

senior



SENIOR PLC  
ANNUAL REPORT  
& ACCOUNTS

2020



Our purpose  
is to provide safe  
and innovative products  
for demanding thermal  
management and  
fluid conveyance  
applications

Resilient through  
the pandemic  
and positioned  
for recovery



**Our purpose**  
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**How we are  
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Aerospace**  
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For more information please visit:  
**seniorplc.com**

Cover image: prime move actuator that  
is used in semi-conductor equipment.

## Financial headlines

**Revenue**  
-34%

**£733.6m**

2019 – £1,110.7m

**Adjusted operating margin<sup>(1)</sup>** -750bps

**0.5%**

2019 – 8.0%

**Adjusted (loss)/profit before tax<sup>(2)</sup>**

**£(6.2)m**

2019 – £78.5m

**(Loss)/profit before tax**

**£(191.8)m**

2019 – £28.7m

**Adjusted (loss)/earnings per share<sup>(3)</sup>**

**(0.84)p**

2019 – 16.17p

**Basic (loss)/earnings per share**

**(38.2)p**

2019 – £7.04p

**Dividend per share**  
-100%

**nil p**

2019 – 2.28p

**Return on capital employed<sup>(4)</sup>** -1060bps

**0.5%**

2019 – 11.1%

**Free cash flow<sup>(5)</sup>** -20%

**£46.5m**

2019 – £58.3m

**Net debt<sup>(5)</sup>**  
**£24m reduction**

**£205.9m**

2019 – £229.6m

## Non-Financial headlines

**CDP (climate disclosure project)**

**A-**

Leadership rating  
Climate change

**A-**

Leadership rating  
Supplier engagement

**Women in leadership**

**43%**

Board of Directors  
2019 – 38%

**38%**

Executive Committee  
2019 – 33%

**Carbon dioxide emissions (tonnes CO<sub>2</sub> emitted)** -24%

**48,989 tonnes**

2019 – 64,589 tonnes CO<sub>2</sub> emitted

**Lost time injury illness rate (per 100 employees p.a.)** -27%

**0.32 incidents**

2019 – 0.44 incidents

**Water consumption (megalitre)** -29%

**241**

2019 – 342 megalitre

**Waste recycled**  
-1%

**93%**

2019 – 92%

Adjusted operating profit and adjusted loss/profit before tax are stated before £7.7m amortisation of intangible assets from acquisitions (2019 – £13.1m), £39.0m restructuring (2019 – £12.1), £134.3m goodwill impairment and write-off (2019 – £nil) and £nil costs associated with US class action lawsuits (2019 – £2.6m). Adjusted loss/profit before tax is also stated before disposal activities of £4.6m (2019 – £22.0m). Adjusted loss/earnings per share is also stated before exceptional non-cash tax credit of £nil (2019 – £3.6m).

EBITDA is defined as adjusted loss/profit before tax, and before interest, depreciation, amortisation, and profit or loss on sale of property, plant and equipment. It also excludes adjusted profit or loss before tax from disposed businesses 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.

(1) Adjusted operating margin is the ratio of adjusted operating profit to revenue. A reconciliation of adjusted operating profit to operating loss/profit is shown in Note 9.

(2) A reconciliation of adjusted loss/profit before tax to loss/profit before tax is shown in Note 9.

(3) A reconciliation of adjusted loss/earnings per share to basic loss/earnings per share is shown in Note 12.

(4) See page 30 for the derivation of return on capital employed.

(5) See Notes 32b and 32c for the derivation of free cash flow and of net debt respectively. From 2019 net debt includes IFRS 16 lease liabilities.

The US Dollar exchange rate applied in the translation of revenue, profit and cash flow items at average rates for 2020 was \$1.29 (2019 – \$1.28). The US Dollar exchange rate applied to the balance sheet at 31 December 2020 was \$1.37 (31 December 2019 – \$1.33).

### Cautionary statement

The Annual Report & Accounts 2020 contains certain forward-looking statements. Such statements are made by the Directors in good faith based on the information available to them at the date of this Report and they should be treated with caution due to the inherent uncertainties underlying any such forward-looking statements.

# Group at a glance

Our vision is to be a trusted and collaborative high value-added engineering and manufacturing company delivering sustainable growth in operating profit, cash flow and shareholder value.

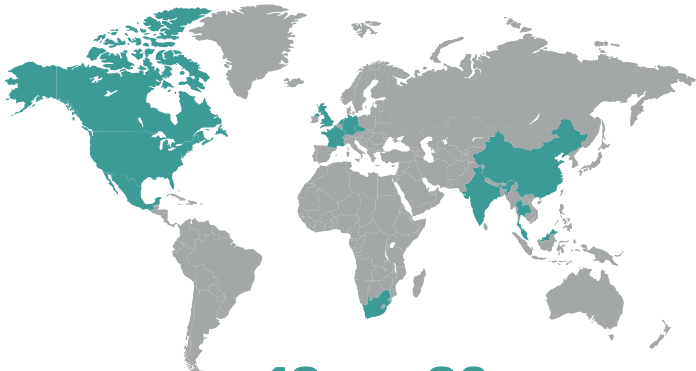
The Group’s culture of autonomous collaboration, underpinned by continuing focus on innovation and investment across our global footprint, is key to our success.

## Our people worldwide

5,880  
Employees

- |                  |                      |
|------------------|----------------------|
| 1. North America | 2. UK and Europe     |
| 43%              | 32%                  |
| 3. Asia          | 4. Rest of the world |
| 23%              | 2%                   |

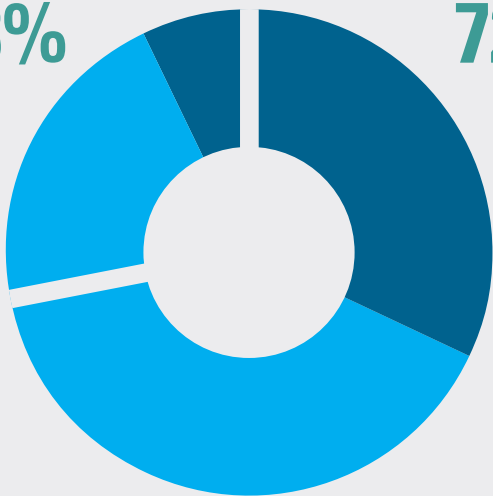
(1) As of 31 December 2020, the decision was taken to close Senior Aerospace Bosman, Netherlands and Senior Flexonics Upeca, Malaysia. It is anticipated these businesses will close in 2021.





13 Countries<sup>(1)</sup> 30 Worldwide operating businesses<sup>(1)</sup>

## Our technology themes

Flexonics 28% Aerospace 72%



- |   |   |
|---|---|
|  <b>Fluid Conveyance</b><br>Product and System Design & Manufacturing IP |  <b>Structures</b><br>Complex Machining and Manufacturing Know-How: Process IP |
|---|---|

### Intellectual property (IP) is inherent in both design and manufacturing

Our fluid conveyance and thermal management businesses have design IP and our structures businesses have manufacturing IP. Both types of IP are underpinned by our investment in advanced manufacturing technology and supported by our knowledge of low carbon technology. Our global footprint in Aerospace & Defence, Land Vehicle and Power & Energy and other attractive and diverse end markets offer deliverable growth opportunities.



## Business division: Aerospace



Serving both the commercial aerospace and defence markets with a range of products and systems for structures, fluid conveyance, and gas turbine engines.

➤ **Read more about Aerospace**  
on [page 38](#)

### 1. Civil Aircraft

**42%**

### 2. Defence

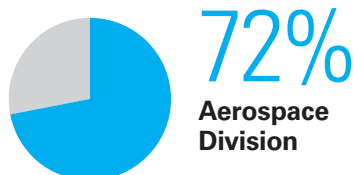
**22%**

### 3. Other Aerospace Division

**8%**

### Our customers

Rolls-Royce	9%
Boeing	8%
Lockheed	7%
Spirit	5%
Raytheon	5%
Airbus	4%
Safran	2%
Bombardier	2%
GKN	2%
Northrop Grumman	2%
MTU	2%
Other Aerospace Division	24%



### Fluid conveyance systems

- High-pressure and low-pressure engineered ducting systems (metal and composite)
- Engineered control bellows, sensors and assemblies



### Gas turbine engines

- Precision-machined and fabricated engine components (rotating and structural)
- Fluid systems ducting and control products



### Structures

- Precision-machined airframe components and assemblies

## Business division: Flexonics



Serving markets with products for land vehicle emission control, thermal management and industrial process control applications.

➤ **Read more about Flexonics**  
on [page 40](#)

### 1. Land vehicles

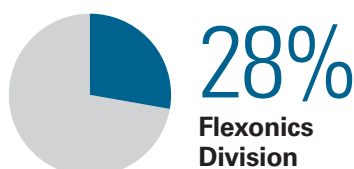
**12%**

### 2. Power and energy

**16%**

### Our customers

Cummins	3%
Caterpillar	3%
Daimler	1%
Ford	1%
Other Land Vehicle	4%
Schlumberger	2%
Emerson	1%
Woodward Inc	1%
Bruce Power	1%
Other Industrial & Aerospace	11%



### Land vehicle emission control

- Exhaust gas recycling coolers
- Fuel mixing and distribution systems
- Flexible couplings



### Industrial process control

- Engineered expansion joints, dampers and diverters
- Flexible hose assemblies and control bellows
- Fuel cells and heat exchangers
- Precision-machined components

# Chairman's statement



2020 has been an extraordinary year. Senior has faced challenges across all aspects of our business, we operate from multiple international sites and had to be flexible, resolute and pacy in our decision-making. Our autonomous business model, acting consistently within principle-driven Group-wide policies, was essential in enabling us to respond to the COVID-19 pandemic. It is this culture of delegated responsibility that enabled the business to respond so rapidly to the challenges encountered in 2020. Global pandemic, continued grounding of the 737 MAX, following the tragic accidents in 2019, and historically low oil prices all impacted our key end markets of aerospace & defence, land vehicle and power & energy. An unprecedented confluence of events.

Our businesses acted quickly to incorporate appropriate working practices and provide IT support to enable working from home. With travel restrictions in place, regular oversight of employee welfare and business continuity plans was undertaken by a working group chaired by David Squires. Bindi Foyle increased the frequency of profit and cash performance forecasts with business reviews taking place on a monthly drumbeat.

Senior also played a part in supporting healthcare organisations during the pandemic in 2020. In some of our businesses in the UK, we are manufacturing and supplying tens of thousands of personal protective equipment ("PPE") items to NHS trust hospitals, care homes and medical practices as well as small businesses in local communities.

The Board was flexible and adaptive to the dynamics the Company was facing, functioning well during these challenging times. It is imperative in crisis situations that decisions are not put off or deferred, the Board rose to the challenge, increasing the frequency of meetings to oversee and support the Executive Team as the pace of decision-making increased. The controls process has not suffered and has been permanently changed in some areas to reflect the current situation. Our strategic process adapted and evolved during 2020, ensuring the Group was dynamic.

The restructuring, started in 2019, was expanded to align direct headcount to match demand and to reduce overhead costs through

efficiency improvements. This was done with humanity and compassion ensuring key skills were retained.

Our products and services are applicable to a wide range of end markets. The Group not only continues to build on existing customer relationships but is also pursuing opportunities in the space and semi-conductor equipment markets. Those businesses with diversified sales were better able to withstand the impact of the pandemic.

It is Senior's policy to review its portfolio on an ongoing basis and evaluate all of its operating businesses in terms of their strategic fit within the Group. In line with this strategy, on 5 March 2021 we announced the divestiture of Senior Aerospace Connecticut, our stand alone, build-to-print helicopter structures operating business. We also took the decision to close our Aerospace Bosman business in the Netherlands in 2021, relocating production to our Aerospace facilities in France and also announced the closure of Flexonics, Malaysia, (UFT) business. Subsequently, we brought together our Aerospace Structures Division and Aerospace Fluid Systems Division to form one Aerospace Division.

At the Strategy Review in October, the Board challenged the company strategy in light of end market disruption and found its flexibility continued to provide a solid foundation to support the Company's future growth aspirations.

My engagement with major shareholders increased in tempo this year. Site visits which are hugely important in gaining insight into the business have had to be postponed but given all of the other interactions we feel an equilibrium has been reached. We will learn and reflect from this once the new norm prevails.

## 2020 performance and dividend

The Group generated a free cash inflow of £46.5m. The Group balance sheet remains robust, with adequate headroom to our committed facilities. We have well-structured financing arrangements in place and supportive lenders, who have agreed appropriate covenant relaxations.

Given all trading circumstances however, the Board has taken the decision not to recommend the payment of a 2020 final dividend. The Board recognises the importance of the dividend for our shareholders and will continue to follow a progressive dividend policy reflecting earnings per share, free cash flow generation, market conditions and dividend cover over the medium term, when it is appropriate to do so.

## The Board

Senior has a strong and diversified Board and in 2020 we undertook a Board Assessment to ensure it has the right skills sets to support the Group. There were a number of improvements agreed which have largely been implemented, wherever possible given the restrictions. To find more detail on these improvements, please refer to page 57 in the Governance section.

The Board continues to focus on its responsibility to all of Senior's stakeholder groups – shareholders, customers, suppliers, employees and our communities and aims to identify those Environmental, Social and Governance ("ESG") considerations that have the potential to impact our long-term sustainability as a business.

We became the first company in our sector, in 2020, to have carbon reduction targets verified by the Science Based Target Initiative ("SBTi"), meaning we are aligned with the Paris Agreement and 2050 Net Zero. In addition, Senior maintained a "Leadership" rating of A- in the year from the globally recognised Carbon Disclosure Project: the only UK company in our sector to achieve a leadership rating. Following on from our 2020 commitments for sustainability, we have established a new set of sustainability commitments in our "Senior Sustainability 2025" programme and continue the development of products that support a low carbon future. Furthermore, employee engagement has been even more important this year and we have focused on communications and using different approaches to disseminate information as well as gather feedback.

The Corporate Governance Report (pages 47 to 93) examines how the Board set the right tone from the top of the organisation. We continue to ensure the health, well-being and safety of our employees is our priority and that our operations conduct themselves with integrity and in an ethical, sustainable and socially responsible manner. The Group is focused on a set of non-financial metrics which range from diversity, to greenhouse gas emissions, to water consumed and how much waste is recycled in the businesses. The Environmental, Social and Governance Report on pages 14 to 23 looks at how Senior has achieved significant improvement against our non-financial targets in 2020.

## Summary and outlook

Senior's resilience is a reflection of the quality and diversity of the people and our businesses within the global footprint of the Group. On behalf of the Board, I would like to thank all of the Group's employees for their substantial contribution to Senior.

While 2020 has been a challenging year; we have not stood still – mitigation plans are being implemented by the Executive teams led by David and Bindi. The Company purpose is undiminished, our strategy has been stressed and challenged but stays intact. Our plans have been modified accordingly.

Although the Group faced significant challenges in 2020 and these challenges still persist in 2021, Senior remains well positioned to deliver improved returns for our shareholders over the medium term.

Thank you all for your support.

**Ian King**  
Chairman

# Group Chief Executive Officer's statement



"Resilient through the pandemic and positioned for recovery"

**David Squires**  
Group Chief Executive Officer

## Strategic priorities

1. Enhance Senior's autonomous and collaborative business model
2. Focus on growth
3. Introduced a high-performance Operating System
4. Competitive Cost Country Strategy
5. Considered and Effective Capital Deployment
6. Talent development

## Revenue

**£733.6m**

(2019 – £1,110.7m)

## Adjusted (loss)/profit before tax

**£(6.2)m**

(2019 – £78.5m)

## Adjusted (loss)/earnings per share

**(0.84)p**

(2019 – 16.17p)

## Overview of 2020 results

Senior delivered strong free cash flow in a period when the coronavirus (COVID-19) pandemic had a profound effect on our markets and customers and the business continued to be impacted by the grounding of the Boeing 737 MAX fleet. Accordingly, sales, adjusted operating profit and adjusted earnings per share all declined in the period.

In our Post-close Market Update on 14 January 2021 we reported that our fourth quarter performance was slightly ahead of the Board's previous expectations. However, the low level of activity which began in the second quarter of 2020, due to the impact of COVID-19 on some of our key end markets, persisted for the remainder of 2020. For the year, the impact was most pronounced in our civil aerospace and power & energy markets, as customers lowered production rates, re-aligned inventory and, early in the pandemic, were initially forced to temporarily close their facilities. Land vehicle end markets were down year-on-year, although

our performance in this sector benefited from the partial recovery in the heavy-duty truck and passenger vehicle sectors in the fourth quarter. We are encouraged by the recent wins in Flexonics which help with the medium-term recovery in that Division.

In Aerospace, sales declined 36.6% year-on-year on a constant currency basis, with sales from civil aerospace down 50.5%, partly offset by 6.5% growth in sales from defence. On a quarterly basis, Aerospace sales declined 22% in Q1, 40% in Q2, 45% in Q3 and 39% in Q4 year-on-year. On a sequential basis, Aerospace revenue declined 20% in Q2 relative to Q1 and 18% in Q3 relative to Q2, with growth of 11% in Q4 relative to Q3. The year-on-year reduction reflected the significant cuts in programme production rates by the civil aircraft and engine original equipment manufacturers (OEMs) as many airlines cut capacity, retired older aircraft and deferred deliveries of new aircraft. Further disruption was caused by customers' temporary production closures and rebalancing of inventory throughout the supply chain.

