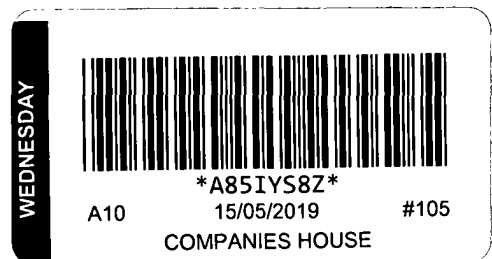


SENIOR UK LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2018



SENIOR UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

	Page
Company information	1
Strategic report	2
Directors' report	4
Statement of Directors' responsibilities	6
Independent auditor's report to the members of Senior UK Limited	7
Profit and Loss Account	9
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the financial statements	12

SENIOR UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

CORPORATE INFORMATION

DIRECTORS

M Sheppard
D H Squires
A J Bodenham
B J J Foyle

SECRETARY

A J Bodenham

REGISTERED OFFICE

59/61 High Street
Rickmansworth
Hertfordshire
WD3 1RH

BANKER

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

AUDITOR

KPMG LLP
15 Canada Square
London
E14 5GL

SENIOR UK LIMITED

STRATEGIC REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of Senior UK Limited, the Company, are the manufacture of precision machined parts, flexible tubing, composites and ducting for the aerospace and automotive industries.

BUSINESS REVIEW

Revenue for the year decreased by 3.7% to £147,422,000 (2017 - £153,131,000) and Other Operating Expenses increased in the year to £21,290,000 (2017 - £18,198,000). Operating Profit decreased by 31.2% to £10,751,000 (2017 - £15,628,000). No dividend was paid in the year (2017 - £nil).

The Balance Sheet on page 10 shows the Company's net asset position at the year end of £74,002,000 (2017 - £66,473,000), an increase of £7,529,000 year on year primarily due to the retained profit for the year.

FUTURE PROSPECTS

The Directors expect the Company to deliver a satisfactory financial performance in 2019. For further details, see the Annual Report and Accounts of Senior plc, the Company's ultimate parent.

KEY PERFORMANCE INDICATORS

The Company is ultimately owned by Senior plc which manages its operations on a divisional basis and sets appropriate key performance indicators for each division. For this reason, the Directors believe that further key performance indicators for the Company, other than revenue, operating profit and net assets set out above, are not necessary or appropriate for an understanding of the development, performance or position of the business. The Company has four operating units in Senior's Aerospace division and one in the Flexonics division and the performance of these divisions is discussed in the Annual Report and Accounts for Senior plc (the Group), which does not form part of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Company's future performance and cause actual results to differ materially from expected or historical results.

The Company operates in competitive market sectors and competitive pressure is therefore a continuing risk for the business. In addition, the aerospace and automotive markets within which the Company operates can also fluctuate, subjecting the business to market risks. The Company also faces risks on manufacturing performance, environmental issues, foreign exchange exposure, credit risk, liquidity risk and defined benefit pension plan funding risks.

The Company anticipates that any direct or indirect impact from Brexit will be limited and not significant.

The above risks, which are the same, or similar, to those faced by Senior plc, the Company's ultimate parent Company that prepares consolidated accounts, are discussed in detail within the Annual Report and Accounts for Senior plc, which does not form part of this report.

SENIOR UK LIMITED

STRATEGIC REPORT (Continued)

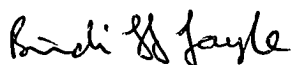
FINANCIAL RISK MANAGEMENT

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures and the use of these contracts is governed by Senior plc's treasury policy.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings. The Company has no significant concentration of credit risk, with exposure spread over a number of customers and counterparties.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company is able to use debt finance provided by other Group companies, predominantly its immediate parent Company, Senior Engineering Investments Limited.

The Strategic Report was approved by the Board of Directors and signed on behalf of the Board.



B J J Foyle

Director

13 May 2019

SENIOR UK LIMITED

DIRECTORS' REPORT

The Directors' present their report for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The profit and loss account reconciliation for the year was as follows:

	2018 £'000	2017 £'000
Profit and loss account, 1 January	68,304	59,356
Profit for the financial year	12,480	8,943
Deferred tax on share options	2	5
	<u>80,786</u>	<u>68,304</u>

DIRECTORS

The Directors who served during the year and to the date of signing this report were as follows:

M Sheppard
D H Squires
A J Bodenham
B J J Foyle

DIRECTORS INDEMNITIES

Qualifying third party indemnity provisions for the benefit of the directors were renewed by Senior plc, the ultimate parent company, during the year and remain in force at the date of this report

GOING CONCERN BASIS

Due to a large outstanding balance owed to Group undertakings, as stated in note 18, there is a risk that current liabilities could be recalled and the Company is unable to obtain an alternative source of funding. Of the total amount of loans owed to Group undertakings of £38,753,000 (2017- £52,129,000), the amount owed to the Company's immediate parent company, Senior Engineering Investments limited of £34,126,000 (2017- £48,867,000) represents the largest portion of this outstanding balance.

The Company achieved profit growth in the year and its financial position reflects an increase net assets compared to the prior year. This, combined with the financial support of Senior plc, give the Directors the reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Company's financial statements.

