating lease rentals that will no longer be expensed of £11.4m. In the Consolidated Cash Flow Statement, annual cash generated by operations and annual free cash flow (as defined in Note 12) would increase by £11.4m and £7.8m respectively; while 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.

When measuring lease liabilities, the Group discounted lease payments using incremental borrowing rates (IBR), determined on a lease portfolio basis at 1 January 2019. The weighted average of all IBRs at 1 January 2019 was 3.9%.

The table below reconciles the IAS 17 operating lease commitments disclosed in the Consolidated Financial Statements of the Group as at 31 December 2018 to the IFRS 16 Lease liabilities recognised on 1 January 2019:

	£m
Operating lease commitments at 31 December 2018	65.9
Recognition exemption for:	
Short term leases	(0.4)
Low value leases	-
Maintenance fees	(1.3)
Extension/Termination options reasonably certain to be exercised	74.5
Undiscounted IFRS 16 commitments at 31 December 2018	138.7
Discounting using incremental borrowing rates at 1 January 2019	(42.6)
Additional lease liabilities recognised at 1 January 2019	96.1
Finance leases recognised at 31 December 2018	0.2
Total Lease liabilities at 1 January 2019	96.3

The following practical expedients and elections for IFRS 16 were taken on the transition date:

- the Group did not reassess whether existing contracts are, or contain, a lease and applied IFRS 16 only to existing contracts that were previously identified as leases under IAS 17;
- the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- leases with a remaining term of less than 12 months from the transition date and low value leases are expensed on a straight line basis to the Consolidated Income Statement.