In Flexonics, sales were 23.5% lower year-on-year on a constant currency basis. On a quarterly basis, Flexonics sales declined 23% in Q1, 33% in Q2, 25% in Q3 and 13% in Q4 year-on-year. On a sequential basis, Flexonics revenue declined 20% in Q2 relative to Q1 and 1% in Q3 relative to Q2, with growth of 10% in Q4 relative to Q3. The performance in the second half of the year benefited from improved conditions in the heavy-duty truck and passenger vehicle markets compared to the first half of the year, partly offset by ongoing weakness in the power & energy sector.

We measure Group performance on an adjusted basis, which excludes items that do not directly reflect the underlying in-year trading performance (see Note 9). References below therefore focus on these adjusted measures.

In response to the evolving market conditions, in 2020, we extended and broadened the scope of our restructuring programme, which is delivering the expected additional cost savings. While these are beneficial, the magnitude of the fall in sales in both Divisions, has materially impacted the Group's adjusted operating margin which decreased by 750 basis points, to 0.5% for the year.

Adjusted profit before tax decreased to a loss of £6.2m (2019 – £78.5m profit). Adjusted earnings per share decreased to a loss of 0.84 pence (2019 – adjusted earnings per share of 16.17 pence).

Reported loss before tax was £191.8 m (2019 – £28.7m profit). Basic earnings per share was a loss of 38.2 pence (2019 – basic earnings per share of 7.04 pence).

With a relentless and effective focus on cash preservation, the Group delivered free cash flow of £46.5m (2019 – £58.3m). Our actions on working capital management and controls over capital expenditure have benefited this year's cash result. Gross investment in capital expenditure was £26.8m (representing 0.6x depreciation, prior to the impact of IFRS 16) (2019 – £64.8m) and the Group generated £32.3m (2019 – £3.4m) cash flow from working capital. Reflecting the actions taken, the Group generated net cash flow of £23.2m (2019 – £9.7m) in the year, as free cash flow of £46.5m (2019 – £58.3m) was partly offset by £23.3m (2019 – £11.1m) cash outflows primarily from restructuring and disposal activities and £nil (2019 – £37.5m) payments for dividends and purchase of shares by the employee benefit trust.



# Group Chief Executive Officer's statement *continued*

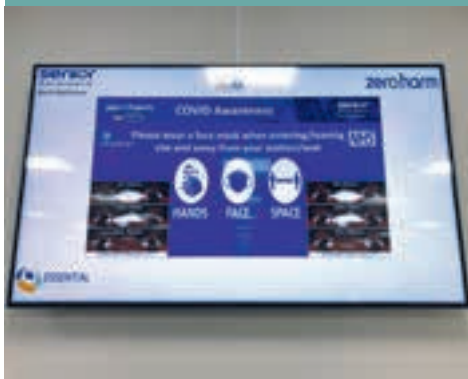
"We are fortunate in having highly capable and experienced leaders in our operating businesses around the world and their leadership throughout this crisis has been inspirational"



## Senior's Response to COVID-19

The Group Coronavirus Oversight Committee, chaired by our Group Chief Executive Officer, co-ordinated our pandemic response. Our businesses followed government and best practice guidelines in the multiple jurisdictions in which we operate, and we worked closely with suppliers and customers to assure business continuity. New working practices were quickly embedded in our operations and all appropriate measures implemented, including social distancing and enhanced cleaning protocols.

"Our highest priority is always the health, welfare and safety of our employees. They have worked tirelessly and skillfully in response to the changing environment"



The Group's financial position is resilient, with £157.1m of headroom on our committed borrowing facilities at 31 December 2020. The level of net debt at the end of December 2020 was £205.9m (including capitalised leases of £76.5m), a reduction of £23.7m from December 2019 after taking into account favourable currency movements of £2.4m and £1.9m increase for lease movements.

We have undertaken extensive scenario testing for 2021, based on a variety of end market assumptions, while taking account of appropriate cost reduction and cash preservation mitigating actions. The Group's lenders, both banks and US private placement investors, are supportive and we have agreed appropriate covenant relaxations in relation to the December 2020, June 2021 and December 2021 testing periods, as well as the previously discussed additional September 2021 testing period, to provide financial flexibility for the Group. Accordingly, against this set of assumptions, including a severe but plausible downside scenario, our assessment shows that the Group has sufficient liquidity headroom under its existing committed facilities and will comply with all covenant measures throughout the period assessed being at least 12 months from the date of approval of the Financial Statements. For the testing period ended 31 December 2020, the Group's net debt to EBITDA was 2.8x and interest cover was 6.1x, both comfortably within our agreed covenant limits (which are on a frozen GAAP, pre-IFRS 16 basis).

Considered and effective capital deployment is a strategic priority for the Group and, in line with our strategy to review the overall portfolio of our businesses and evaluate their strategic fit within the Group, on 5 March 2021 we announced the divestiture of our Senior Aerospace Connecticut, USA, operating business. The gross proceeds for this divestiture are \$74m (£53m<sup>(1)</sup>). As previously announced, we are also closing our Senior Aerospace Bosman operating business in the Netherlands and our small oil & gas operating business in Malaysia, Senior Flexonics Upeca.

We recognise the importance of the dividend for our shareholders. However, with COVID-19 related market uncertainties persisting the Board believes it is not appropriate to pay a final dividend in the current operating environment.

## Senior's response to COVID-19 pandemic

Our highest priority is always the health, welfare and safety of our employees. Around the world, they have worked tirelessly and skillfully in response to the changing environment. All of our businesses are following best practice guidelines and national and local government instructions in the multiple jurisdictions in which we operate. We continue to pay special attention to those in our community who are most vulnerable and are pleased to see the priority being given to vaccinating this group of people in many countries.

The Coronavirus Oversight Committee, chaired by the Group Chief Executive Officer, continues to co-ordinate employee health and welfare and business continuity plans. The actions taken to incorporate appropriate working practices and, where appropriate, provide IT support to enable working from home, have proven to be effective suitable arrangements were made to ensure we supported our customers throughout the year despite the challenges. The frequency of Board, Executive Committee and Business Review meetings were also increased as the pace of decision-making accelerated.

As it became apparent that the pandemic would lead to a prolonged contraction of some of the Group's end markets, the Board supported actions to conserve cash as the most prudent way to manage through the crisis, including curtailing capital expenditure, tight management of working capital and further cost cutting actions while ensuring investment in development programmes continues. In March 2020, we announced that the Board decided that it would not be appropriate to recommend the payment of the 2019 Final Dividend in 2020. The executive Directors, the Chairman and the non-executive Directors reduced their salaries and fees by 20% for a three-month period in 2020 and the other members of the Executive Committee and senior leaders throughout the business also took a reduction in their salaries. The Group also took the decision to furlough employees, where appropriate, in those businesses most affected by the downturn.

The restructuring programme, which commenced in the second half of 2019, was further adapted during 2020 in response to the changing end market conditions. The programme is progressing to plan and delivering the expected benefits.

Restructuring activities include the alignment of headcount to anticipated demand; further efficiency improvements leading to overhead reductions; combining the management of our Aerospace Structures and Aerospace Fluid Systems divisions to form one Aerospace Division; the closure of our Senior Aerospace Bosman operating business in the Netherlands in 2021 and transferring production to our Aerospace facilities in France; the closure of our small Flexonics Upeca business in Malaysia in Q1 2021 which serves the oil & gas sector; and the closure of Senior Aerospace AMT's South Carolina facility in early 2020. In response to the impact the pandemic has had on our end markets, customers have reduced demand and ceased orders on certain programmes. As part of the restructuring focus, we have assessed

(1) Currently assuming exchange rate for the US Dollar to Pound Sterling of \$1.40 for the transaction.



Senior's autonomous and collaborative culture enables swift response to sudden change in end market demand

The global pandemic caused a sudden demand change in most of our end markets leading to inventory build-up at all levels of the supply chain. Adapting swiftly to this new environment, Senior identified inventory champions in each operating business and tasked Michelle Yorke, Director of Risk and Compliance, to lead a Group-wide initiative to minimise inventory build-up. This ensured each business had the right tools to define its own inventory reduction plan and the responsibility to deliver on it. With a lot of hard work at all levels, Senior has managed to reduce inventory and will continue with the initiative in 2021.



critically any inventory or asset exposures on these programmes and written down the carrying values on excess holdings where there is no alternate use. In addition, we redeployed some equipment to better utilise it elsewhere within the Group, for example for use on our growing defence work instead of civil aerospace.

In 2020, the Group recognised a restructuring charge of £39.0m (2019 – £12.1m). This comprised £13.5m (2019 – £4.4m) related to a reduction of 27% in the Group's headcount since June 2019, of which there was a 17% reduction in Flexonics and 31% reduction in Aerospace; £10.5m (2019 – £nil) related to the closures of Senior Aerospace Bosman and Senior Flexonics Upeca; write-down of excess inventory with no alternate use of £8.5m (2019 – £3.4m) and of fixed assets of £5.0m (2019 – £2.9m) primarily relating to programmes with significant reductions in volumes or that have been cancelled or ended; and £1.5m (2019 – £1.4m) for other associated costs. Total cash outflow in 2020 for these activities was £15.2m (2019 – £2.9m) with £36m of savings (2019 – £4m) delivered, mainly related to lower headcount.

With some restructuring activities continuing into 2021, a charge of £2m is anticipated to be incurred in 2021, with a cash outflow of £11m. Cumulative savings are expected to be around £45m by the end of 2021 and will increase to around £50m annualised run rate from 2022.

## Market Overview

### Civil Aerospace (42% of Group)

The impact of the pandemic led to a severe and unprecedented decline in global air traffic in 2020. As a result, many airlines cut capacity, retired older aircraft and looked to defer deliveries of new aircraft. This led civil aircraft and engine OEMs to announce significant cuts

to production rates, impacting programmes on which Senior has content. Further disruption in 2020 was caused by COVID-19 related customers' temporary production closures and rebalancing of inventory throughout the supply chain; an activity that is continuing into 2021.

Overall, the International Air Transport Association ("IATA") reported demand for air travel in 2020 fell 66% year-on-year as a result of COVID-19. Most industry commentators expect air traffic to return to 2019 levels by 2023/2024 and production rates to recover to pre-COVID-19 levels by 2024/2025 for single-aisle aircraft with wide-body expected to take longer to recover. As demand recovers, production for new aircraft will be supported by the replacement cycle driven by the accelerated retirement of older, less efficient, aircraft. Beyond this, the drivers supporting air traffic growth over the long-term of c. 4% per annum remain in place. Senior has good content on all the newer aircraft so is well positioned to benefit from the expected medium-term market recovery.

Single-aisle aircraft production had been expected to grow in 2020. However, the sudden and prolonged reduction in air traffic led Airbus to reduce its A320 programme production rates to 40 per month in 2020. In January 2021, Airbus announced they expect A320 production to increase to rate 43 per month in Q3 2021 and thereafter to 45 per month in Q4 2021. This compares to the pre-pandemic anticipated ramp up to rate 63 per month in 2021. Production on Boeing's 737 MAX was at a low level throughout 2020 and it is encouraging that the 737 MAX has now been recertified and returned to service. This enabled Boeing to resume deliveries of new aircraft, with 27 being delivered to airlines in December 2020. Boeing reported c. 426 finished 737 MAX aircraft in inventory at year-end and announced it expects

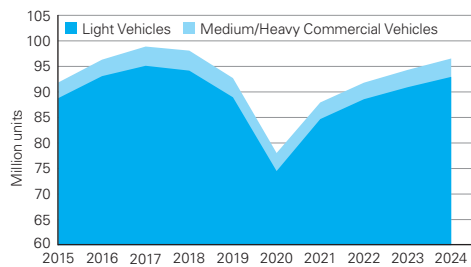
production to gradually increase from its current low rate to 31 per month in early 2022, with further gradual increases corresponding to market demand. While there remains inventory in the supply chain to be utilised, with an order backlog around 3,200 aircraft, we expect this programme to be successful in the medium to long term.

As we entered 2020, the wide-body sector was facing over-capacity concerns on certain core long-haul routes. International travel has seen the biggest impact as a result of the pandemic so recovery in this sector is expected to take longer than domestic routes which are typically served by single-aisle aircraft. Airbus announced production of the A330neo has been reduced from a build rate of 3.5 at the start of 2020 to 2 per month and A350 deliveries are now expected to equate to a build rate of around 5 per month, compared to between 9 and 10 per month that had been previously expected. Boeing also announced production cuts to its wide-body programmes. On the 787 platform the production rate was reduced to 10 per month in the second half of 2020, down from 14 per month previously, with the Company announcing a further reduction to a rate of 5 per month in March 2021. The 777/777X combined production rate is expected to reduce to 2 per month in 2021, with the latest estimate from Boeing for the first delivery of the 777X in late 2023.

In business jets, flight activity in 2020 showed this area to be somewhat more resilient than large commercial aerospace. Bombardier reported their business jet deliveries for the year were down approximately 20% year-on-year due to the pandemic compared to a decline in deliveries of over 40% in the wider large commercial aerospace market. In 2020, Bombardier recorded 35 deliveries of its Global 7500, which, in June 2020, received business

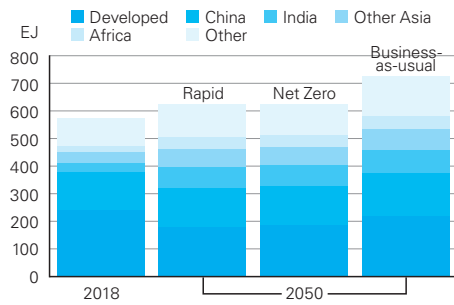
# Group Chief Executive Officer's statement *continued*

## World vehicles production forecast



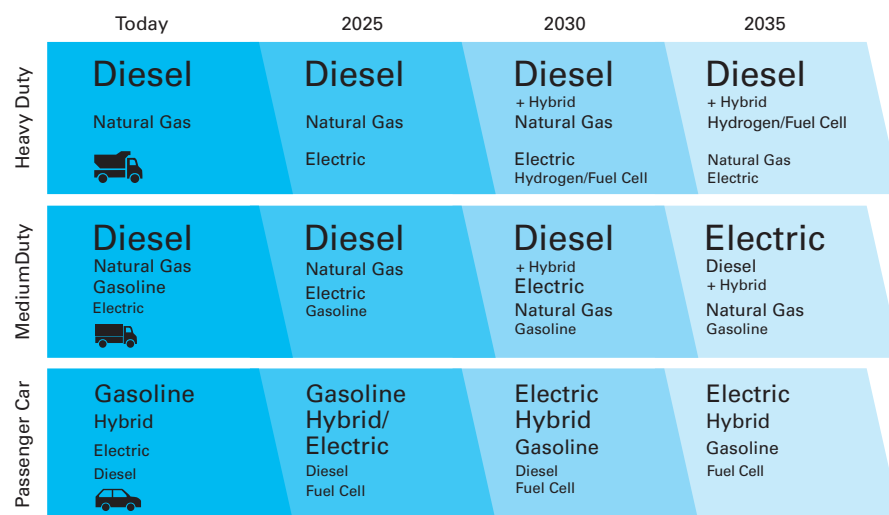
SOURCE: Data sourced from IHS Markit, Feb 2021.

## World energy demand Primary energy consumption by region



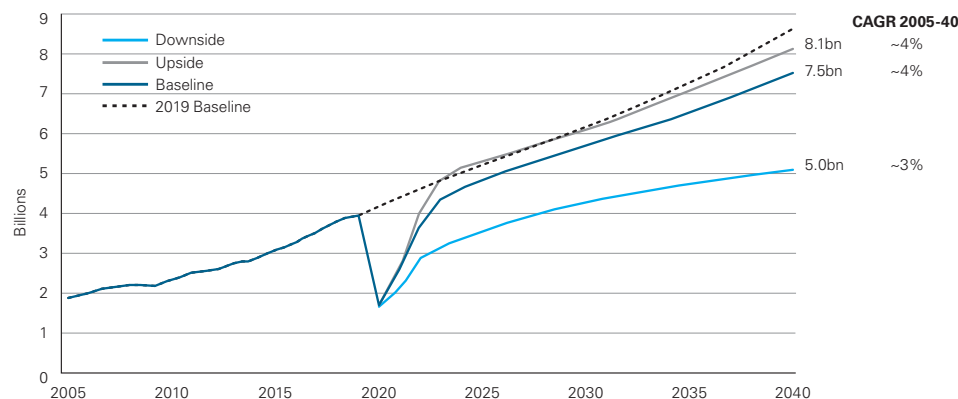
SOURCE: BP Enerav Outlook 2020

## Market Direction



SOURCE: Senior plc.