RESEARCH AND DEVELOPMENT

In 2018 expenditure on research and development was £3,677,000 (2017 - £3,142,000). Expenditure was incurred mainly on funded and unfunded development work, which relates to designing and engineering products in accordance with individual customer specifications and developing specific manufacturing processes for their production. The Company also incurs costs on general manufacturing improvements processes. Unfunded costs in the year have been expensed, consistent with the prior year, as they did not meet the strict criteria required for capitalisation.

POLITICAL CONTRIBUTIONS

The Company did not make any Political donations in either 2018 or 2017.

EXISTENCE OF BRANCHES OUTSIDE THE UK

The Company has a branch, as defined in section 1046(3) of the Companies Act 2006, in South Africa.

SENIOR UK LIMITED

DIRECTORS' REPORT (Continued)

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who is a Director at the date of approval of this report confirms that:

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) the Director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors and signed on behalf of the Board



A J Bodenham

Secretary

13 May 2019

Registered Office:
59/61 High Street
Rickmansworth
Hertfordshire
WD3 1RH

SENIOR UK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SENIOR UK LIMITED

Opinion

We have audited the financial statements of Senior UK Limited ("the Company") for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 3.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Other matter

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

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. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should 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.

Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Financial Statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Financial Statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic report and directors' report

The Directors are responsible for the strategic report and the directors' report. Our opinion on the Financial Statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the Financial Statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SENIOR UK LIMITED (Continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the Directors are responsible for: the preparation of the Financial Statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

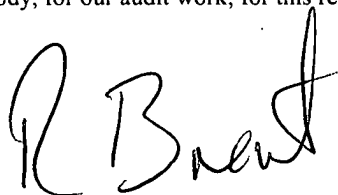
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Robert Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London
E14 5GL
13 May 2019

SENIOR UK LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2018

	Note	2018 £'000	2017 £'000
REVENUE	4	147,422	153,131
Cost of sales		(115,381)	(119,305)
GROSS PROFIT		32,041	33,826
Other operating expenses	5	(21,290)	(18,198)
OPERATING PROFIT	6	10,751	15,628
Income from group undertakings		2,651	-
Finance income	8	36	17
Finance expenses	9	(772)	(791)
Loss on disposal	25	-	(3,719)
PROFIT BEFORE TAXATION		12,666	11,135
Taxation	10	(186)	(2,192)
PROFIT FOR THE YEAR		12,480	8,943

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2018

	2018 £'000	2017 £'000
Profit for the year	12,480	8,943
Items that may be reclassified subsequently to profit or loss:		
(Losses)/gains on foreign exchange contracts -cash flow hedges	(5,692)	8,483
Income tax credit/(charge) on foreign exchange contracts -cash flow hedges	1,082	(1,721)
Exchange (losses)/gains differences on translation of foreign operations	(343)	62
Other comprehensive (expense)/income for the year	(4,953)	6,824
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	7,527	15,767

SENIOR UK LIMITED

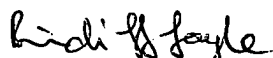
BALANCE SHEET 31 December 2018

	Note	2018 £'000	2017 £'000
NON-CURRENT ASSETS			
Goodwill	11	28,868	28,868
Other intangible assets	12	541	615
Investments	13	44,616	47,267
Property, plant and equipment	14	19,590	18,109
Deferred tax asset	15	3,911	3,780
		<u>97,526</u>	<u>98,639</u>
CURRENT ASSETS			
Inventories	16	18,239	17,525
Trade and other receivables	17	32,297	29,777
Cash and bank balances		-	3,643
		<u>50,536</u>	<u>50,945</u>
CURRENT LIABILITIES			
Bank overdrafts		(1,315)	-
Trade and other payables and provisions	18	(72,745)	(83,111)
		<u>(74,060)</u>	<u>(83,111)</u>
NET CURRENT LIABILITIES			
		<u>(23,524)</u>	<u>(32,166)</u>
NET ASSETS			
		<u>74,002</u>	<u>66,473</u>
CAPITAL AND RESERVES			
Issued share capital	19	2,000	2,000
Hedging and translation reserve	19	(8,784)	(3,831)
Profit and loss account		80,786	68,304
		<u>74,002</u>	<u>66,473</u>
EQUITY			
		<u>74,002</u>	<u>66,473</u>

The accompanying notes form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors and authorised for issue on 13 May 2019.

Signed on behalf of the Board of Directors



B J J Foyle
Director

Company Registration No. 01928053

SENIOR UK LIMITED

STATEMENT OF CHANGES IN EQUITY 31 December 2018

	Note	Issued share capital £'000	Hedging and translation reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2017		2,000	(10,655)	59,356	50,701
Profit for the year		-	-	8,943	8,943
Other comprehensive income for the year		-	6,824	-	6,824
Total comprehensive income for the year		-	6,824	8,943	15,767
Tax relating to share based payments	10	-	-	5	5
Balance at 31 December 2017		2,000	(3,831)	68,304	66,473
Profit for the year		-	-	12,480	12,480
Other comprehensive income for the year		-	(4,953)	-	(4,953)
Total comprehensive income for the year		-	(4,953)	12,480	7,527
Tax relating to share based payments		-	-	2	2
Balance at 31 December 2018		2,000	(8,784)	80,786	74,002

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

Senior UK Limited, the Company, manufactures precision machined parts, flexible tubing, composites and ducting for the aerospace and automotive industries. The Company is incorporated in the United Kingdom under the Companies Act 2006. The registered office of the Company is stated on page 1. These Financial Statements are presented in Pound Sterling being the currency of the primary economic environment in which the Company operates. As permitted by the Companies Act 2006, the Company has not prepared consolidated financial statements as it is included in the Annual Report and Accounts for Senior plc, which is registered in England and Wales and has prepared consolidated accounts, which are publicly available.

2. PREPARATION OF FINANCIAL STATEMENTS

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.
- Disclosures of related party transactions with Senior plc Group entities, that are wholly owned subsidiaries, as the Company is a wholly owned subsidiary of Senior plc, which produces consolidated accounts that are publicly available. There were no other related party transactions in either 2018 or 2017.

As the consolidated Financial Statements of Senior plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures; and
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets.

Where relevant, the disclosures exemptions have been given in the Group accounts of Senior plc which are publicly available.

3. ACCOUNTING POLICIES

The Financial Statements have been prepared on the historical cost basis except for liabilities for equity settled share-based payments, in accordance with the Company's accounting policies approved by the Board.

Critical accounting judgments

IAS requires disclosure of the judgments management makes when applying its significant accounting policies and that have the most significant effect on amounts that are recognised in the Company's Financial Statements. In the course of preparing the Financial Statements, no significant critical judgments have been made when applying the Company's accounting policies, other than those involving estimations, which are dealt with separately below. Management makes other judgments in the normal course of conducting business, such as those in relation to contractual matters and legal costs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2018

3. ACCOUNTING POLICIES (Continued)

Key sources of estimation and uncertainty

Management assesses the carrying value of inventory to ensure that it is held at lower of cost and net realisable value. Where necessary, management makes an estimate to write down inventory to its net realisable value. The Company held a net inventory balance at the year-end of £18,239,000 (2017 – £17,525,000). In determining an estimate of net realisable value, management has made assumptions in respect of the durability, quality, specificity and order cover, which provide some protection against adverse market conditions, and competitor product development and pricing activity. Inventory held is typically built on a demand basis and is customer specific.

Changes in accounting policies

At the date of authorisation of these Financial Statements, a number of new standards and amendments to existing standards have been issued and are effective. A summary of the impact review performed on each standard is given 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. The standard requires financial assets and financial liabilities to be held at amortised cost or to be fair valued through either the profit and loss account (FVTPL) or other comprehensive income (FVTOCI). All non-derivative financial assets and liabilities are held at amortised cost. All derivative assets and liabilities are fair valued and held for trading (FVTPL) or are cash flow hedges (FVTOCI). 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 Company 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 Company 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.

Going concern

Due to a large outstanding balance owed to Group undertakings, as stated in note 18, the Company's main risk in respect of going concern is the net current liabilities held on the Balance Sheet. Of the total amount of loans owed to Group undertakings of £38,753,000 (2017 - £52,129,000), the amount owed to the Company's immediate parent company, Senior Engineering Investments limited of £34,126,000 (2017 - £48,867,000) represents the largest portion of this outstanding balance. The Company achieved a good level of profit in the year and its financial position remains strong. This, combined with the letter of financial support provided by Senior plc, gives the Directors the reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Board has continued to adopt the going concern basis in preparing the Company's financial statements. The Company's financial position, future prospects and uncertainties are described in the Strategic Report and Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2018

3. ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill acquired in a business combination is measured as the fair value of the consideration transferred in excess of the fair value of the net assets acquired and is deemed to have an indefinite life. Costs of acquisition are charged to the Profit and Loss Account in the period in which they are incurred.

Goodwill is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. CGUs to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the CGU may be impaired. Indicators of impairment are reviewed at the Balance Sheet date. The recoverable amount of the CGU is determined by applying a pre-tax discount rate to its pre-tax future cash flows. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. Any impairment is recognised immediately through the Profit and Loss Account and is not subsequently reversed.

On disposal of a subsidiary of part thereof, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Other intangible assets

Other intangible assets include computer software and intangible assets acquired as part of a business combination.

The cost of acquiring computer software (including associated implementation and development costs where applicable) is classified as an intangible asset. Costs associated with maintaining computer software programs are recognised as an expense as incurred. Capitalised computer software is amortised over its estimated useful life of between three and five years on a straight-line basis, and is stated at cost less accumulated amortisation and impairment losses.

Intangible assets acquired as part of a business combination principally comprise customer relationships, contracts and trade names. They are shown at fair value at the date of acquisition less accumulated amortisation at the rates of between three and five years on a straightline basis.

Investments

Investments are held at cost less impairment. The carrying value of investments is reviewed for impairment when there is an indication that the investment might be impaired. Any provision resulting from an impairment review is charged to the profit and loss account in the year concerned.

Property, plant and equipment

Property, plant and equipment include land, buildings, plant and equipment. Land and buildings are stated in the Balance Sheet at their historical cost, or at modified historical cost. Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment.