## World passengers flows long-run outlook



SOURCE: IATA, Tourism Economics, "Air travel risks and recovery", Feb 2021; Senior estimates.

aviation's first-ever Environmental Product Declaration (EPD), a third-party verification of the aircraft's life cycle environmental footprint. In regional jets, Airbus recently indicated its intention to increase its rate of production on the A220 programme from 4 to 5 aircraft per month from the end of Q1 2021. However, Mitsubishi Aircraft confirmed they had suspended the development of the M100 (redesign of the stretched MRJ70) and of the rebranded Mitsubishi Aircraft SpaceJet M90, although it will continue to work on the certification documentation. In addition, Embraer have rescheduled the start of operations of the E175-E2 jet until 2023.

## Defence (22% of Group)

Senior's sales to the Defence sector represented 22% of Group revenue in 2020. The US defence market remains robust and global defence spend has not been significantly affected throughout the pandemic. Key growth programmes include the F-35 as well as new aircraft such as the USAF T-7A Red Hawk. These growth programmes will be important franchises for decades to come and Senior is well placed with good content on each one. Mature programmes such as the C-130 transport aircraft continue in series production.

## Other Aerospace (8% of Group)

Sales from our Aerospace operating businesses into end markets outside of the civil aerospace and defence markets are classified under "Other Aerospace" and include sales into the space and semi-conductor equipment markets. The growing space satellite sector has created opportunities with new customers who value the high quality and on-time delivery performance of our civil aerospace businesses. The semi-conductor equipment market was expected to have a strong year in 2020 and proved to be even stronger than anticipated, with increasing Integrated Circuit demand which drives the need for additional and new technology systems to manufacture semi-conductor devices. Our proprietary products using our world class bellows technology provide excellent solutions for these applications.

## Land Vehicle (12% of Group)

In Flexonics, Land Vehicle markets continue their recovery with Americas Commercial Transportation ("ACT") Research reporting that North American heavy-duty truck production only declined 38% year-on-year in 2020 compared to the pre-pandemic expectation of a decline of 34% at the time of our FY19 results in March 2020. ACT expects a rebound in production in 2021, upgrading their most recent forecasts to a growth of c.41% in North American heavy-duty truck production



and of c.10% in North American medium-duty diesel truck market in 2021. Increasing adoption of electrification for both land vehicle and stationary power applications continues. This market is fast growing and represents a major opportunity in the medium and long term for Senior, particularly for its proprietary battery cooling technology.

### Power & Energy (16% of Group)

In power generation, the International Energy Agency ("IEA") projects that global electricity demand fell by around 2% in 2020, the biggest annual decline since the mid-20th century driven by the decline in global GDP in the year. Notwithstanding this, there was some growth in renewable and nuclear generation capacity. The significant decline in air and land travel contributed to an excess of crude oil supply over demand and the mothballing of some upstream oil and gas capacity in 2020. Some operators in the oil and gas markets have cut production and are exploring new business opportunities in low carbon or carbon-neutral energy technologies. However, as economic activity recovers, demand for oil and gas is expected to increase.

We are continuously reviewing the shape of the recovery in our end markets and are ensuring our businesses are aligned appropriately.

### Delivery of Group Strategy

We have continued to focus on strategy implementation in 2020, while at the same time prioritising health and safety, liquidity and cash preservation, and business continuity during the pandemic. The strategy supports a minimum pre-tax return on capital employed (ROCE) target of 13.5% over the medium-term on a post IFRS 16 basis.

The Board continuously reviews the strategy and has affirmed the importance of the six strategic priorities that underpin our business model:

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

Further details including our plans for 2021 are noted on pages 24 and 25 of the Annual Report & Accounts 2020.

### Technology and product design and development

Our investments in new technology and product design and development in the areas of fluid conveyance, thermal management and additive manufacturing are progressing well.

In fluid conveyance, our bellows technology can be applied to a broad range of custom solutions across a diverse range of attractive end markets. For example, semi-conductor and medical equipment as well as aerospace products. The recent investment in, and expansion of Senior Aerospace Metal Bellows, our IP-rich Fluid Systems business based in Massachusetts, USA, is enabling the Group to secure annuity business in a variety of end markets. Elsewhere, we have been awarded several fluid handling projects for electric vehicle (EV) and hybrid applications and have entered into co-development arrangements with commercial vehicle OEMs for light-weight engine exhaust components.

In thermal management our intellectual property can be used to prolong battery life, a key determinant of electric and hybrid vehicle economics. Having already commenced production of our 70kW battery cooler, our first electric vehicle application, we have numerous development projects with a variety of battery manufacturers and land vehicle OEMs. For instance, we are delivering prototypes for a high-performance electronic heat exchanger for next generation fast charging hybrid and electric vehicle platforms; we are developing a new concept, high performance next generation EGR cooler for hybrid applications with a major OEM; and prototyping the use of lighter grade materials for battery cooling for demanding performance requirements with niche OEMs. In addition to vehicle applications, we are also working with customers on future cooling solutions for stationary power storage.

In our Flexonics Division, we produce products in the energy sector specifically related to hydrogen fuel cell technology. Senior has been building on this capability for a number of years, with some products being in service for over ten years. As interest expands in hydrogen fuel cells as a power source, we have established a global team to develop and deliver solutions for this evolving market. We are working with developers of both solid oxide fuel cells ("SOFC"), which are mostly used for stationary power applications, and proton exchange membrane ("PEM") fuel cells, which are used

in stationary, mobile or automotive applications, to use our fluid conveyance and thermal management expertise to develop and produce solutions for hydrogen handling and fuel cell and electrolyser construction.

Our Advanced Additive Manufacturing Centre ("AAMC") in Burbank, California, USA, works collaboratively across the Group and is focused on designing and manufacturing metallic additive products to reduce cost, weight, and overall cycle time. The centre is being utilised heavily by our Aerospace businesses and is generating revenue. We have a number of patents pending, have products going through customer qualification processes and have delivered the first duct manufactured using this process in 2020.

Elsewhere we are also designing and manufacturing parts using additive technology in other materials. For instance, at Senior Aerospace BWT, based in Cheshire, UK, an additive manufacturing centre was constructed within the facility in 2020. Thermoplastic additive manufacturing has continued to move forward there with parts now flying on three aircraft platforms, and a fourth larger customer programme nearing qualification completion in the first quarter of 2021, with production ramp up thereafter.

Thermoplastic composite development has continued to progress well throughout 2020, albeit at a pace aligned with the COVID-19 impacted aerospace sector. Product qualification with the launch customer is underway and expected to complete in the first quarter of 2021, with product delivery expected in March 2021 followed by production ramp up through the year. A number of important new contracts were awarded in 2020, building on our current relationships and differentiated technology. More information on these contracts is given in the Aerospace and Flexonics Divisional Reviews.

### Capital Deployment

Following several years of high capital investment to support growth, we are now past the peak investment phase and while we retain the capacity to make appropriate investments, we expect future capital investment to be at more normal levels. We continue to follow our return on capital targets and capital deployment policy whilst ensuring our pricing discipline is firm.

# Group Chief Executive Officer's statement *continued*

Senior uses technological know-how to respond to critical shortages of personal protective equipment

In response to the critical shortage of PPE for frontline workers in the UK, Senior Aerospace BWT and Senior Flexonics LPE used their capability in non-metallic additive processes to produce full-face visors for local NHS hospitals, surgeries, care homes and local police forces. Working in consultation with the Manchester Royal Infirmary and the Queen Elizabeth Hospital in Birmingham, the BWT team first refined a Swedish open-source additive design for a visor frame but as demand increased, they developed a new design utilising injection moulded parts, enabling a significant increase in production rates. Furthermore, the team utilised their capabilities in three-dimensional knitting of composite preforms to develop their own face mask design as the use of face masks increased.

Elsewhere in the Group, Senior Aerospace Metal Bellows, USA, used their 3D printing know-how to work with the Northeast Face Shield Project to produce face shields for their local hospitals and first responders, free of charge.



The Group continuously reviews its overall portfolio of operating businesses and evaluates them in terms of their strategic fit within the Group. Last year three more non-core businesses were disposed of as part of our Prune To Grow activity. As reported in our trading update in April 2020, Senior had previously confirmed that it was reviewing strategic options for its Aerostructures business, which included a potential divestment of the Division. Although we received strong interest for the business, the Group determined that it was in the best interests of Senior and its stakeholders for the Aerostructures business to remain within the Group. With its global footprint, this business is well positioned to benefit from the expected gradual recovery in commercial aerospace markets and has opportunities for some further diversification into space and defence sectors.

On 5 March 2021, we announced the divestment of our Senior Aerospace Connecticut, USA, operating business for gross proceeds of \$74m (£53m). This is the only business in the Group whose primary focus is build-to-print parts for the rotary sector and, while it is a very capable business, we feel that it is a better fit in a larger business focusing on that market. Net proceeds will be used to further strengthen Senior's balance sheet and provide greater flexibility for the Group to operate within its capital deployment framework.

In addition, we have previously reported the planned closure of our Senior Aerospace Bosman operating business in the Netherlands in 2021, with the transfer of production to our Aerospace facilities in France, and the closure of our small Flexonics Upeca business in Malaysia in Q1 2021 which serves the oil & gas sector.

## Environmental, Social and Governance ("ESG")

ESG remains a very high priority for Senior. Some of our achievements to highlight since 2015 include:

- Reduced our Lost Time Injury Rate ("LTIR") by 69% by December 2020
- Reduced our Total Recordable Injury Rate ("TRIR") by 63% by December 2020
- Reduced total Scope 1 and 2 carbon emissions by 8,115 tonnes by 2019
- Decreased carbon intensity by 33% (£M revenue per tonne CO<sub>2</sub>e) by 2019
- Increased waste recycling from 82% to 93% in 2020
- Secured approval of our greenhouse gas emission reduction targets under the Science Based Target Initiative in June 2020
- Achieved CDP scores amongst the highest in our peer group companies in the years 2015 to 2020, with Leadership Scores in both Climate and Supplier Engagement in 2019
- Early adopters of Hampton-Alexander Review Board and Executive gender diversity targets which we continue to meet.

## Environment

Senior has set independently verified industry leading goals to reduce greenhouse gas emissions and is developing products to support a low carbon future.

Senior's sustainability commitments are aligned to a "net zero" carbon environment. Net zero means achieving a world balance between the greenhouse gases put into the atmosphere and those taken out. Senior has set ambitious "Science Based Targets", which have been independently verified, to support this goal.

In fact, we became the first company in our sector, in 2020, to have these greenhouse gas emission reduction targets verified by the Science Based Target Initiative ("SBTi"). The SBTi is a collaboration between CDP, the United Nations Global Compact, World Resources Institute ("WRI") and the World-Wide Fund for Nature ("WWF"). The SBTi defines and promotes best practice in science-based target setting and independently assesses companies' targets. Our verified targets from our operations (Scope 1 and 2) are consistent with reductions required to limit climate warming to 1.5°C, the most ambitious goal of the Paris Agreement. In addition, Senior maintained a "Leadership" rating of A- in 2020 from the globally recognised Carbon Disclosure Project: the first UK Company in our sector to achieve a leadership rating.





## Environmental, Social & Governance ("ESG") highlights

### Environment

Senior is the first company in the global Aerospace & Defence sector to have its emissions reduction targets independently verified and approved by the Science Based Targets initiative ("SBTi").

The targets covering Greenhouse Gas (GHG) emissions from Senior's operations are consistent with reductions required to limiting climate warming to 1.5°C. The Paris Agreement's long-term temperature goal is to keep the increase in global average temperature to well below 2°C above pre-industrial levels; and to pursue efforts to limit the increase to 1.5°C, recognising that this would substantially reduce the risks and impacts of climate change.

### People

We have had a heightened focus on the safety and well-being of our employees during 2020 in relation to the COVID-19 pandemic, taking action to protect them and ensure safe working environments, for example, introducing behavioural safety coronavirus toolbox talks.

We conducted a Group-wide employee engagement survey seeking feedback on our COVID-19 response and received positive feedback. Off the back of the survey, operating business leaders were able to review areas for continuous improvement and have put appropriate actions in place.

The Executive and business leaders continue to focus on providing an inclusive workplace supported by a diverse Executive Team and Board. We will not tolerate any form of unlawful discrimination, and ask for high ethical standards, with all employees benefiting from Code of Conduct training.

### Section 172

Section 172 has been addressed on page 26

Further details on these areas and our plans for 2021, are noted on pages 14 to 23 of the Annual Report & Accounts 2020 and a summary of ESG information is now available online at [www.seniorplc.com](http://www.seniorplc.com).

### Health & Safety

The Health & Safety of our employees is always Senior's highest priority. During 2020 we improved LTIR by a further 27% and TRIR by 36%. To ensure new COVID-19 Health and Safety measures were fully effective, and our staff felt secure in the implementation of the new procedures, Senior introduced a Coronavirus module into our Essential Behaviours safety programme.

### Employee Engagement

Employee engagement has been even more important this year and we focused on communications using different approaches to deliver information as well as gather feedback. We ran a Group-wide employee engagement survey to gather feedback on our response to the COVID-19 crisis. Using the comprehensive survey feedback, our business leaders were able to review areas of good practice and areas for improvement with appropriate actions deployed.

Mindful, that in times of crisis, corporate governance remains of critical importance, in H1 2020 we launched our 2020 Code of Conduct training via our online training platform. A key focus was cyber security: of particular importance given the greater proportion of employees who have been working from home in the period.

### Diversity & Inclusion

Senior continues to focus on Diversity and Inclusion and is an active participant in the 30% Club, which focuses on gender diversity on Boards and senior leadership teams. Women represent 43% of our Board membership and 38% of our Executive Committee. More recently, the 30% Club adopted the Parker Review recommendation to set a new 2023 target on ethnic diversity in senior teams, which our Board and Executive Committee already meet. To reinforce our focus on Diversity and Inclusion, we introduced a new module on unconscious bias to our Code of Conduct training in 2020.

### Community

Some of our manufacturing facilities have stepped up to the challenge of supporting healthcare organisations. For example, in the UK we are manufacturing and supplying tens of thousands of personal protective equipment ("PPE") items to NHS trust hospitals, care homes and medical practices as well as small businesses in local communities.

### Outlook

Although there are some signs of stabilisation, the Coronavirus pandemic is expected to continue to have a profound effect on some of our end markets in 2021 and beyond. In light of these ongoing challenging market conditions, Senior has undertaken mitigating actions and extended its restructuring programme.

For 2021 our current market assumptions are:

- Production volumes for civil aerospace will be lower in 2021 than 2020 based on the production rates that the aircraft and engine OEMs have announced. We also recognise that there are varying levels of inventory in different tiers of the supply chain.
- Defence markets are anticipated to remain stable.
- Based on independent industry forecasts, heavy-duty truck and passenger vehicle markets are expected to continue to recover in 2021.
- In power & energy markets, recovery in the oil & gas sector is unlikely before 2022.

While there remains uncertainty, because of the unpredictable nature of the pandemic, based on these assumptions and prior to adjusting for the impact from the divestment of Senior Aerospace Connecticut, we would expect overall Group performance to be broadly similar to 2020<sup>(1)</sup>.

Looking further ahead, our differentiated offering in fluid conveyance and thermal management products; our investment in low carbon and advanced manufacturing technology; our global footprint; our strong track record and commitment to the highest ESG standards and our positioning in attractive and diverse end markets will help to ensure that we emerge strongly as the recovery starts to take shape.

### David Squires

Group Chief Executive Officer

(1) Currently assuming exchange rate for the US Dollar to Pound Sterling of \$1.37: £1 average for 2021.

# Business Model

## Our vision

To be a trusted and collaborative high value-added engineering and manufacturing company delivering sustainable growth in operating profit, cash flow and shareholder value



## Our purpose

To provide safe and innovative products for demanding thermal management and fluid conveyance applications

## What we do

Senior designs, manufactures and markets highly engineered, technology rich components and systems for principal original equipment producers in the worldwide aerospace and defence, land vehicle and power & energy markets.

The Group has a global footprint with 30<sup>(1)</sup> operating businesses located in 13<sup>(1)</sup> countries servicing blue-chip customers.



**Aerospace**  
page 38



**Flexonics**  
page 40

## How we do it

### Our strengths/differentiators

#### Organisation

- A culture of autonomous collaboration
- Active sharing of best practices
- Complementary capabilities
- Leverage common customer and supplier relationships

#### Financial

- Financial resilience to enable investment and innovation for customer benefit

#### Global footprint

- 30<sup>(1)</sup> operating businesses in 13<sup>(1)</sup> countries covering five market sectors
- An integrated global footprint providing customers with market proximity and cost competitiveness

#### People and culture

- Integrity and high ethical standards
- Maintaining a safe and healthy workplace
- Empowerment of local management, within a well-defined control framework
- Ongoing investment in personal and professional development at all levels throughout the business

➔ Read more about our people on [page 20](#)

#### Innovation

- Focusing on technology, product and process innovation to better serve our customers and enhance our business model

(1) As of 31 December 2020, the decision was taken to close Senior Aerospace Bosman, Netherlands and Senior Flexonics Upeca, Malaysia. It is anticipated these businesses will close in 2021.

## Our core values

### The "Senior way"

#### Safety

We operate safely, protecting people and the environment.

#### Integrity

We operate with integrity and in an ethical manner.

#### Customer focus

We put the customer at the heart of everything we do.

#### Respect and trust

We work together with mutual respect and trust.