Depreciation is charged to write off the cost of the asset less residual value on a straight line basis, over the estimated useful life of the asset, from the time an asset becomes available for its intended use. Annual depreciation rates are as follows:

Freehold Land	Nil
Freehold buildings	2%
Short leasehold improvements	over the life of the lease
Plant and equipment	5%-33%

Residual value is calculated at prices prevailing at the date of acquisition. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset at disposal and is recognised in the Profit and Loss Account.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

3. ACCOUNTING POLICIES (Continued)

Inventory

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are based on:

Raw materials	purchase cost on a first in, first out basis, including transport costs
Work in progress and finished goods	cost of direct materials and labour, plus an appropriate proportion of manufacturing overheads based on normal levels of activity

Net realisable value represents the estimated selling price less the estimated costs of completion and the costs to be incurred in marketing, selling and distribution.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is provided in full at the anticipated tax rates on timing differences arising from the different treatment of items for accounting and taxation purposes.

A deferred tax asset is regarded as recoverable and therefore recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. The Company has elected not to discount the deferred tax assets and liabilities.

Leases

Rentals under operating leases are charged to the profit and loss account as incurred.

Assets held under finance lease and other similar contracts are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded in liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge.

Pension costs

The Company participates in the defined benefit and contribution pension plans of the Group through the Senior plc Pension Plan and Senior plc Group Flexible Retirement Plan respectively. The Senior plc Pension Plan was closed to future benefit accrual at the end of 6 April 2014.

For the defined benefit pension scheme, Senior plc makes contributions on the advice of actuaries to discharge in full the Company's pension obligations arising in the year. This is a group scheme, since all the participating employers are under common control. As such the liability and assets are allocated to Senior plc in accordance with Group policy. Accordingly, the amount charged to the profit and loss account is the contribution payable in the year, and any variations from this cost are reflected in the accounts of Senior plc, which do not form part of this report. For the defined contribution scheme, the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2018

3. ACCOUNTING POLICIES (Continued)

Internally generated intangible assets – research and development expenditure

An intangible asset arising from unfunded development work shall be recognised if the following can be demonstrated:

- i) the asset can be separately identified.
- ii) it is probable that the asset created will generate future economic benefits.
- iii) the development cost of the asset can be measured reliably during its development.
- iv) it is technically feasible to complete the asset so that it will be available for use or sale.
- v) there is intention to complete the asset and use or sell it.
- vi) the Company has ability to use or sell the asset.
- vii) the Company has availability of adequate technical, financial and other resources to complete the development work and to use or sell the asset.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives.

Costs incurred in relation to funded development work are accumulated in inventory and are recognised when the related billings are made. Any amounts held in inventory are subject to normal inventory valuation principles.

Other expenditure on research and development activities, that do not meet the capitalisation criteria above, is recognised as an expense in the period in which it is incurred.

Share based payments

Senior plc issues equity settled share based payments to certain employees of Group companies. Equity settled share based payments are measured at fair value (excluding the effect of non market based vesting conditions) at the date of grant. The fair value as determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest and adjusted for the effect of non market based vesting conditions.

Fair value is measured by use of both a Black Scholes model and a binomial model for the share option plans and a binomial model for the shares awarded under the Senior plc 2014 Long Term Incentive Plan.

The liability to Senior plc in respect of equity-settled amounts is included in current and non-current liabilities as appropriate.

Revenue

The Company predominantly has one revenue stream relating to engineered components or systems (products), which are customer specific, with a secondary revenue stream of funded development revenue. Both streams have identifiable customer contracts and pricing specific performance obligations.

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. Revenue is recognised net of discounts, VAT and other sales related taxes. The determination of the transaction price is based upon pricing specified in the customer contract i.e. a price per unit.

Revenue is recognised as the identified performance obligations are satisfied. The performance obligation for goods is a specific point in time when the customer obtains control, which is upon delivery or when available for collection. Allocation of transaction price to performance obligations is given in the contract i.e. a unit delivered or available for collection.

The performance obligation for development revenue is a specific point in time when the customer obtains control of the output, for example a first article good, which is the acceptance milestone specified in the customer contract.

Dividend income from investments is recognised when the shareholders' legal rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2018

3. ACCOUNTING POLICIES (Continued)

Foreign currency

Foreign currency transactions are recorded at the exchange rate ruling on the date of transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account, except as noted below for derivative financial instruments.

Assets, liabilities, and results of foreign operations are translated at the rate ruling at the balance sheet date. Exchange differences arising are dealt with through the foreign currency translation reserve.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by loss allowance. The Company has elected to measure loss allowance for trade receivables at an amount equal to the lifetime expected credit losses (ECLs), which are based on quantitative and qualitative credit risk assessments, using historical and forward looking information. Changes in the carrying amounts of the loss allowance are recognised in the Profit and Loss Account.

Trade receivables in default are considered uncollectible and are written off against the loss allowance. The Company considers a trade receivable to be in default when the customer is experiencing significant financial difficulties, bankruptcy, financial reorganisation or is in default or delinquent in paying its credit obligations to the Company in full. Subsequent recoveries of amounts previously written off are credited against the loss allowance. Trade receivables are derecognised when factored, without recourse, through third party financial institutions (the Factors).

Derivative financial instruments

Derivative financial instruments are used to manage exposure to foreign exchange risk. The Company does not hold or issue derivative financial instruments for speculative purposes. The Company designates certain hedging instruments in respect of foreign currency risk as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents, both at hedge inception and on an ongoing basis, whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item. For the Company's cash flow hedges of highly probable forecast transactions in foreign currencies, the hedged risk is always considered to be 1:1. If the underlying exposure changes over time, either due to commercial factors or timing differences, the hedging instruments will be rebalanced to ensure that the hedge ratio of 1:1 is maintained.

Changes in the fair value of derivative financial instruments that are designated and are effective as a cash flow hedge are recognised directly in equity and the ineffective portion is recognised immediately in the Profit and Loss Account. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the Profit and Loss Account in the same period in which the hedged item affects profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the Profit and Loss Account. Gains or losses from remeasuring the derivative are also recognised in the Profit and Loss Account. If the hedge is effective, these entries will offset in the Profit and Loss Account. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss Account as they arise. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Profit and Loss Account for the period.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

4. REVENUE

The Company's revenue was wholly attributable to the Company's principal activities.

The detailed analysis of destination revenue by geographical area is given below:

	2018 £'000	2017 £'000
UK	73,783	83,237
Rest of Europe	33,367	33,539
USA	16,600	14,575
Rest of the World	23,672	21,780
	<u>147,422</u>	<u>153,131</u>

5. OTHER OPERATING EXPENSES

	2018 £'000	2017 £'000
Distribution costs	6,669	7,506
Administrative expenses	14,621	10,692
	<u>21,290</u>	<u>18,198</u>

6. OPERATING PROFIT

The following has been included in operating profit:

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	2,713	2,775
Amortisation of intangible assets	310	334
Operating lease rentals for plant and machinery	158	177
Operating lease rentals for land and buildings	973	1,042
Research and development expenditure	3,677	3,142
Cost of inventories recognised as expense	115,381	119,305
Staff costs (note 7)	42,597	42,186
Release for impairment for doubtful receivables	(33)	(34)
Loss/(profit) on disposal of fixed assets	23	(315)
Net foreign exchange losses	2,204	1,953
Net royalties paid/(received) from other group undertakings	284	(246)
Impairment of investment subsidiary undertaking (note 13)	2,651	-
Charitable donations	-	1
Fees paid to auditor:		
Audit	71	73
Tax services	-	-
Other services	-	-
	<u>-</u>	<u>-</u>

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

7. STAFF COSTS

M Sheppard, D H Squires, A J Bodenham and B Foyle did not receive any emoluments from Senior UK Limited during either 2018 or 2017 and emoluments of D H Squires and B Foyle are reported in the accounts of Senior plc. None of the Directors, except M Sheppard, were voluntarily contributory members of group defined contribution pension schemes (2017 - None except M Sheppard). The Directors are not involved with the management of the affairs of the Company or any such subsidiary undertaking and have therefore not performed any material qualifying services in the year as per SI2008/410 Schedule 5.

	2018 No.	2017 No.
Average number of persons employed		
Production	1,047	1,074
Distribution	13	14
Sales	103	110
Administration	101	101
	<u>1,264</u>	<u>1,299</u>
	2018	2017
	£'000	£'000
Staff costs during the year		
Wages and salaries	36,190	36,161
Social security costs	3,494	3,379
Share based payments	201	216
Pension costs – defined contributions	2,712	2,430
	<u>42,597</u>	<u>42,186</u>

8. FINANCE INCOME

	2018 £'000	2017 £'000
Bank interest	<u>36</u>	<u>17</u>

9. FINANCE EXPENSES

	2018 £'000	2017 £'000
Inter Group loan interest	762	777
Other	10	14
	<u>772</u>	<u>791</u>

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

10. TAXATION

(i) Analysis of tax on ordinary activities

	2018 £'000	2017 £'000
Corporation tax:		
UK corporation tax charge	848	1,615
Adjustments in respect of prior years	(1,615)	-
Total corporation tax (credit)/charge	(767)	1,615
Deferred tax:		
Current year	453	601
Adjustment in respect of prior years	500	(24)
Total deferred tax charge	953	577
Tax on profit on ordinary activities	186	2,192

(ii) The following table reconciles the tax charge calculated at the UK statutory rate on the profit before tax with the actual tax charge for the year.

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	12,666	11,135
Expected tax charge at 19.00% (2017 – 19.25%)	2,407	2,143
Non tax deductible items	(74)	355
Group relief received for nil consideration	(1,032)	(282)
Adjustments in respect of prior years	(1,115)	(24)
Tax charge/(credit) for the year	186	2,192

The Finance (No.2) Act 2015 and Finance Act 2016 provide for reductions in the main rate of corporation tax from 20% to 19% for the financial year beginning 1 April 2017 and to 17% for the financial year beginning 1 April 2020.