We aim to create value for all our stakeholders through our business model

## How we do it

### Our strategic priorities

#### Autonomous and collaborative business model

Senior's business model is one of empowering and holding accountable our businesses, operating within a clearly defined control framework, to develop and deliver business plans in line with overall Group strategy.

#### Focus on growth

We seek to outgrow our end markets, which have structural long-term growth drivers, both organically and through acquisition.

#### High performance operating system

Senior has implemented a high-performance operating system, drawing on the many excellent practices from across the Group, encapsulated in the Senior Operating System and a robust business review process.

#### Competitive cost country strategy

Senior has a global footprint to ensure we stay competitive at a capability and cost level. In addition to our North American and European footprint we have facilities in Thailand, Malaysia, China, India, Mexico, South Africa and the Czech Republic which help to ensure we meet our customers' cost and price challenges whilst enhancing returns on investment.

#### Considered and effective capital deployment

Senior understands the importance of considered and effective capital deployment in the interest of maximising the creation of shareholder value.

#### Talent development

Senior has a skilled workforce and highly experienced entrepreneurial business leaders. We invest continuously in technical skills and professional and leadership development.

➤ Read more about our strategic priorities on [pages 24 to 25](#).

#### Accountability

We do what we say.

#### Excellence

We continually strive to do better in every aspect of our business.

#### Our culture

Our values underpin our culture. They guide and shape employees' behaviours.

## Our long-term sustainable value



#### Our people

Inspiring entrepreneurial and operational leadership teams leading a highly motivated and skilled workforce



#### Our customers

Delivering competitive products and solutions to customers with outstanding quality and delivery performance



#### Our suppliers

Developing reliable, ethical and sustainable supply chains ensuring we can meet our customers' requirements



#### Our communities

Actively participating and helping to improve the quality of life in our local communities. Minimising our environmental impact through peer leading sustainability programmes



#### Our shareholders

Generating value through our sustainable growth in operating profit, cash flow and shareholder value

# Environmental, Social & Governance (“ESG”)

ESG remains a high priority for Senior.

Senior has set independently verified industry leading goals to reduce greenhouse gas emissions and is developing products to support a low carbon future.

Senior’s sustainability commitments are aligned to a “net zero” carbon environment. Net zero means achieving a world balance between the greenhouse gases put into the atmosphere and those taken out. Senior has new ambitious science based targets, which have been independently verified, to support this goal.

## Sustainability 2025 commitments

### Senior’s ESG highlights since 2015:

- Reduced our Lost Time Injury Rate (“LTIR”) by 69%
- Reduced our Total Recordable Injury Rate (“TRIR”) by 63%
- Reduced total Scope 1 and 2 carbon emissions by 8,115 tonnes
- Decreased carbon intensity by 33%
- Increased waste recycling from 82% to 93%
- Verification and approval of our greenhouse gas emission reduction targets by Science Based Target Initiative
- Consistently highest CDP scores in peer group in 2015 to 2020
- Leadership Score in both Climate and Supplier Engagement in 2019 and 2020
- Early adopters of Hampton-Alexander Review Board and Executive gender diversity targets which continue to be met



### Scope 1 (Direct) and Scope 2 (Indirect) Emissions

Senior commits to reduce its absolute Scope 1 and 2 GHG emissions by 30% by 2025 compared to a 2018 base year<sup>(1)</sup>



### Waste

Achieve a Waste Recycling Rate of 95%



### Supply Chain

For Scope 3 GHG emissions, Senior also commits that 80% of its suppliers by spend, covering purchased goods and services and capital goods, will have science-based targets by 2025<sup>(1)</sup>



### Workplace

Reduce our Lost Time Injury Rate to below 0.3 (per 100 employees per annum) by building on our “Essential Behaviours for Health & Safety” platform



“Senior’s commitment to sustainability is unwavering. We are so pleased to be the first company in the global Aerospace & Defence sector to have our greenhouse gas emissions reduction targets verified and approved by the Science Based Targets Initiative.”

**Mark Roden,**  
Director of HSE & Sustainability



<sup>(1)</sup> These targets have been certified externally by the Science Based Target Initiative. Targets adopted by companies to reduce greenhouse gas (GHG) emissions are considered “science-based” if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement – to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.

## Senior takes leadership position in verifying our carbon reduction targets

In 2020 we were successful in having our carbon emission reduction targets verified by the Science Based Target Initiative ("SBTi"). The SBTi is a partnership between CDP, the United Nations Global Compact ("UNGC"), World Resources Institute ("WRI") and the Worldwide Fund for Nature ("WWF"). The SBTi call to action is one of the We Mean Business Coalition commitments.

Senior is the first company in the global Aerospace & Defence sector to have its emissions reduction targets independently verified and approved by the SBTi. The targets covering GHG emissions from Senior's operations are consistent with reductions required to limiting climate warming to 1.5°C.

The Paris Agreement's long-term temperature goal is to keep the increase in global average temperature to well below 2°C above pre-industrial levels; and to pursue efforts to limit the increase to 1.5°C, recognising that this would substantially reduce the risks and impacts of climate change.

SBTi have approved the following targets:

- Senior commits to reduce its absolute Scope 1 and 2 GHG emissions by 30% by 2025 compared to a 2018 base year
- For Scope 3 GHG emissions, Senior also commits that 80% of its suppliers by spend, covering purchased goods and services and capital goods, will have science-based targets by 2025.

In the SBTi's target assessment report, Senior's Scope 1 and 2 targets were considered ambitious as they track to a 1.5°C global temperature increase.

Criterion	Criterion description	Result of the assessment	Recommendations to address non-compliance
C12	The use of offsets is not counted as emissions reduction towards the progress of companies' science-based targets. The SBTi requires that companies set targets based on emission reductions through direct action within their own operations or their value chains. Offsets are only considered to be an option for companies wanting to finance additional emission reductions beyond their science-based targets.	The submitted targets do not include offsets, and therefore complies with Criterion 12.	Compliant
C13	Avoided emissions fall under a separate accounting system from corporate inventories and do not count towards science-based targets.	The submitted targets do not include avoided emissions, and therefore complies with Criterion 13.	Compliant

## CDP (Formerly Carbon Disclosure Project)

Senior has been reporting its carbon emissions to CDP since 2010. CDP is a globally recognised non-profit organisation which focuses on investors, companies and cities, helping these organisations to understand and measure their environmental performance.

Senior maintained a "Leadership" rating of A- in 2020 from the globally recognised CDP: the only UK company in our sector to achieve a leadership rating. Furthermore, we achieved the same leadership rating from CDP for our work on supplier engagement. The high-ranking score is a testament to the importance we place on the environment and communities in which we operate and is a result of the continuing hard work staff in our businesses are undertaking to reduce our environmental impact.



## Summary of environmental performance

	1 Jan 2020 to 31 Dec 2020			1 Jan 2019 to 31 Dec 2019		
	UK and Offshore	Global excluding UK and Offshore	Total	UK and Offshore	Global excluding UK and Offshore	Total
Scope 1: Combustion of fuel and operation of facilities	1,267	7,464	8,731	1,506	8,972	10,478
Scope 2: Electricity, heat and steam purchased for own use	2,595	36,683	39,278	3,540	47,580	51,120
Total gross Scope 1 and 2 emissions / tCO <sub>2</sub> e	3,862	44,147	48,009	5,046	56,552	61,598
Energy consumed in MWh to calculate above emissions	17,279	129,273	146,552	20,663	158,265	178,928
Scope 3: Business travel, waste, water	73	907	980	258	2,733	2,991
Total Gross emissions / tCO <sub>2</sub> e	3,935	45,054	48,989	5,304	59,285	64,589
Intensity measure / tonnes CO <sub>2</sub> emitted per £m of revenue	37	72	67	32	63	58
Water usage (in megalitres)			241			342
Percentage of waste recycled or recovered			93%			92%

## Energy Efficiency Actions

In the reporting year, Senior plc has implemented energy efficiency projects across the global operating businesses. In total, Senior's improvements have reduced the electrical usage by over 3 million kWh. These environmental improvements include the upgrading of air compressors, chillers and coolers reducing usage by 25,000 kWh. LED lighting installations have been completed in several businesses; Senior plc continues to improve by installing motion sensor devices to existing systems to further reduce electrical usage. A US business has an ongoing lighting project at a cost of £150,000. The project will reduce electrical usage by around 600,000 kWh. One of Senior's UK operating businesses has installed a number of electric vehicle charging points for employees and visitors, encouraging the use of 'zero emission' transportation. Senior has set out its Year 2025 Plan to reduce Scope 1 and 2 emissions by 30%. Key to this is the purchase of 100% renewable electricity contracts. Another of Senior's UK operating business has already contracted into the supply of 100% renewable electricity supply, avoiding over 200 tonnes of GHG emissions. Other operating businesses are making progress to achieving renewable energy contracts.

## Methodology

The Group's approach to calculating and reporting our GHG emissions follows the Defra Guidance on how to measure and monitor GHG emissions.

Three data sources used for GHG emissions;

1. UK Government GHG Conversion factors for company reporting (DEFRA full set for advanced users 2020).
2. US EPA (eGRID) Emission factors for greenhouse gas inventories for US electricity generation.
3. IEA (International Energy Agency) Emission factors year 2020 2020's reporting has incorporated Scope 2 greenhouse gas emissions (associated with electricity consumption) calculated using both the Location and Market-based methods.

Each Senior business reports its environmental performance monthly using the Group's financial reporting process.

The Scope 1 and 2 emissions are independently verified in accordance with the International Standard on Assurance Engagements 3410 "Assurance engagements on greenhouse gas statements" (ISAE 3410).



# Environmental, Social & Governance (“ESG”) continued

## Task Force on Climate-related Financial Disclosures (“TCFD”)

In accordance with the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (“TCFD”) the table below summarises the current position for Senior Group.

Senior plc disclose climate change data through the CDP.

The full public disclosure can be found using the link: [cdp.net/en](https://cdp.net/en)

**In 2020 the Climate Change disclosure was assessed by the CDP in the “Leadership” category.**

		Reference
<b>Governance</b>		
Describe the Board’s oversight of climate-related risks and opportunities.	Disclosed	CDP climate change section C.1
Describe the management’s role in assessing and managing climate-related risks.	Disclosed	CDP climate change section C.2
<b>Strategy</b>		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	Disclosed	CDP climate change section C.2
Describe the impact of climate-related risks on the organisation businesses, strategy and financial planning.	Disclosed	CDP climate change section C.3
Describe the potential impact of different scenarios, including a 2-degree scenario on the organisation businesses, strategy and financial planning.	In process	To be completed in 2021
<b>Risks and Opportunities</b>		
Describe the organisation’s processes for identifying and assessing climate-based risks and opportunities.	Disclosed	CDP climate change section C.2
Describe the organisation’s processes for managing climate-based risks and opportunities	Disclosed	CDP climate change section C.2
Describe how processes for identifying, assessing and managing climate-based risks are integrated into the organisation’s overall risk management.	Disclosed	CDP climate change section C.2
<b>Metrics and Targets</b>		
Disclose the metrics used by the organisation to assess climate-based risks and opportunities in line with its strategy and risk management processes.	Disclosed	CDP climate change sections C.5, C.9 Also see Table on page 15
Disclose Scope 1, Scope 2 and, if appropriate Scope 3 greenhouse gas emissions and the related risks.	Disclosed	CDP climate change section C.7 Also see Table on page 15
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Disclosed	CDP climate change section C.4 Also see Table on page 15

## Addressing the changing landscape – product portfolio

Senior manufactures products which help our customers to reduce emissions to air as well as saving energy and so reducing potential carbon emissions.

We remain active in working with our customers to find new solutions to reduce emissions and provide innovative products to be used in low carbon emitting applications, some examples are shown below:

### Battery thermal management system



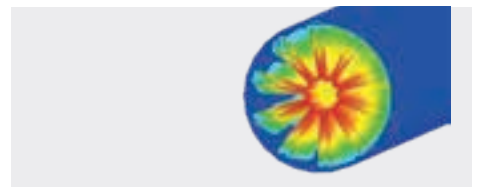
### Exhaust gas recirculation (EGR) cooler





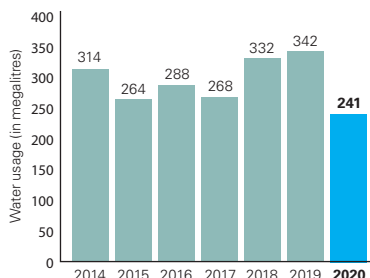

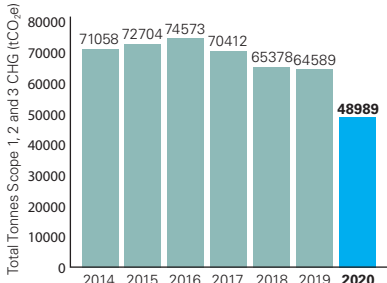
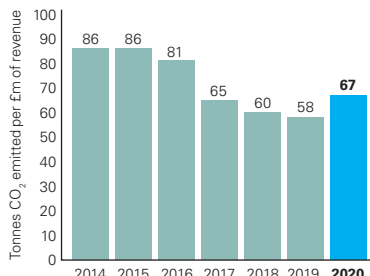

### Heat sink in electric/hybrid cars



### Radial fin (exhaust gas recirculation) coolers – combining highest efficiency with highest durability



## Environment

	Our objective	Progress in 2020
<div>Waste recycling</div> <div>(measured as % waste recycled)</div> <div></div>	<div>To reduce the overall quantity of waste generated and improve the proportion of materials reused and recycled</div> <div>2025 target: &gt;95%</div>	<div>93%</div> <div>In 2020, we recycled 93% of our waste, with 60% of our businesses achieving zero waste to landfill (where local conditions are favourable to recycling opportunities), up from 50% in 2019.</div> <div>This is a result of a concerted effort by our operations to examine opportunities to minimise waste and, where possible, investigate new recycling opportunities.</div> <div>Senior operations generate only small amounts of hazardous waste; this has decreased by 10% in 2020 (compared to 2019).</div>
<div>Water consumption</div> <div>(measured as water intensity megalitre/£m revenue)</div> <div></div>	<div>Limit environmental impacts of our production processes through efficient use of water resource</div> <div>Progress in 2020</div>	<div>241 megalitres</div> <div>We continue to monitor and report on water usage, our businesses incorporate water saving and harvesting initiatives as they continue to refine production processes.</div> <div>In 2020, we saw a reduction in total water usage from 342 megalitres in 2019 to 241 megalitres. This was primarily due to lower production levels with a smaller contribution from water saving initiatives, including Cape Town, where the businesses responded to local shortages by installing water capture/harvesting processes.</div> <div><div>Group water consumption</div><div></div></div>
<div>Carbon</div> <div>(measured as Tonnes of CO<sub>2</sub>e)</div> <div></div>	<div>Senior commits to reduce its absolute Scope 1 and 2 GHG emissions by 30% by 2025</div>	<div>48,989 tCO<sub>2</sub>e</div> <div>In 2020, our total carbon (Scope 1, 2 and 3 emissions) reduced from 64,589 tCO<sub>2</sub>e (2019) to 48,989 tCO<sub>2</sub>e. This was primarily due to production activity meaning less electricity, gas and fuels were consumed.</div> <div>The carbon intensity measure increased from 58 tonnes of CO<sub>2</sub> emitted per £m of revenue to 67 tonnes CO<sub>2</sub> emitted per £m of revenue in 2020, again reflecting lower production levels.</div> <div><div>CO<sub>2</sub> GHG emissions</div><div></div><div><div>CO<sub>2</sub> turnover</div><div></div></div></div>
<div>Certification</div> <div></div>	<div>Establish formalised environmental management systems in all businesses to reduce environmental impacts</div>	<div>All Senior businesses are accredited to ISO 14001</div>

# Environmental, Social & Governance ("ESG") continued

## Social

### Health & Safety

(measured Lost Time Injury Illness Rate)



#### Our objective

Continue towards our goal of zero harm through effective management systems, employee engagement and defining safe behaviours

2025 target <0.3 lost time injury cases per 100 employees

In 2015, we established a target to reduce our LTIR to 0.5 from 1.03, a reduction of over 50%. We achieved this target in 2018, two years ahead of schedule

In 2020, we established a target to reduce our Lost Time Injury rate to 0.3 and continue to make good progress in reducing our injury rates

#### Progress in 2020

**0.32** per 100 employees per annum

The primary metric we use is Lost Time Injury Illness Rate ("LTIR"), defined as the number of work-related lost time injury or illness cases (losing more than one complete shift) per 100 employees.

In addition, we also refer to Total Recordable Injury and Illness Rate ("TRIIR"). The Total Recordable Injury Illness Rate is defined as the number of cases of: lost workdays, restricted work activities, job transfers, medical care beyond first aid and work-related illnesses expressed per 100 employees.

No work-related employee or contractor fatalities occurred in the Senior Group in 2020.

In 2020 we reduced both our Lost Time and Total Recordable Injury rates.

	2020	2019	
Reduce Recordable Injury Rate	<b>1.09</b>	1.69	down 36%
Reduce Lost Time Injury Rate	<b>0.32</b>	0.44	down 27%

Senior has a Group-wide safety management programme with all businesses complying to the Group standard and all subject to an annual audit. Six of our businesses have already transitioned from OHSAS 18001 to ISO 45001.