(iii) In addition to the amounts charged to the profit and loss account, the following amounts relating to deferred tax have been recognised in Other Comprehensive Income:

	2018 £'000	2017 £'000
Items that may be reclassified subsequently to profit or loss:		
Tax credit/(charge) in respect of cash flow hedge gains/losses arising during the year	1,082	(1,721)

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

- (iv) In addition to the amounts charged to the Profit and Loss Account and Other Comprehensive Income, the following amounts relating to tax have been recognised directly in Equity:

	2018 £'000	2017 £'000
Current tax:		
Excess tax deductions related to share-based payments on exercised options	-	-
Deferred tax:		
Changes in estimated excess tax deductions related to share-based payments	2	5
	<hr/>	<hr/>
Total tax credit recognised directly in Equity	2	5
	<hr/>	<hr/>

- v) Deferred taxation

	2018 £'000	2017 £'000
At 1 January	3,780	6,073
Charge to the Profit and Loss account	(953)	(577)
Credit/(charge) to Other Comprehensive Income	1,082	(1,721)
Credit directly to Equity	2	5
	<hr/>	<hr/>
At 31 December	3,911	3,780
	<hr/>	<hr/>

Deferred tax assets recognised on the balance sheet

	2018 £'000	2017 £'000
Tax effect of timing differences due to:		
Depreciation in excess of capital allowances	2,270	3,206
Short term timing differences	1,641	574
	<hr/>	<hr/>
	3,911	3,780
	<hr/>	<hr/>

11. GOODWILL

	2018 £'000	2017 £'000
Cost		
At 1 January	28,868	30,463
Disposal (Note 25)	-	(1,595)
	<hr/>	<hr/>
At 31 December	28,868	28,868
	<hr/>	<hr/>

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

12. OTHER INTANGIBLE ASSETS

	2018 £'000	2017 £'000
Cost		
At 1 January	2,466	2,391
Additions	236	128
Disposals	(45)	(53)
At 31 December	<u>2,657</u>	<u>2,466</u>
Amortisation		
At 1 January	1,851	1,539
Charge for the year	310	334
Disposals	(45)	(22)
At 31 December	<u>2,116</u>	<u>1,851</u>
Net book value		
At 31 December	<u>541</u>	<u>615</u>

13. INVESTMENTS

	2018 £'000	2017 £'000
Cost		
At 1 January	47,267	47,267
Impairment	(2,651)	-
At 31 December	<u>44,616</u>	<u>47,267</u>

The impairment of £2,651,000 relates to the investment in Thermal Engineering Holding Limited.

The subsidiary undertakings of the Company, all of which are directly wholly-owned and registered in England and Wales are as follows:

Name	Nature of trade
Thermal Engineering Holding Limited	Non-trading company (liquidated 12 February 2019)
Lymington Precision Engineering (LPE) Limited	Non-trading company

The shares held in Thermal Engineering Holding Limited and Lymington Precision Engineering (LPE) Limited are ordinary shares.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Short leasehold improve- ments £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2018	6,107	87	27,477	33,671
Additions	494	4	3,839	4,337
Disposals	-	-	(301)	(301)
At 31 December 2018	6,601	91	31,015	37,707
Depreciation				
At 1 January 2018	957	56	14,549	15,562
Charge for the year	79	4	2,630	2,713
Disposals	-	-	(158)	(158)
At 31 December 2018	1,036	60	17,021	18,117
Net book value				
At 31 December 2018	5,565	31	13,994	19,590
At 31 December 2017	5,150	31	12,928	18,109

Fixed assets, included in the above, which are held under finance lease contracts have cost of £14,000 (2017 - £14,000), accumulated depreciation of £5,000 (2017 - £1,000) and net book value of £9,000 (2017 - £13,000).

15. DEFERRED TAX ASSET

	2018 £'000	2017 £'000
Deferred tax (note 10)	3,911	3,780

16. INVENTORIES

	2018 £'000	2017 £'000
Raw materials and consumables	6,684	5,200
Work-in-progress	6,839	7,081
Finished goods and goods for resale	4,716	5,244
	18,239	17,525

Write downs of inventory recognised as an expense in the Profit and Loss Account in 2018 was £439,000 (2017 - £645,000).

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

17. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Trade receivables	29,649	26,673
Amounts owed by Group undertakings	330	226
Prepayments and accrued income	1,780	1,009
Foreign currency hedge contracts	170	1,454
Value added tax	368	415
	<u>32,297</u>	<u>29,777</u>

Amounts owed by Group undertakings are made up of various trading balances.

18. TRADE AND OTHER PAYABLES AND PROVISIONS

	2018 £'000	2017 £'000
Loans from group undertakings	38,753	52,129
Trade payables	12,559	15,525
Trading amounts owed to Group undertakings	3,487	1,837
Corporation tax	470	1,150
Other taxation and social security	2,964	2,082
Foreign exchange contracts –cash flow hedges	9,495	4,306
Accruals and deferred income	4,564	5,702
Provisions	453	380
	<u>72,745</u>	<u>83,111</u>

Loans to group undertakings

	2018 £'000	2017 £'000
Loans to Group undertakings:		
Senior Engineering Investments Limited	34,126	48,867
Thermal Engineering Limited	-	2,651
Lymington Precision Engineering (LPE) Limited	4,627	611
	<u>38,753</u>	<u>52,129</u>

On 31 October 2014 the Master Agreement for borrowing advances and investing surplus cash between Senior Engineering Investments Limited and the Company was enacted. The Master Agreement allows the netting off of outstanding amounts owed by the Company to Senior Engineering Investments Limited against outstanding amounts owed by Senior Engineering Investments Limited to the Company. The net lending between the Company and Senior Engineering Investments Limited should not at any time exceed £50,000,000 (amended to £100,000,000 in the Master Agreement on 31 March 2015).