### Supply Chain



Implement a Responsible Supply Chain Management Policy and communicate it to all suppliers

We believe that reliable, sustainable and ethical supply chains are essential in ensuring that we can meet our customers' requirements.

The Group Responsible Sourcing Policy outlines requirements for our supply chain. These requirements include our position on Modern Slavery, Conflict Minerals as well as a broad range of topics including environmental compliance, cost efficiencies, ethical compliance and ways of working.

We provide feedback to our suppliers on their performance and, where necessary, will agree improvement action plans.

The Board reviews biannual Payment Practices Reports on payments to our suppliers.

In 2020, for those suppliers who had payment challenges due to the impact of the pandemic, we agreed alternative payment plans to help with their cash flow management.

**In 2020, we retained our CDP "Leadership" rating of A- for our work on supplier engagement and we certified our Scope 3 carbon reduction targets with the Science Based Target Initiative ("SBTi").**

For Scope 3 GHG emissions we have committed that 80% of our suppliers by spend (covering purchased goods/services and capital goods) will have science-based targets by 2025. This means that we will actively be engaging with our supply chain in 2021, working with them as required to ensure they have programmes in place to monitor and reduce greenhouse gas emissions.

### Community



Establish positive and meaningful relationships with all the communities in which Senior operates and provide financial support to local charities and good causes

In response to the critical shortage of PPE for frontline workers, several of our business operations used their technological know-how to produce hundreds of thousands of PPE kits, such as full face visors and face masks, for local hospitals, surgeries, care homes and local police forces. We continue to support our local communities in the regions in which we operate, for example to help out families experiencing difficulties as a result of the pandemic, a group of employees volunteered their time to pack meal boxes at the San Diego Food Bank.

Senior Flexonics India, continued its support of a unique family-based care programme offering a second chance for orphaned and abandoned children to grow in a nurturing environment to realise their potential. Senior Flexonics LPE continued to support their local secondary school with annual prize giving and Senior Aerospace SSP continued to offer internships with local colleges.

Looking forward, Group operations plan to support their communities by contributing to charities serving their local causes, including fundraising for local hospitals, children's homes, cancer foundations, charities supporting mental health and the elderly and supporting local schools and colleges.



## Employee Engagement



### Our objective

Develop a Group HR Framework with improvement objectives for learning, diversity and equality

### Progress in 2020

The global pandemic meant developing new ways of working and ensuring we maintained effective communication and employee engagement, while remaining COVID secure. We employed a number of approaches to ensure information was disseminated and feedback gathered, such as video messages, utilising TV message-boards, increasing newsletter frequency and using mobile technology. Business leaders worked with employee representatives, works councils, and Health and Safety Committees to develop plans, seek feedback to inform decisions and enable business continuity. Leaders ensured they were visible, supporting employees throughout the pandemic.

We created a suite of guides and training to help managers and employees navigate new ways of working and support employees. Topics included, wellbeing, working from home, keeping physically active and a manager guide on health and wellbeing. We added education modules on our eLearning platform, Learn, covering similar topics, along with introducing a Toolbox talk for COVID safe working, and training on how to maintain good hygiene practices.

To gauge feedback on the measures we undertook, in October we conducted a Group-wide COVID Response employee engagement survey. Using an external provider, we invited feedback on key areas such as pandemic communications, productivity impact, safety precautions, wellbeing and our response to COVID. This gave us valuable and constructive feedback, illustrating that overall, our employees were positive about how we handled the crisis. Off the back of the survey, operating business leaders were able to review areas for continuous improvement and to put in place appropriate actions.

Celia Baxter, the non-executive Director designated to engage with the Group's employees on behalf of the Board, and the Group HR Director held seventeen focus groups covering five operating businesses. These were held virtually to remain COVID secure. In addition, at the beginning of the year the Group HR Director was able to host focus groups in person at our Pathway facility in Texas. The focus groups provide an opportunity to gain valuable insights into our culture and how people are feeling. The participants are encouraged to provide constructive feedback and ask questions. The Group HR Director regularly provides people and culture feedback to the Board and, in 2020 in particular, the COVID survey and focus group feedback. In 2021, we will be running a groupwide employee engagement survey.



## Health & Safety

The health, safety and wellbeing of our employees remains a key priority in Senior and we continue to focus our efforts and maintain world-class standards.

In 2018, we developed a world-class behavioural safety programme "Senior Essential Behaviours" which remains the foundation of our behavioural safety programme and continues to help us reduce our injury rates.

In 2020 we used the "Senior Essential Behaviours" to produce training relevant to our COVID-19 policies and guidance, we know that focus on behaviours is key to driving the world class health and safety culture we strive to maintain.

In 2020 we also refined our "My Team My Responsibility" programme for first line management and, in addition, worked with a leading global consultancy to produce a safety culture assessment tool to be used in the businesses to engage with staff and focus on areas to improve. These programmes have been piloted successfully and will be employed further later in 2021, as our focus on COVID-19 protection measures has taken priority in 2020.

Senior Aerospace Mexico

# Environmental, Social & Governance ("ESG") continued

## Social continued

### People and culture

As always, we put the safety and wellbeing of our employees first. Senior's autonomous and collaborative business model promotes accountability and enabled our operational business leaders to react quickly and appropriately in response to the pandemic. They acted decisively, taking measures to keep people safe and maintain business continuity. The measures included:

- identifying our most vulnerable employees, with serious underlying health conditions and encouraging them to stay safe at home;
- changing work processes and factory layouts to ensure distancing;
- providing PPE;
- changing shift patterns; and
- providing training

The Group also provided a clear framework, by initiating regular COVID Oversight Committee meetings early in the pandemic. Chaired by the Group Chief Executive Officer, this Committee initially met daily and has continued to meet twice a week to keep up to date with COVID status and impact, and co-ordinate mitigating actions across the multiple jurisdictions in which we operate.

We continue to encourage feedback across the Group. By maintaining an open dialogue with our employees, we have been able to retain their trust in a rapidly changing environment. Feedback from employees highlights how much they value teamwork, our open and honest culture, how colleagues support each other, share skills and knowledge. They enjoy the work they do, the skills they have and the customers we work with.

Unfortunately, during 2020, the reduction in sales demand meant we had to take some very difficult decisions across Senior resulting in many loyal and highly valued colleagues leaving the organisation. The calibre and capability of people within the Group drives our success, so it was difficult to see talented individuals departing.



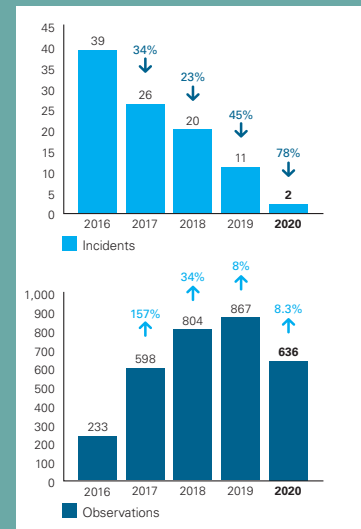
### Safety Conversations – an Essential Behaviours example from Senior Aerospace Bird Bellows

Bird Bellows implemented a "Safety Conversations" programme to reinforce the Essential Behaviours. Backed by the Kiel Institute, this forward-thinking behavioural approach to safety led to a marked reduction in incidents.

The conversations programme takes a different approach to safety; rather than telling people what they are doing wrong, the focus is on how to get a person to say what requires improvement either in a process or in their own behaviour.

Following 360 safety conversations at Bird Bellows in which good safety behaviour and safety improvements were identified, the business saw a reduction in their LTIR from 1.13 (March 2019) to 0.49 (December 2020).

"By taking an innovative, behaviour-based approach to Health & Safety training, Senior has exceeded its incident reduction targets"



We have continued to assess and meet training and development needs and provide both skills and technical training across the Group. While many employees have been working remotely, our eLearning platform has enabled us to offer a suite of training covering such subject areas such as Personal Development, Communications, Health and Wellbeing and Leadership and Management modules. Learn is also used to deliver compliance training and despite the challenges posed by the pandemic we have continued to deliver global and local training for example our Code of Conduct, Anti Harassment and Trade Compliance training. We also recognise that a significant proportion of learning is on the job and our culture of sharing knowledge and supporting colleagues is central to developing technical competencies in our operations.



In order for individuals to thrive they need clear direction and to be provided with feedback regarding their performance and development. To achieve this, we have continued to roll-out of "Perform", our Performance and Development system. Perform provides a framework for managers to set clear objectives, both business and personal development, assess performance and behaviours with a direct link to our Values, review career aspirations and create development plans. In addition, our Operating Businesses undertake a Succession Planning review annually and the Executive Committee, scrutinises our talent pipeline, identifying successors or interim cover for key roles across the Group and ensuring appropriate development plans are in place to enable individuals to fulfil their potential. The Board reviews the Succession plans for the Executive Team and their direct reports on a regular basis, with a special emphasis on encouraging diversity and inclusion.



When individuals have concerns, they are encouraged to raise them with their local management and our culture is to encourage open and honest feedback. On the rare occasion when things cannot be resolved locally, we have our “SpeakingUp” service which employees can use to raise concerns using the phone or online services in multiple languages. All concerns raised via “SpeakingUp” are investigated and reported to the Board as a standing agenda item, providing additional insight for the Board into our culture. Once investigations are completed, learning points are actioned by local leadership teams as appropriate.



In a year when recruitment has been very limited, we have finalised the roll out of “Recruit”, our online recruitment system to all our US businesses. This will place us in a much better position to attract talent in the future, making it easier for people to apply to Senior by enhancing the candidate experience, including the ability to use mobile devices to apply.

### Equality, diversity and inclusion

Our Core Values underpin our culture. The value of “Respect and Trust” defines our commitment to be open and straightforward with colleagues, customers, suppliers and other stakeholders. We recognise the benefits of different perspectives and local cultures and encourage individuals to speak freely as diverse contributions lead to better solutions.

Senior plc is committed to ensuring equal opportunities, fairness of treatment, dignity, work-life balance and the elimination of all forms of discrimination in the workplace for employees and job applicants. Senior aims to create a working environment in which everyone can make best use of their skills, free from discrimination or harassment, and where all decisions are based on merit.

The Group’s Equality, Diversity and Inclusion policy is contained within the Code of Conduct and during the year, all employees undertook Unconscious Bias training as part of our annual Code of Conduct training. We received positive feedback on the module. More generally we expect people to treat everyone they meet in the course of business with respect, fairness

and dignity. Employees are required to comply with the Code of Conduct. The right behaviours are underpinned by our Values, policies and procedures that support the attraction, selection, retention and promotion of people from a diverse range of candidates based on skills and merit.

The Executive and business leaders continue to focus on providing a diverse and inclusive workplace. Gender diversity remains our key area for further improvement below executive level in our operating businesses. We have extended our participation in the 30% Club cross company mentoring scheme, offering the programme to all our operating businesses not just UK-based businesses. The programme supports and encourages the development of talented women.

The table below shows the Senior Group’s Board of Directors, Executive Committee and operational senior management in 2020 by gender.

	Gender	
	Male	Female
All employees	80%	20%
Operational senior management	83%	17%
Executive Committee	62%	38%
Board	57%	43%

All employees have an equal chance to contribute and to achieve their potential. We strive to reflect the diversity of the communities we work in, at all levels across our workforce. Senior plc is an equal opportunities employer. The Board seeks to ensure a diverse workforce that supports all employees, irrespective of age, disability, gender, race, religion or sexual orientation. We will not tolerate any form of unlawful discrimination against our colleagues or any third parties be they potential employees, customers, subcontractors, suppliers or members of the public.

In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, Senior publishes its Gender Pay Gap Report, as required on the Company’s website.

### COVID Response Employee Survey

To find out how our employees were feeling about our response to the pandemic and their working environments, we ran a global COVID survey in October 2020. This was a Group-wide engagement survey and to ensure we used a consistent approach globally, we partnered with Peakon, a leading provider of employee engagement surveys, to deliver the survey to all our operations in their respective languages. We received valuable and constructive feedback, with a 64% completion rate together with 6,627 comments providing additional insights to the numerical scores. While overall employees were positive about how we had handled the crisis, we were able to identify areas for continuous improvement and off the back of the survey, our Operating Business leaders were able to put appropriate actions in place.

Below are the five key drivers we assessed, together with the scores out of 10:

• COVID Response:	8.2
• Productivity Impact	8.0
• Pandemic Communications	8.2
• Safety Precautions	8.3
• Wellbeing during COVID	8.1

The results are a credit to our leadership teams who acted quickly and decisively, putting appropriate measures in place to support employees and manage business continuity.



# Environmental, Social & Governance ("ESG") continued

## Governance

### Ethics governance

Our Core Value of "Integrity" is essential to our success



Senior remains committed to the highest standards of ethics, promoting the culture of zero tolerance towards bribery and corruption. Employees can give honest feedback, express concerns if there are any practices that they feel uncomfortable with allowing us to take corrective actions when mistakes happen. Our ethics and business conduct programme commits us to conducting business fairly, impartially and in compliance with local laws and regulations and to acting with integrity and honesty in our business relationships. The programme is underpinned by the Code of Conduct, which provides a clear framework on which to base decisions when conducting day-to-day business. It does this by:

- clearly setting out the behaviour expected of all employees;
- providing guidelines which help employees to apply our values; and
- enabling employees to raise a concern or ask a question if in doubt.

Acting ethically is fundamental to our business success; it enables us to strengthen long-term relationships and protect the Group's reputation.

We use various forms of communication and training materials, both in person and through electronic media, to embed the ethics and integrity requirement across the Group. We investigate any alleged violations or complaints and take the necessary action. A register of reported incidents is maintained by the Group Company Secretary and the Board receives regular updates.

The Group recognises that the use of third-party intermediaries can increase potential bribery and corruption risks within the markets in which we operate. All external sales agents working on behalf of Senior across the world are required to operate in compliance with the Code of Conduct. The Code requires a pre-appointment due diligence and risk assessment to be undertaken, prior to engaging or re-appointing any sales agent and requires them to be issued with the Code, ensuring that they understand, acknowledge and accept its requirements.

➔ Please refer to the Corporate Governance Report on pages 47 to 93 for further information on Corporate Ethics and the Code of Conduct.

### 2020 update

We successfully delivered our annual Code of Conduct training across the Company in spite of the challenges presented by the pandemic.

In addition, we rolled out Trade Compliance training to all relevant employees which equates to over 2,000 people.

Information security training was delivered to all employees. This included protecting personal and sensitive data and how to recognise social engineering attacks.

### Our plans for 2021

All employees will be required to complete the 2021 Code of Conduct training programme.

Additional short refresher training on specific topics such as financial fraud, will be issued on a quarterly basis.

### Product safety governance

Product quality is absolutely core in all of Senior's businesses and activities



All of Senior's businesses have ISO 9001 accreditation for manufacturing.

The businesses have additional aerospace and automotive accreditations dependent upon their intended markets.

- Ultimate responsibility for product quality/safety lies with the senior manager of each business unit.
- Products undergo service/safety risk assessments as required in our demanding markets.
- Employees receive regular training on product/service safety.
- All businesses have in place Incident investigation and corrective action policies and procedures.
- All businesses have quality testing programmes.
- Product/service objectives or targets are set in the businesses to meet customer requirements.
- Regular external product/service safety audits are conducted where standards require.



For more information please visit:  
**seniorplc.com**

"Our operating businesses continue to support their local communities"



### Supporting the initiatives for parentless and abandoned children at SOS Children's Village, India

At Senior Flexonics, India, in 2020 our commitment to community engagement saw us partner with SOS Children's Village, a non-profit organisation. SOS operates an inspiring family-based care programme offering a second chance for orphaned and abandoned children to grow in a nurturing environment to realise their potential. The children are supported until they are settled into a career. Through this initiative we have sponsored 20 children through their education programme.



## Non-Financial Information Statement

In compliance with the Non-Financial Reporting requirement set out in sections 414CA and 414CB of the Companies Act 2006, the table below illustrates where our stakeholders can find information in respect of non-financial matters. The due diligence carried out for each policy is contained within each policy's documentation.

Reporting		Where to find it
Environmental Matters	<ul style="list-style-type: none"> <li>Environmental, Social and Governance (ESG)</li> <li>Health, Safety and Environment Policy</li> </ul>	Pages 14-23 <a href="http://www.seniorplc.com">www.seniorplc.com</a>
Employees	<ul style="list-style-type: none"> <li>Employee Engagement</li> <li>Talent Management</li> <li>Equality, Diversity and Inclusion</li> <li>Code of Conduct</li> <li>Whistle-blowing Policy</li> </ul>	Pages 19, 28, 48, 52 Pages 20, 21, 25, 28 Page 21 Page 22, 58 or <a href="http://www.seniorplc.com">www.seniorplc.com</a> Page 59 or <a href="http://www.seniorplc.com">www.seniorplc.com</a>
Social Matters	<ul style="list-style-type: none"> <li>Community Engagement</li> </ul>	Pages 18, 28, 29
Respect for Human Rights	<ul style="list-style-type: none"> <li>Statement on Anti-Slavery and Human Trafficking</li> <li>Anti-bribery and Anti-corruption Policy</li> <li>Modern Slavery Statement</li> <li>Responsible Supply Chain Policy</li> </ul>	Page 58 Pages 22, 58, 59 <a href="http://www.seniorplc.com">www.seniorplc.com</a> Page 18 or <a href="http://www.seniorplc.com">www.seniorplc.com</a>
Business model	<ul style="list-style-type: none"> <li>Business Model</li> </ul>	Pages 12 to 13
Principal risks	<ul style="list-style-type: none"> <li>Risks and Uncertainties</li> </ul>	Pages 32 to 37
KPIs	<ul style="list-style-type: none"> <li>KPIs</li> <li>Non-Financial KPIs</li> </ul>	Page 30 Page 31



For more information please visit:  
**[seniorplc.com](http://seniorplc.com)**

# Strategic priorities

The following six strategic priorities were identified as key elements of our business model, which drive the creation of stakeholder value. Our progress since they were set is noted below and they continue to receive specific attention and focus.

## 01

### Enhance Senior's autonomous and collaborative business model

Senior's business model is one of empowering and holding accountable our businesses, operating within a clearly defined control framework to develop and deliver business plans in line with overall Group strategy. Increasing collaboration amongst businesses in the Group is a priority to ensure economies of scale are realised whilst maintaining the autonomous business structure. Business leaders throughout Senior are actively embracing collaboration activities with priorities set at Group level in consultation with the businesses.

#### What we've done:

- Implemented engagement guidelines to help optimise the transfer of work to cost competitive locations and to facilitate higher level solutions to meet customer needs;
- Customer Relationship Managers appointed for key customers to focus on front end collaboration on multi-site opportunities;
- Updated management incentive schemes to encourage greater collaboration: all senior managers across the Company have part of their incentive tied to Group performance as well as their business unit;
- Multi-site collaboration efforts have led to important new business awards;
- Rolled out an online Group-wide interactive communication tool;
- Launched Senior Health & Safety Essential Behavioural Standard across the Group; and introduced a Coronavirus module in response to the pandemic in 2020;
- Brought together Aerospace businesses in Pacific Northwest under one leadership team and brought together Southern California Aerospace Structures businesses under one leadership team;
- Brought together the Aerospace Structures Division and Aerospace Fluid Systems Division to form one Aerospace Division to best manage resources in the face of significantly lower revenue due to the pandemic;
- During 2020 this autonomous and collaborative model has enabled the business to be very agile, enabling rapid response to changing end market demand.

#### Our plans for 2021

- Explore opportunities for regional "back office" resource sharing;
- Enhance effectiveness of Group-wide Procurement, Technology and IT Councils.

#### Governance

The Executive Committee and the Board regularly review the organisational design of the Group to ensure it is aligned to our strategic plan.

## 02

### Focus on growth

Senior's end markets have structural long-term growth drivers. We believe it is possible to outgrow our end markets and we seek to do that both organically and through acquisition by:

- Growing market share, particularly with key customers;
- Focusing on innovation;
- Geographical expansion;
- Seeking out and exploiting adjacent opportunities organically and through acquisition.

#### What we've done:

- Customer Relationship Managers appointed for key customers;
- Established a Group-wide technology council to focus on advanced engineering and manufacturing methods such as additive manufacturing;
- Continued to win new development business and launched new production programmes in China, India, Malaysia and Thailand;
- Opened a Thermoplastic Composites Development Centre in the UK;
- Secured first development contracts for electric vehicle applications and commenced early production of 70kW battery cooler;
- Established our Advanced Additive Manufacturing Centre in Burbank, CA; and delivered first qualified flight hardware from there;
- Opened new or expanded facilities in Malaysia, Thailand, the Czech Republic, Massachusetts and California, USA.

#### Our plans for 2021

- Utilise available capacity in our Aerospace structures operating businesses with further diversification in space and defence;
- Expand our proprietary additive product offerings, helping our customers benefit from advanced custom designs;
- Continue to work on development programmes for electric vehicle and alternative fuel technologies; Senior's technological solutions are applicable across a wide range of land vehicles as the transition to electric powertrains takes place;
- Ramping up series production of 70kW battery cooler;
- Complete qualification of our RT2i composite thermoplastic aerospace ducting product and commence production deliveries on the launch programme, delayed from 2020 due to the pandemic.

#### Governance

Growth opportunities are regularly reviewed by the Executive Committee and Board. The Technology Council is in place under the chairmanship of the Group Director of Strategy and progress on strategic technology and product developments are regularly presented to, and discussed by, the Executive Committee and the Board. The long-term strategic growth plan is evaluated at the annual Board Strategy Review and monitored continuously.

## 03

### Introduced a high performance operating system

Senior has implemented a high-performance operating system, drawing on the many excellent practices from across the Group. The key elements include:

- The Senior Operating System: an operational toolkit incorporating best practice processes such as lean and continuous improvement techniques; supplier management; new product introduction; 5/6S methodology; factory visual management systems; risk and financial management;
- A strengthened business review process utilising a balanced scorecard incorporating KPIs with focus on performance, growth, operational excellence and talent development.

#### What we've done:

- Implemented a new and more intensive business review process; updated the Group's reporting systems to incorporate best in class real-time digital dashboard; and established Group-wide balanced scorecard with KPIs;
- Established a procurement council to leverage our global spend;
- Launched and embedded Senior Operating System across the Group;
- Held targeted performance improvement workshops, with a focus on inventory reduction in 2020;
- Delivered a more comprehensive operational excellence leadership development programme;
- Introduced best in class Advanced Product Quality Planning (APQP) based process standards used in Flexonics into Aerospace;
- Implemented comprehensive restructuring plan in 2020 in response to global pandemic.

#### Our plans for 2021

- Having implemented necessary restructuring in light of the pandemic in 2020, ensure the organisation is suitably aligned for expected recovery in H2 2021 and beyond;
- Continue to mature the Senior Operating System across the Group;
- Continue to undertake targeted performance workshops in businesses with biggest improvement opportunities;
- Multiple lean events continue with focus on cycle time reduction and cost reduction, together with continued targeted inventory improvement workshops;
- Further embed APQP process standards across Aerospace operating businesses;
- Continue relentless focus on cash preservation

#### Governance

Our Vice President of Operational Excellence chairs the Lean Council on a monthly basis. The Executive Committee reviews operational performance and the Group Chief Executive Officer reports progress to the Board at every Board meeting.



## 04

### Competitive cost country strategy

Enhance Senior's global footprint to ensure our businesses stay competitive at a capability and cost level, with key investments made in Thailand, Malaysia, China, India, Mexico, South Africa and the Czech Republic to help ensure we meet our customers' cost and price challenges whilst enhancing returns on investment. Establishing increasingly sophisticated capabilities in these competitive cost countries and optimising production capacity to align with demand.

#### What we've done:

- Opened new airframe structures facility in Thailand in June 2016;
- Expanded in the Czech Republic by doubling manufacturing capacity;
- Ramped-up new Aerospace programmes in Thailand and Malaysia;
- Ramped-up cooler and common rail production at our facilities in India and Mexico;
- Transferred Aerospace Fluid Systems work packages to Aerospace Mexico;
- Continued to win more new business in China, India, Malaysia and Thailand;
- Opened new Aerospace facility in Malaysia in 2019.

#### Our plans for 2021

- Successfully launch newly won programmes in Thailand, Mexico, the Czech Republic and South Africa;
- Complete transfer of certain Aerospace structures work and equipment from North America to Thailand;
- Secure further contracts to fill capacity in our cost competitive locations.

#### Governance

The Executive Committee conducts monthly Business Reviews of all operations. The Group Chief Executive Officer and Group Finance Director report and discuss progress at each Board meeting. The overall progress of the competitive cost country strategy is reviewed at the Board Strategy Review on a regular basis.

## 05

### Considered and effective capital deployment

Senior understands the importance of considered and effective capital deployment in the interest of maximising the creation of shareholder value. All significant investments undertaken by Senior are assessed using a rigorous investment appraisal process and are supported by a business case. The Group has a financial objective to maintain an overall return on capital employed in excess of the Group's cost of capital and to target a minimum pre-tax return on capital employed of 13.5% on a post IFRS 16 basis.

#### What we've done:

- Focus on organic growth by investing £256m over the last five years to support growth programmes;
- Introduced a progressive dividend policy reflecting earnings per share, free cash flow generation, market conditions and dividend cover over the medium term;
- Since 2015, we have reviewed our portfolio of businesses on an ongoing basis, introducing a Prune To Grow policy: disposed small commodity composites business based in Wichita; non-core Aerospace BWT Ilkeston UK site; Senior Flexonics Blois, France; Senior Flexonics Brasil Ltda, Brazil; Senior Absolute Manufacturing, USA;
- In 2020, we brought together our Aerospace Structures Division and Aerospace Fluid Systems Division to form one Aerospace Division;
- In 2020, we decided to move production from Senior Aerospace Bosman in the Netherlands to our Aerospace facilities in France and also took the decision to close Senior Flexonics Malaysia (UFT).

#### Our plans for 2021

- Maintain our pricing and return on capital discipline when negotiating contracts and assessing investments;
- Continue to review performance of existing portfolio against returns on capital targets and take action as required;
- Continue to focus on capital preservation whilst investing appropriately in growth opportunities;
- Complete the transfer of work from Bosman and close the facility.
- Complete the closure of the Flexonics Malaysia facility.

#### Governance

The Board regularly reviews its portfolio to ensure that long-term value is being generated for shareholders. Where appropriate, divestments will be considered. M&A opportunities are evaluated and discussed at each Board meeting, as appropriate, and the M&A and Prune To Grow strategies are reviewed at the Board's Strategic Review.

## 06

### Talent and development

Senior has a skilled workforce and highly experienced entrepreneurial business leaders. It aims to further develop and attract new talent, supporting employees with on-line tools to enable personal and skills development. The Group has a strong focus on diversity and inclusion across the business including on our Board and Executive Team. We have already achieved the targets set out for gender diversity in the Hampton-Alexander Review and met the Parker Review recommendations for Board gender and ethnic diversity set for 2024.

#### What we've done:

- Appointed Group HR Director, responsible for HR strategy across the Group;
- Continued to work with external partners to deliver development programmes for our top talent from around the world;
- Improved succession planning process, including improving gender diversity in succession plans for senior leadership team;
- Rolled out Global Performance Management System – "Perform";
- Successful implementation of our Talent Acquisition System, "Recruit", to the pilot businesses;
- Successful global roll out of "Learn", a Learning Management System;
- Carried out a Company-wide COVID response survey;
- Appointed VP Technology for Aerospace to implement advanced technologies across the whole Division.

#### Our plans for 2021

- To attract and develop talent, we will continue to implement "Recruit" on online recruitment system, and launch more skills personal development eLearning, via "Learn", our global learning management system;
- Continue to focus on diversity and inclusion across the business;
- Undertake a Global Employee Engagement Survey to assess culture and employee engagement across the Group.

#### Governance

The Executive Committee conducts an extensive review of operating businesses leadership succession plans. The review scrutinises our talent pipeline, identifying successors or interim cover for key roles across our businesses and ensuring appropriate development plans are in place to enable individuals to fulfil their potential. The Board formally reviews the succession plans for the Executive Team and their direct reports on a bi-annual basis.

## Section 172 Statement

Section 172 (1) of the Companies Act 2006 requires the Directors to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole.

In doing so, section 172 requires the Directors to have regard, amongst other matters, to the:

- likely consequences of any decision in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with customers, suppliers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

In discharging our section 172 duties the Directors have regard to the factors set out opposite and any other factors which we consider relevant to the decision being made. We acknowledge that every decision we make will not always result in a positive outcome for all of our stakeholders. However, by considering the Company's Purpose, Vision and Values, together with our Strategic Priorities and having a process in place for decision-making, we aim to ensure that our decisions are considered and proportionate.

Further details on how the Board operates and reflects stakeholder views in its decision-making are set out in the Corporate Governance Report on pages 47 to 93. Further information on how the Board has had regard to section 172 matters during the year can also be found in the following sections of the annual report:

Section 172 factor	Key examples	Page
Consequences of any decision in the long term	Investment Case	27
	Business Model	12
	Strategic Priorities	24
Interests of employees	Senior's response to COVID-19	6, 19, 20, 32
	Stakeholder Engagement	28
	Health & Safety	18
	People	20
Fostering business relationships with suppliers, customers and others	Senior's response to COVID-19	6
	Business Model	12
	Strategic Priorities	24
	Stakeholder Engagement	28
	Ethics and Code of Conduct	22
Impact of the Company's operations on the community and environment	Health & Safety	18
	Environment	14
	People	20
Maintaining high standards of business conduct	Ethics and Code of Conduct	58
	Corporate Governance Report	47
Acting fairly between members	Investment Case	27
	Stakeholder Engagement	28
	Corporate Governance Report	47

# Investment case

Our purpose is to provide safe and innovative products for demanding thermal management and fluid conveyance applications.



## A differentiated business model

- Design, manufacture and market high-technology components and systems for principal original equipment manufacturers (“OEMs”)
- World-class mechanical engineering capabilities with intellectual property inherent in both design and manufacturing
- Integrated global footprint operating in the aerospace & defence, land vehicle and power & energy markets
- Autonomous and collaborative culture enables entrepreneurial approach within a strong control framework
- Strong and enduring relationships with key customers built on technical innovation and excellent operational performance



## Strategic priorities

- Enhance Senior’s autonomous and collaborative business model
- Focus on growth with de-carbonisation driving many development opportunities
- Implement and embed a high performance operating system across the Group
- Established a global competitive cost country strategy
- Considered and effective capital deployment
- Continuously invest in the best leadership talent and development



## Leading positions in attractive markets

- Civil aerospace – despite the impact of the 2020 pandemic, structural growth drivers remain. Increasing passenger demand to fly and higher air traffic drives the need for new and replacement aircraft. Environmental pressures to focus on cleanest technology is ideal for Senior’s product and technology portfolio
- Defence – remains a priority for the US. Senior has key positions on major funded programmes
- Land vehicle – demand driven by tightening global emission control regulations for truck, off-highway and passenger vehicles
- Power & energy – market leader of complex fluid systems and products



## Long-term growth and value creation

- Primary strategic objective to create long-term sustainable growth in stakeholder value
- Considered and effective capital deployment to maximise returns
- Financial objective to maintain an overall return on capital employed in excess of the Group’s cost of capital and to target a minimum pre-tax return of 13.5% on a post IFRS 16 basis
- Robust financial platform and cash-generative nature
- Actively manage the portfolio; disciplined acquisition and Prune To Grow strategy



# Stakeholder engagement

Engaging with our stakeholders is fundamental to our business success. Our stakeholders are people, communities and organisations with an interest or concern in our purpose, strategy, operations and actions. Senior engages with five key groups – shareholders, customers, suppliers, employees and our communities.

By engaging and collaborating with our stakeholders we can ensure our business grows and delivers long-term sustainable value.

## We aim to create value for all our stakeholders

### Employees



The calibre and capabilities of the people within the Group drive our success and we recognise the importance of attracting the best talent into the business and retaining and developing individuals to enable them to do their best work.

### Customers



Our Core Value of “Customer Focus” recognises the importance of customers in our success. We develop relationships with our customers and seek to understand and respond effectively to our customers’ changing requirements, developing and manufacturing products that meet their specification, on time and to the highest quality standards.

### Our suppliers



Constructive engagement with suppliers sets fair expectations on safety, quality, ethical and delivery performance. We take great care to treat our suppliers with respect. We recognise the importance of prompt and fair payments in building long-term relationships with the suppliers.

We consider the risk posed by individual key suppliers to our performance and take action as necessary.

### Community engagement



We recognise our responsibility to the communities in which we operate. We actively encourage our businesses and employees to support local communities and good causes. Operations across the Group aim to make positive contributions to the places where they work.

### Shareholders



Senior strongly values the support and engagement of its shareholder community and understands the importance of this in the future success of the business. Our shareholders, who invest in the growth of our business, expect sustainable returns on their investment. We aim to generate long-term value through sustainable growth in operating profit, cash flow and shareholder value. As such, we maintain an open and productive dialogue with our shareholders, aiming to engage with them regularly and provide them with relevant and timely communications. These engagements help investors to understand the performance of the Company and raise any concerns. At the same time the engagements enable Senior to understand the shareholders’ perspectives and ensure these are considered in our decision-making.

## How we engage

Employee engagement and internal communications have been even more important in 2020 and across the business we have used a range of mediums to keep in touch with our employees; updating them on the business environment, Coronavirus, to understand how they are feeling and provide support. These measures include Employee Assistance programmes, Coronavirus safety training and awareness, wellbeing guides, working with employee representative groups and unions, and

seeking formal feedback via a global COVID-19 employee survey. Off the back of the survey, Operating Business leaders were able to review areas for continuous improvement and have put appropriate actions in place.

➤ Further details of the engagement can be found on [page 19](#).

We regularly engage with our customers at various levels of the organisation. Customer relationship managers are in place to support our largest customers, ensuring that we understand what is happening in their businesses and that we respond appropriately.

Listening to our customers provides valuable insight which helps inform future technology and product development and innovation.

We actively seek feedback from our customers. Whilst Senior holds a number of customer awards, in cases where our performance falls short of expectations, we actively engage to agree improvement targets.