The loan balance is payable on demand. The net amount owed by the Company is £34,126,000 (2017 - £48,867,000). From 1 January 2017, interest is calculated on the aggregate of the applicable margin and the 1-month LIBOR. The applicable margin is the percentage rate of the margin defined in Senior plc's primary revolving credit facility and is payable on the principle and accrued and unpaid interest.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

On 31 December 2015 an interest free loan of £2,651,190 was granted to the Company by Thermal Engineering Limited. This loan has been extended every six months and was settled in August 2018.

On 18 May 2015 the Master Agreement for borrowing advances and investing surplus cash between the Company and Lymington Precision Engineering (LPE) Limited was enacted. The Master Agreement allows the netting off of outstanding amounts owed to the Company by Lymington Precision Engineering (LPE) Limited against outstanding amounts owed by the Company to Lymington Precision Engineering (LPE) Limited. The net borrowing between the Company and Lymington Precision Engineering (LPE) Limited should not at any time exceed £10,000,000.

The loan balance is payable on demand. The net amount owed by the Company is £4,627,000 (2017 - £611,000). From 1 January 2017, interest is calculated on the aggregate of the applicable margin and the 1-month LIBOR. The applicable margin is the percentage rate of the margin defined in Senior plc's primary revolving credit facility and is payable on the principle and accrued and unpaid interest.

19. ISSUED SHARE CAPITAL AND RESERVES

(i) Issued share Capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
1,800,000 (2017 – 1,800,000) 'A' Ordinary shares of £1 each	1,800	1,800
200,000 (2017 – 200,000) 'B' Ordinary shares of £1 each	200	200
	<u>2,000</u>	<u>2,000</u>

Under the Company's Articles of Association, each 'A' ordinary share and each 'B' ordinary share carries one vote.

Senior Engineering Investments Limited holds 1,800,000 ordinary 'A' shares together with the 200,000 ordinary 'B' shares.

(ii) Profit and Loss Reserve

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

(iii) Hedging and Translation Reserve

2018	Hedging Reserve £'000	Translation Reserve £'000	Total £'000
Balance at 1 January	2,101	1,730	3,831
Losses on cash flow hedges (net of tax)	4,610	-	4,610
Exchange differences on translation of foreign operation	-	343	343
Balance at 31 December	<u>6,711</u>	<u>2,073</u>	<u>8,784</u>
2017	Hedging Reserve £'000	Translation Reserve £'000	Total £'000
Balance at 1 January	8,863	1,792	10,655
Gains on cash flow hedges (net of tax)	(6,762)	-	(6,762)
Exchange differences on translation of foreign operation	-	(62)	(62)
Balance at 31 December	<u>2,101</u>	<u>1,730</u>	<u>3,831</u>

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss. The translation reserve includes accumulated gains and losses on the translation of assets, liabilities and results of the overseas operation.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

20. SHARE BASED PAYMENTS

The Company's Directors and senior managers, when deemed appropriate, are issued share options from the Senior plc share based payment plans. Details of these plans are shown below.

(i) 2005 long-Term Incentive Plan

Shares awarded under the 2005 Long-Term Incentive Plan have attaching performance related targets over the vesting period. The awards are settled by delivering shares to the participants. Further details of this scheme can be found in the accounts of Senior plc which are publicly available on the Company's website <http://www.seniorplc.com/investors/reports.aspx>.

During the year nil (2017 - nil) shares were exercised and there were 200,276 (2017 - 151,428) shares outstanding at the year end.

(ii) Savings-Related Share Option Plan

Under the Savings-Related Share Option Plan for eligible employees there are no performance criteria and options are issued to all participants in accordance with the HM Revenue & Customs rules for such savings plans. Savings-Related Share Options were last issued on 2 May 2017.

During the year 19,893 (2017 - 1,832) shares were exercised and there were 1,102,327 (2017 - 1,262,612) shares outstanding at the year end.

The options outstanding at 31 December 2018 had an exercise price of 207.20p, 222.00p and 335.80p per share, and a weighted average remaining contractual life of 1.4 years. The options outstanding at 31 December 2017 had an exercise price of 207.20p, 222.00p and 335.80p per share, and a weighted average remaining contractual life of 2.4 years.

(iii) Enhanced SMIS Deferred Share Award

Shares earned under the Enhanced SMIS Deferred Share Award have a three-year deferral period and would be subject to forfeiture by a "bad leaver" over that deferral period. There are no performance criteria for this award. The awards are settled by delivering shares to the participants.

During the year 3,497 shares were granted (2017 - 32,181 vested) and there were 13,949 (2017 - 10,452) shares outstanding at the year end.

21. PENSION COSTS

The Company participates in the Senior plc group Pension Plan, the assets and liabilities of which are held independently from the Group. This Plan was closed to future accrual at the end of 6 April 2014. Company contributions to the Plan for the year were £nil (2017 - £nil). Further details of the Group schemes and the actuarial valuations are given in the group financial statements of the ultimate parent company, Senior plc.

The Group operates a defined contribution pension scheme, which is open to all employees of the Company. The assets of the defined contribution pension scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company and amounted to £2,712,000 (2017 - £2,430,000). Contributions totalling £216,000 (2017 - £143,000) were payable to the fund at the year end and are included in trade and other payables.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

22. COMMITMENTS

Finance lease commitments

At 31 December 2018 there were commitments of £9,000 (2017 - £10,000) in respect of finance leases.