Our Board receives regular updates on both good and poor performance with our customers.

We engage with our suppliers in a variety of ways including during tender and bid processes, site visits and audits. The Board reviews bi-annual Payment Practice Reports for our UK subsidiaries. In 2020, for those suppliers who had payment challenges due to the impact of the pandemic, we agreed alternative payment plans to help with their cash flow management.

During 2020 we certified our carbon reduction targets with the Science Based Target Initiative ("SBTi"). For Scope 3 GHG emissions we have committed that 80% of our suppliers by spend (covering purchased goods/services and capital goods) will have science-based targets by 2025. To achieve this, in 2021 we will engage with our supply chain to ensure they have programmes in place to monitor and reduce greenhouse gas emissions.

Our businesses have communicated the requirements of the Group Responsible Sourcing Policy to key suppliers and we provide feedback to our suppliers on their performance and, where necessary, will agree improvement action plans.

In 2020, many of the charitable events in which we participate were postponed due to the impact of the global pandemic. Notwithstanding this, and in response to the critical shortage of PPE for frontline workers, several of our business operations used their technological know-how to produce full-face visors and face masks, for local hospitals, surgeries, care homes and local police forces, all free of charge. Members of our Lean Council from across the Group also volunteered their time to pack meal boxes at the San Diego Food Bank in early March.

Furthermore, we recognise that our success is attributed to the talented workforce, and that continuing to support and develop the future workforce pipeline is crucial. Senior Flexonics India, continued its support of a unique family-based care programme offering a second chance for orphaned and abandoned children to grow in a nurturing environment to realise their potential. In the Group, Senior Flexonics LPE continued to support their local secondary school with annual prize giving and Senior Aerospace SSP continued to offer internships with local colleges.

Looking forward, Group operations will continue to support communities by contributing to charities serving their local causes, including fundraising for local hospitals, children's homes, cancer foundations, charities supporting mental health and the elderly.

In 2020, in addition to our regular contact and consultation with major shareholders, we had additional engagement to update them on the impact of the global pandemic on our end markets and our business. Twice this year, the Group Chief Executive Officer, Group Finance Director and Director of Investor Relations & Corporate Communications undertook a series of meetings (in person and by video conference) with our major shareholders, following the announcement of the full-year and interim results, to discuss both the Board's strategic objectives and the detailed performance of the business as well as to understand their views and address any concerns they may have on the Company. In addition, we issued six market updates, each time offering our major shareholders the opportunity of a follow-up call with our Group Chief Executive Officer and Group Finance Director. In 2020, we consulted with major shareholders, key proxy voting agencies and advisory bodies (ISS, Glass Lewis and the Investment Association), regarding the proposed amendments to the Remuneration Policy, and performance measures applying to LTIP and executive bonuses. The feedback and engagement was taken into consideration when amending the policy. Throughout the year we attended a virtual conference and responded to requests for further information.

During 2020, the Company's Chairman also attended the full-year and interim results announcements in March and August, respectively. The Chairman undertook a series of conference calls with the Company's major shareholders to discuss any queries they may have regarding the corporate governance of the Company.

We use our AGMs, usually held in London, to communicate with our private shareholders. In 2020, as a result of the global pandemic and UK Government's compulsory measures (the "Stay at Home Measures") prohibiting, among other things, public gatherings of more than two people, the Board took the decision to move the AGM to the Group's Head Office in Rickmansworth. The meeting only addressed the formal matters contained in the Notice of Meeting, was attended by only two employee shareholders and did not include a presentation. Shareholders were notified by letter of the change in arrangement and reminded that the Group wishes to maintain active communication with its private shareholders.

# Key performance indicators

The Group highlights five financial and two non-financial metrics to measure progress in implementing its strategy.

## Financial metrics

The Group's financial objectives are as follows:

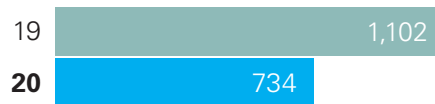
- to achieve organic revenue growth (at constant exchange rates) in excess of the rate of inflation;
- to increase the Group's return on revenue margin each year;
- to increase adjusted earnings per share on an annual basis;
- to generate sufficient cash to enable the Group to fund future growth and to follow a progressive dividend policy; and
- to maintain an overall return on capital employed in excess of the Group's cost of capital and to target a pre-tax return in excess of 13.5% on a post IFRS 16 basis.

The key performance indicators (KPIs) are determined as follows:

- organic revenue growth is the rate of growth of Group revenue, at constant exchange rates, excluding the effect of acquisitions and discontinued activities;
- return on revenue margin is the Group's adjusted operating profit divided by revenue;
- adjusted operating profit is defined in Note 9;
- adjusted earnings per share is defined in Note 12;
- net cash from operating activities is available from the Consolidated Cash Flow Statement;
- return on capital employed is the Group's adjusted operating profit divided by the average of the capital employed at the start and end of the period, capital employed being total equity plus net debt (defined in Note 32c). For 2019, net debt at the start of the period has been adjusted to reflect IFRS 16 opening lease liabilities of £96.1m.

### Organic revenue growth (£m)

**-33%**



As discussed in the Group Chief Executive Officer's Statement, COVID-19 introduced unprecedented challenges and severely impacted the Group's end markets particularly in civil aerospace. The impact on the Divisions is set out in the Divisional Reviews, on pages 38 and 40. The significant reduction in demand from our customers, as they responded to the pandemic, resulted in reduced revenues for 2020 when compared to the prior year.

### Return on revenue margin (%)

**-750bps**



The Group's adjusted operating margin decreased by 750 basis points, to 0.5% for the full year. The significant reduction in revenue materially impacted the return on revenue margin, partially mitigated by savings from the restructuring programme as well as the Group's focus on cost management activities.

### Adjusted (loss)/earnings per share

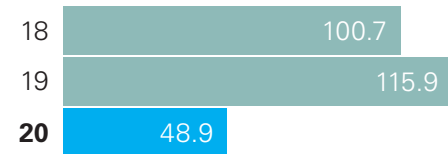
**n/m**



The weighted average number of shares, for the purposes of calculating undiluted earnings per share, decreased to 414.9 million (2019 – 415.0 million). The decrease arose principally due to shares purchased by the employee benefit trust during 2019. The adjusted loss per share was 0.84 pence.

### Net cash from operating activities (£m)

**-57.8%**



The Group responded immediately to the unprecedented challenges introduced by COVID-19 to preserve cash, accelerate restructuring plans, and limiting discretionary spend. The frequency of profit and cash performance forecasts was increased, with business reviews taking place monthly.

Against this backdrop, the Group delivered strong net cash from operating activities of £48.9m, and is well positioned to capitalise on the market opportunities as and when the global economy recovers post the pandemic.

### Return on capital employed (%)

**-1060bps**



Return on capital employed ("ROCE") decreased to 0.5% and was below the Group's cost of capital. The decrease in ROCE was a result of the reduction in adjusted operating profit compared to prior year, partly offset by lower average capital employed mainly due to the impairment and write-off of goodwill.

(1) 2018 return on capital employed is shown post IFRS 16 for comparative purposes. It has been derived by applying the 2019 transitional and annual impact of IFRS 16 on the 2018 figures.



## Non-financial metrics

These financial objectives are supported by two non-financial objectives:

- to reduce the Lost Time Injury Illness Rate (per 100 employees) to 0.3 by 2025; and
- to reduce the absolute Scope 1 and 2 Greenhouse Gas (GHG) emissions by 30% by 2025 (compared to 2018 base year).

The key performance indicators (KPIs) are determined as follows:

- CO<sub>2</sub> emissions is an estimate of the Group's carbon dioxide emissions in tonnes equivalent; and
- lost time injury illness frequency rate is the number of OSHA (or equivalent) recordable injury and illness cases involving days away from work per 100 employees.

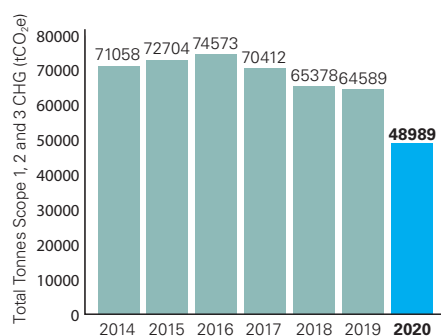
The Group collects its environmental data in accordance with the guidelines specified by the Global Reporting Initiative (GRI), to the extent that this is currently practicable, and has applied the greenhouse gas conversion factors contained within the Energy Agency and US EPA conversion factors 2020. The Group has used the financial control approach to define its organisational boundary and reports data from its wholly-owned or majority-owned operations. Billed or metered sources represent the basis of the majority of our greenhouse gas emissions.

Good progress was made towards the two non-financial objectives and the Group was pleased to see both CO<sub>2</sub> emissions and Lost Time Injury Illness Rates decrease in 2020. The Group achieved its 2020 safety and energy goals in 2018, two years earlier than targeted, and improved performance further in 2020. We are now looking at targets extending past the 2020 initiative. Further details of the Group's performance record in this regard, including its long-term performance trends, are shown on pages 14 to 18.

## Carbon dioxide emissions (Total tonnes CO<sub>2</sub>e)



### 24% decrease

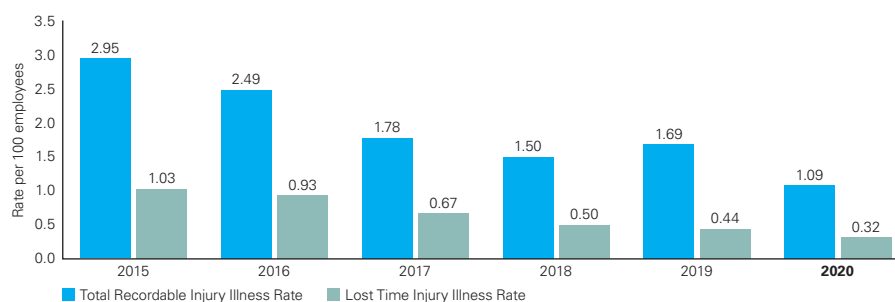


In 2020, our total carbon (Scope 1, 2 and 3 emissions) reduced from 64,589 tCO<sub>2</sub>e (2019) to 48,989 tCO<sub>2</sub>e. This was primarily due to production activity meaning less electricity, gas and fuels were consumed.

## Lost Time Injury Illness Rate (incidents per 100 employees p.a.)



### 27% decrease



In 2020 we achieved a 27% reduction in our primary metric of Lost Time Injury Illness Rate to 0.32. We continue to build on our "Essential Behaviours for Health & Safety" cultural programme with new tools and workshops. In 2020 we reduced our Total Recordable Injury Rate (injuries, job transfer, lost time) by 36% when compared to 2019.

# Risks and uncertainties

The Group's organisation and culture enabled a strong and timely response to the risks posed by the pandemic, allowing business continuity to be the best it could be.

## Our approach to risk management

Identifying and effectively managing risks is essential to the achievement of the Group's strategic priorities. The Group's Business Model is described on page 12 and our Strategic Priorities on page 24.

The Board is responsible for the Group's integrated risk and assurance framework, ensuring that the Group risk process and systems of internal control are robust and continuously monitored. The Board provides direction and sets the tone on the importance of risk management. The Board has delegated responsibility for the monitoring and review of the effectiveness of the Group's risk and assurance framework to the Audit Committee. The risk process is agreed annually with the Audit Committee.

The Group aims to embed risk management within its existing business processes. Each operating business undertakes a thorough risk assessment alongside the annual strategic planning process. A broad range of risks is considered including strategic, financial, operational, environmental and other external risks. Once the key risks have been identified further mitigating actions are considered, where appropriate, and a risk owner assigned. The risk registers are regularly reviewed by each operating business and are aggregated for review by Divisional Management and the Group.

As well as reviewing the risk registers prepared by the operating businesses, a risk assessment is conducted by the Executive Committee twice a year in conjunction with strategic discussions to ensure that risk and strategy are aligned. This review also considers emerging risks. These are risks which may develop but have a greater uncertainty attached to them in terms of likelihood, timing and velocity. Emerging risks are identified by holding workshops and through input from external sources. All identified risks are evaluated against our purpose, strategy and values to understand their likelihood and impact of occurrence. Once the principal risks have been identified, mitigating controls and relevant policies are documented and additional mitigating actions are developed where appropriate. An owner is assigned to each action. The principal risks are discussed at each Executive Committee meeting. Every principal risk is assessed for our financial viability scenarios, to see if they could have a material financial impact, either on their own or if they materialised together.

Twice in 2020, the Board performed a robust assessment of the principal risks, together with the emerging risks.

The Board assesses outputs from the integrated risk and assurance framework and takes comfort from the "three lines of defence" risk assurance model. The first line represents operational management who own and manage risk on a day-to-day basis, utilising effective internal controls. The Group Executive Committee and Divisional Management monitor and oversee these activities, representing governance and compliance at the second line. The third line is the independent assurance over these activities provided by internal and other external assurance.

The key elements of the Senior risk management process are shown opposite.

## Key areas of focus in 2020

### Effective integrated risk and assurance framework

We continued to seek improvement to our risk management processes by commencing risk assessments on a functional basis. In 2020, this included a detailed fraud risk assessment and development of an Information Security/IT risk assessment to be rolled out in early 2021.

### COVID-19

The Group's organisation and culture enabled us to respond and adapt quickly to the restrictions imposed by the COVID-19 pandemic. The Group's Incident Response Plan was initiated in March 2020 and the Group Coronavirus Oversight Committee was established. The aim of this Committee is to ensure that we are consistently providing the right guidance and taking the right actions to safeguard our employees and other stakeholders. The Committee is chaired by our Group Chief Executive Officer, supported by the Group HSE & Sustainability Director, the Group HR Director and Divisional CEOs.

To meet the increased pace of decision-making the Board increased the frequency of its meetings to oversee and support the Executive team which also met more frequently, with virtual meetings being implemented from the start of the pandemic.

We have continued to execute our internal audit programme by performing virtual audits. Eleven of our operating businesses were audited, representing 80% of the original plan for 2020. The audit scope included financial, IT, HR and other operational controls. One audit was conducted on-site with the other 10 being virtual. We also conducted short assurance reviews across the Group on controls potentially impacted by COVID-19, such as segregation of duties and delegation of authority. Other impacts of COVID-19 are discussed against the individual principal risks.

### Cyber/Information Security

Improving the resilience of our IT systems to cyber attack has been a focus in 2020. As a result of COVID-19, the way many of our operating businesses work has changed. A significant number of employees have worked from home at some point in 2020 and many continue to do so. In this environment, the work that is ongoing to improve our cyber/information security is even more important. We have raised the level of monitoring for phishing attempts and other security threats and continue to raise the awareness of our employees to these risks.



# Risks and uncertainties continued

## Principal Group risks

During 2020 an assessment of the principal risks and uncertainties, including emerging risks, that could threaten the Group's business model or achievement of the strategic priorities has been performed. Following this review, there have been no changes to the Group's principal risks since our 2020 Interim Statement.