Operating lease commitments

At 31 December, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Leases which expire:		
Within one year	1,232	1,139
Within 2 to 5 years	4,406	3,966
After 5 years	1,870	2,410
	<u>7,508</u>	<u>7,515</u>

The Company leases certain land and buildings under operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Company pays all insurance, maintenance and repairs of these properties.

Capital commitments

	2018 £'000	2017 £'000
Capital commitments:		
Plant machinery and equipment	<u>178</u>	<u>272</u>

23. GUARANTEES

(a) Private placement loans

The Company is a guarantor, jointly and severally, with certain other Group companies, of US \$20m (2017 - US \$95m) unsecured loan notes under an agreement dated 8 October 2008. Loan notes of US \$75m were repaid in October 2018 and US \$20m are due for repayment in October 2020.

The Company is a guarantor, jointly and severally, with certain other Group companies, of US \$20m (2017 - US \$20m) unsecured loan notes under an agreement dated 30 October 2015, which are due for repayment in October 2022.

The Company is a guarantor, jointly and severally, with certain other Group companies, of US \$60m (2017 - US \$60m) unsecured loan notes under an agreement dated 30 October 2015, which are due for repayment in October 2025.

The Company is a guarantor, jointly and severally, with certain other Group companies, of €28m (2017 - €28m) unsecured loan notes under an agreement dated 16 November 2016, which are due for repayment in February 2027.

The Company is a guarantor, jointly and severally, with certain other Group companies, of £27m (2017 - £nil) unsecured loan notes under an agreement dated 8 December 2017. The notes were drawn down on 31 January 2018 and are due for repayment in January 2025.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended 31 December 2018

23. GUARANTEES (Continued)

(a) Private placement loans (Continued)

The Company is a guarantor, jointly and severally, with certain other Group companies, of US \$30m (2017 - £nil) unsecured loan notes under an agreement dated 13 June 2018. The notes were drawn down on 12 September 2018 and are due for repayment in September 2028.

(b) Bank guarantees

The Company is a guarantor, jointly and severally, with certain other Group companies of all indebtedness of certain US Group companies to their US clearing banker, including a committed single bank US \$50m overdraft and letter of credit facility (2017 - US \$50m overdraft and letter of credit facility). This facility was amended in June 2018 and matures in June 2021.

The Company is a guarantor, jointly and severally, with certain other group companies of all indebtedness of these other Group companies to the Group's UK clearing bank. The total indebtedness to the Group's UK clearing bank as at 31 December 2018 is £nil (2017 - £2.3m net overdraft).

(c) Revolving credit facility and term loan

The Company is a guarantor, jointly and severally, with certain other Group companies of a committed £60m syndicated multi-currency revolving credit facility, which was entered into in November 2014, and amended and extended in October 2016 for five years. There were no amounts drawn under this facility at 31 December 2017 and at 31 December 2018.

The Company is a guarantor, jointly and severally, with certain other Group companies of a committed two-year £20m syndicated sterling facility which was entered into in March 2015, and amended and extended in October 2016 until March 2019. As at 31 December 2018, £2.5m was drawn under the facility (2017 - £5.0m).

In February 2019, the Group refinanced its main UK revolving credit facilities of £80m (£20m that had been due to mature in March 2019 and £60m that had been due to mature in November 2021) by increasing the committed facilities to £120m and extended the maturity to February 2024. The Company is a guarantor, jointly and severally, with certain other Group companies of this newly amended and extended facility.

24. DERIVATIVES

The foreign exchange contracts outstanding at the year end are:

	Fair value	
	2018 £'000	2017 £'000
Foreign exchange contract assets -cash flow hedge	170	1,454
Foreign exchange contract liabilities -cash flow hedge	(9,495)	(4,306)

The Company enters into forward foreign exchange contracts to hedge the exchange risk arising on its trading activities in foreign currencies. The fair values are based on market values of equivalent instruments at the balance sheet date. Losses of £5,692,000 (2017 - £8,483,000 gains) were recognised in other comprehensive income. An amount of £777,000 loss (2017 - £1,043,000 gain) has been transferred to the profit and loss account and is included within operating profit in respect of contracts which matured during the year.

25. DISPOSAL

On 9 September 2017, the Company sold the BWT Ilkeston facility. The sale enabled management to have greater focus on opportunities in its core activities. A loss of £3,719,000 arose on disposal after taking into account exit costs together with fair value of net assets disposed (£4,077,000 including £897,000 of inventories and £678,000 of property, plant and equipment and £1,595,000 of goodwill), offset by cash consideration of £358,000.

SENIOR UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **For the year ended 31 December 2018**

26. ULTIMATE PARENT COMPANY

The Company's immediate parent Company is Senior Engineering Investments Limited. The Company's ultimate parent Company and controlling party, which prepares consolidated accounts incorporating the Company's results, is Senior plc, whose registered office is at 59/61 High Street, Rickmansworth, Hertfordshire WD3 1RH. The consolidated accounts of the Group are available to the public and can either be downloaded from the Senior plc website: www.seniorplc.com or obtained from the aforementioned address. Senior plc is the smallest and largest Group in which the financial statements of Senior UK Limited are consolidated.