Principal Risk	How we manage it	Focus in 2020
<b>Pandemic</b> <span>↑</span> <span>2</span> <span>3</span> <span>A</span> <span>B</span> <span>C</span> <span>D</span> <span>E</span>		
<p>A global pandemic, such as the current COVID-19 pandemic could have a significant impact on business operations affecting our employees, our supply chain and ultimately our ability to meet customer requirements. There is also the potential for a pandemic to create a global slowdown in demand impacting our end markets.</p> <p>An adverse indirect consequence may result from our customers having to reduce production rates even where our supply chain and production remains intact.</p>	<ul style="list-style-type: none"> <li>The Group has an Incident Response Plan and this is being used to manage the current pandemic.</li> <li>Emerging threats are monitored and advice provided to employees as appropriate. This may include travel restrictions and temporary site closures and additional safety measures when at work.</li> <li>Where a pandemic threat does emerge we liaise with our suppliers and customers to manage the situation to the greatest extent possible.</li> </ul>	<p>This risk has materialised in 2020 having a significant impact on the Group. To meet the increased pace of decision-making the Board increased the frequency of its meetings to oversee and support the Executive team which also met more frequently, with virtual meetings being implemented from the start of the pandemic. Focus has been on ensuring:</p> <ul style="list-style-type: none"> <li>the health and safety of our employees. The Group's Coronavirus Oversight Committee was established in March 2020 and has met multiple times a month throughout the remainder of the year. In addition to ensuring that all local restrictions and regulations are observed, focus has been on ensuring that, when employees return to work, all appropriate safety measures are in place;</li> <li>business continuity through the measures above and ensuring that the business is able to meet its financial commitments and emerge from the pandemic strongly. Further details are provided against other principal risks as appropriate;</li> <li>ongoing communications with suppliers and customers as we realigned our business to the new ways of working and reduced demand.</li> </ul> <p>The above measures have allowed business continuity to be the very best it could be.</p>
<b>Strategy and portfolio management</b> <span>↑</span> <span>1</span> <span>2</span> <span>3</span> <span>4</span> <span>5</span> <span>B</span> <span>D</span> <span>E</span>		
<p>An inability to implement the Group's strategy and/or effectively manage the Group's portfolio could have a significant impact on the Group's ability to generate long-term value for shareholders.</p>	<ul style="list-style-type: none"> <li>The Group regularly reviews its portfolio to ensure that long-term value is being generated for shareholders. Where appropriate, divestments will be considered.</li> <li>Mergers &amp; Acquisitions (M&amp;A) opportunities continue to be evaluated and discussed at the Board's strategic review. Processes are in place to ensure that the Group is aware of emerging acquisition opportunities.</li> <li>The Group has a well-established acquisition framework that includes proven valuation, due diligence and integration processes.</li> <li>Post-acquisition reviews are conducted as appropriate.</li> </ul>	<p>COVID-19 has impacted the Group's strategy in 2020. The Group has focused on:</p> <ul style="list-style-type: none"> <li>the Group's Prune To Grow strategy with the transfer of our Netherlands Aerospace business contracts to our French operating business and the closure of our Flexonics business in Malaysia;</li> <li>liquidity and cash preservation;</li> <li>continued investment in new technology and product development in the areas of fluid conveyance, thermal management and additive manufacturing which will help us to emerge strongly as recovery from the pandemic occurs;</li> <li>the Group restructuring programme.</li> </ul>
<b>Corporate governance breach</b> <span>→</span> <span>1</span> <span>2</span> <span>3</span> <span>A</span> <span>B</span> <span>C</span>		
<p>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.</p>	<ul style="list-style-type: none"> <li>The Group has well-established governance policies and procedures in all key areas, including a Group Code of Conduct, anti-bribery procedures, a Health &amp; Safety Charter, an Agent's Policy and various policies and procedures over the review and reporting of risk management and internal control activities.</li> <li>Governance updates are provided to the Board and the Executive Committee at appropriate intervals, and to key operational management.</li> <li>All employees are required to complete annual Code of Conduct training.</li> <li>All EU sites have received training on the General Data Protection Regulations and employees in other locations have received training as appropriate to their roles.</li> <li>There has been increased focus on trade compliance at our US sites.</li> </ul>	<ul style="list-style-type: none"> <li>In 2020 the annual Code of Conduct training was rolled out to all employees. Completion has been more challenging in 2020 for those employees without access to a laptop/PC. However, more than 94% of employees have completed the training.</li> <li>Training has also been rolled out to around 80% of the employees on Global Trade Compliance.</li> <li>Updates have been issued to various Group policies.</li> <li>Despite COVID-19 related challenges, the Group's 2020 internal audit programme was completed providing a level of assurance that the Group's Code of Conduct, policies and procedures are being followed.</li> </ul>



**The principal potential risks and uncertainties, together with actions that are being taken to mitigate each risk, are:**

Increased risk 
 Decreased risk 
 Risk unchanged 
 New risk 
 Emerging risk

Areas of strategic priorities as described on pages 24 to 25.

1 2 3 4 5 6

Key Performance Indicators:

Organic Revenue Growth 
 Return on Revenue Margin 
 Adjusted Earnings per Share 
 Net Cash from Operating Activities 
 Return on Capital Employed 
 Carbon Dioxide Emissions 
 Lost Time Injury Illness Rate

Principal Risk	How we manage it	Focus in 2020
<b>Programme and supplier management</b> 1 2 3 5 6		
<p>The ability to introduce new products in line with customer requirements and to respond appropriately to increases or decreases in demand thereafter is key to achieving the Group's strategic objectives.</p> <p>There is a risk that the Group and/or its supply chain is unable to respond quickly enough to changes in demand potentially resulting in excess inventory and/or an inability to meet schedule, quality and cost requirements resulting in delay, cost overruns or asset write-downs.</p> <p>Suppliers may be unable or unwilling to respond to increases or decreases in demand impacting on our ability to supply our customers and/or our ability to optimise inventory holdings.</p> <p>In extreme cases some suppliers may face financial difficulties and go out of business.</p>	<ul style="list-style-type: none"> <li>The Group is experienced in bidding and launching new products. Formal New Product Introduction (NPI) processes, such as Advanced Product Quality Planning (APQP), are used in some parts of the Group and are being rolled out.</li> <li>There is a Group Contract Review policy which is mandatory for all operating businesses.</li> <li>NPI programmes are subject to regular review by divisional and Group management to ensure that schedule, cost or quality issues are identified and dealt with promptly.</li> <li>The Group monitors market and customer data so that we can be prepared to respond to changing market dynamics.</li> <li>The resilience of the supply chain is monitored and, where possible, over-reliance on individual suppliers is reduced.</li> <li>The Group regularly monitors the resource required to deliver customer demand.</li> </ul>	<p>After several years of increasing demand on new platforms there was a sudden and significant drop in demand at the end of Q1 2020 due to the COVID-19 pandemic. Focus has been on:</p> <ul style="list-style-type: none"> <li>working with our customers to ensure that, wherever possible, orders within firm windows can be delivered;</li> <li>working with our suppliers and managing inventory to protect cash with a focus on rescheduling incoming materials and ensuring works orders are only launched where there is a firm order;</li> <li>flexing the work force to reflect current reduced demand but retaining the ability to meet increased demand in the future;</li> <li>responding to the large number of new requests for quotation;</li> <li>redeploying capital equipment to better utilise it within the Group.</li> </ul>
<b>Boeing 737 MAX</b> 2 5		
<p>In April 2019, following two fatal accidents, the 737 MAX was grounded.</p> <p>737 MAX is a significant programme with 13 operating businesses supplying to multiple 737 MAX customers.</p> <p>On 18 November 2020, the U.S. Federal Aviation Administration lifted its ban on the 737 MAX paving the way for the aircraft to resume flying. Other authorities have followed.</p>	<ul style="list-style-type: none"> <li>We continue to stay close to Boeing and our other 737 MAX customers to ensure that we are kept informed of developments.</li> <li>Restructuring is occurring at sites engaged on the 737 MAX programme to align direct headcount with demand. Overhead cost reductions are also being implemented where possible.</li> <li>Opportunities to increase content on the 737 MAX programme may arise and we will support our customers where possible.</li> </ul>	<p>In 2020, the restructuring programme which commenced when the 737 MAX was grounded continued and was expanded as a result of COVID-19. The Group continues to work closely with 737 MAX customers to ensure that we are aware of likely future demand and are ready to increase production when the need arises.</p>
<b>Economic and geopolitical impact</b> 2 3 4 5		
<p>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.</p> <p>Trade relations, for example hardening of tariffs in the US, the UK leaving the EU and other likely geopolitical events have created uncertainty over the future impact on international trade and the ability to retain and recruit foreign nationals.</p>	<ul style="list-style-type: none"> <li>The Board ensures that it is kept informed of US trade developments and Brexit so that it can assess the impact on the Group and take action as appropriate.</li> <li>The Group has a Brexit Committee which has undertaken detailed reviews to identify our exposure to the UK's decision to leave the EU including from a regulatory, supply chain, people and financial perspective.</li> <li>In a limited number of cases we are undertaking some contingency planning to minimise any potential operational disruption.</li> <li>The Group monitors potential changes to international tax regulations and tariffs to understand the likely impact.</li> </ul>	<p>The COVID-19 pandemic has caused a global economic downturn, which has impacted the sectors within which we operate. During 2020, the Group has focused on managing the impact of this risk by:</p> <ul style="list-style-type: none"> <li>focusing on cash preservation, undertaking additional restructuring activities and agreeing covenant relaxations with the Group's lenders, as described in the risk below.</li> </ul> <p>The Group Brexit committee continues to assess the impact of Brexit on the Group and assess that the steps it took to prepare for the transition have been adequate. These have included:</p> <ul style="list-style-type: none"> <li>Preparations for changes to VAT and Customs processes.</li> <li>Supply chain measures around the 1 January 2021 end of transition date to advance a limited amount of customer sales and build short-term inventory buffer stock.</li> <li>Continuous review of the appropriateness of planning measures taken for people, regulatory and other measures.</li> </ul>

Risks and uncertainties **continued**

Principal Risk	How we manage it	Focus in 2020
<b>Financing and liquidity</b> <span>↑</span> <span>2</span> <span>3</span> <span>5</span> <span>D</span> <span>E</span>		
<p>The Group could have insufficient financial resources to fund its growth strategy or meet its financial obligations as they fall due or insufficient liquidity to meet financing covenants.</p> <p>Foreign exchange movements could have a material impact on the Group's financial performance, both on the balance sheet (translation risk) and income statement (transaction risk).</p>	<ul style="list-style-type: none"> <li>The Group's overall treasury risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the Group's financial performance.</li> <li>Compliance with financial policies and exposure limits are reviewed by the Group's Treasury Committee on a regular basis.</li> <li>The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on operations' trading activities in foreign currencies; however, it does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.</li> <li>The Group's Treasury policy is updated and approved by the Board regularly.</li> <li>The Group's viability assessment process considers a base case and risk case scenario, which considers the principal risks and uncertainties.</li> </ul>	<p>The impact of COVID-19 on the Group has necessitated significant focus on this risk during 2020. Actions taken include:</p> <ul style="list-style-type: none"> <li>working with the Group's lenders, both banks and US private placement investors, to agree appropriate covenant relaxations in relation to the June 2020, December 2020, June 2021 and December 2021 testing periods as well as an additional September 2021 testing period to provide financial flexibility for the Group;</li> <li>focus on cash preservation; no Senior plc dividends were paid in 2020, capital expenditure was reduced, there was an exercise to optimise working capital (especially inventory);</li> <li>Management moved from quarterly to monthly business reviews and tightened some delegated authorities;</li> <li>launching an initiative to reduce the levels of inventory across the Group. Actions include working with suppliers to renegotiate raw material deliveries, ensuring that work only commences where there is clear sight of customer demand and ensuring that, wherever possible, customers accept shipments in the firm window.</li> <li>Extensive scenario testing has been undertaken for 2020 and 2021 based on a variety of end market assumptions, while taking account of appropriate cost reduction and cash preservation mitigating actions.</li> <li>Updating the Group's Treasury Policy which was approved by the Board in December 2020.</li> </ul>
<b>Cyber/information security</b> <span>↑</span> <span>1</span> <span>3</span> <span>B</span>		
<p>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 and/or reputational loss.</p>	<ul style="list-style-type: none"> <li>The Group has a roadmap to achieving improved Information Security.</li> <li>The Group has security controls in place including policies, standards and playbooks.</li> <li>Each operating business has a security champion to assist in raising employee awareness to this risk.</li> <li>Employees receive awareness training on cyber-related issues.</li> </ul>	<p>Many of our employees worked from home during 2020 and some continue to do so. Measures were taken to ensure that our Group IT and Information Security Policies continued to be followed despite the change to working practices. This included conducting a short audit across all operating businesses to check compliance. The roll out of the Group's endpoint detection and response tool set has provided additional monitoring of the environment.</p> <p>2020 saw an increase in phishing attempts as criminals sought to benefit from COVID-19 related changes to the way people work across the globe. Further progress has been made in 2020 in implementing the Group's Information Security roadmap. This included:</p> <ul style="list-style-type: none"> <li>establishing a third party managed security service provider and rolling out additional security tools;</li> <li>requiring all employees to complete on-line cyber/information security training;</li> <li>running a campaign of cyber newsletters and posters to alert employees to cyber threats;</li> <li>alerting IT teams across the Group to near misses and incidents so that they are aware of immediate threats.</li> </ul>

## The principal potential risks and uncertainties, together with actions that are being taken to mitigate each risk, are:

Increased risk 
 Decreased risk 
 Risk unchanged 
 New risk 
 Emerging risk

Areas of strategic priorities as described on pages 24 to 25.

1 2 3 4 5 6

Key Performance Indicators:

Organic Revenue Growth 
 Return on Revenue Margin 
 Adjusted Earnings per Share 
 Net Cash from Operating Activities 
 Return on Capital Employed 
 Carbon Dioxide Emissions 
 Lost Time Injury Illness Rate

Principal Risk	How we manage it	Focus in 2020
<b>Innovation and technological change</b> 1 2 5		
<p>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.</p> <p>New technologies may have an impact on the Group's markets, e.g. electric vehicles.</p>	<ul style="list-style-type: none"> <li>The Group has a technology forum which meets regularly to discuss innovation and technological change.</li> <li>The Group has established an Advanced Additive Manufacturing Centre and is conducting qualification testing with a launch customer prior to entry into service.</li> <li>The Group is a member of the Advanced Manufacturing Research Centre, Sheffield, UK, which focuses on advanced machining and materials research.</li> <li>The Group continues to develop products to support the move to electrification.</li> <li>Global Marketing Teams are engaged to ensure that customer requirements and priorities are considered.</li> <li>The Group continues to invest in machining technologies to improve process efficiency and reduce cost.</li> <li>The Senior Operating System continues to deliver best practice tools for innovation and product development across the Group.</li> </ul>	<p>Despite the downturn in business in 2020, the Group has continued to invest in new technologies with progress being made on a number of key projects:</p> <ul style="list-style-type: none"> <li>the further development of metal additive products at our Advance Additive Manufacturing Centre in Burbank, USA. The Group plans to take advantage of rapid product development, weight savings and cost reductions that can be achieved by re-engineering some of its traditional products using additive processes. Having qualified the Additive Equipment to OEM/Industry specifications we now have product undergoing qualification testing for flight approval;</li> <li>the ramp up of serial production of our Commercial Electric Vehicle battery cooler. This first generation patent pending ultra-thin design has met all high performance customer goals in this technically demanding environment.</li> </ul>
<b>Customer demand and price-down pressures</b> 1 3 4 5		
<p>Customer pricing pressure is an ongoing challenge within our industries, driven by the expectations of 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.</p> <p>COVID-19 has created severe end market disruption and there is a risk that customers do not honour firm order schedules, or in extreme cases, go out of business.</p>	<ul style="list-style-type: none"> <li>The Group works closely with its customers to find innovative ways to produce products at a lower cost, thus helping them to meet pricing challenges.</li> <li>The Group is able to consider bundles of products that in total help achieve customer pricing challenges.</li> <li>Where appropriate, the Group will actively pass work to some of its cost competitive facilities such as Mexico, Thailand, the Czech Republic, South Africa, India, China and Malaysia with a view to helping satisfy customer challenges.</li> <li>A project is underway in the Aerospace Division to optimise the use of our machine tools to support the need for competitively priced products.</li> </ul>	<p>Demand and price down pressures have continued in 2020. Focus has been on:</p> <ul style="list-style-type: none"> <li>working with customers to ensure that, wherever possible, orders within firm windows can be delivered;</li> <li>in some cases, realigning pricing with reduced volumes;</li> <li>the Group restructuring programme which is underway with the aim of aligning direct headcount with demand, whilst retaining the ability to meet increased demand in the future, and identifying overhead reductions through efficiency improvements;</li> <li>pursuing new opportunities with existing and new customers providing some market diversification.</li> </ul>
<b>Climate change</b> 2 5		
<p>There is a risk that climate change and/or the measures taken to address it may have an adverse impact on the Group. Climate change may result in extreme weather events that may impact on our ability, or that of a supplier, to meet our customers' requirements.</p> <p>Our customers' products may evolve requiring new technology, for example, electrification. This also presents an opportunity to the Group to be involved in replacement technologies.</p> <p>Increasing legislation aimed at accelerating decarbonisation may increase our operating costs. It may also change consumer behaviours impacting on our end markets. For example, consumers may fly less often.</p>	<ul style="list-style-type: none"> <li>In 2015 Senior launched our 20/20 vision for sustainability which included targets for reducing carbon emissions and water consumption.</li> <li>To mitigate the impact of catastrophic events, such as an extreme weather event, each site has a scenario-based Business Continuity Plan which is tested on an annual basis. The Group also has insurance which helps to protect profits in such situations.</li> <li>The Group continues to invest in and develop solutions relevant to changing end markets. Examples include our battery cooling, waste heat recovery, heat sink in hybrid cars technologies, and additive manufacturing solutions for aerospace.</li> </ul>	<p>In 2020 the Group delivered on the 20/20 ESG vision launched in 2015, achieving all of our targets.</p> <p>During 2020, the Group's carbon emission reduction targets were verified by the Science Based target Initiative ("SBTi").</p> <p>Senior maintained a "leadership" rating of A- in 2020 from the globally recognised CDP.</p> <p>For further details on ESG please see pages 14 to 23.</p> <p>The Group is considering appropriate climate scenarios for risk analysis under TCFD.</p>

## Divisional review

## Aerospace

## Headlines 2020

## Revenue

**£526.2m**

(2019 – £830.3m)

## Adjusted operating profit

**£5.9m**

(2019 – £75.9m)

## Adjusted operating margin

**1.1%**

(2019 – 9.1%)

## Aerospace Division

The Aerospace Division represents 72% (2019 – 75%) of Group revenue and consists of 18 operations. These are located in North America (nine), the United Kingdom (four), continental Europe (three), Thailand and Malaysia. This Divisional review is on a constant currency basis, whereby 2019 results have been translated using 2020 average exchange rates and on an adjusted basis to exclude the charge relating to amortisation of intangible assets from acquisitions, goodwill impairment and write-off and restructuring. The Division's operating results on a constant currency basis are summarised below:

	2020 £m	2019 <sup>(1)</sup> £m	Change
Revenue	<b>526.2</b>	830.3	-36.6%
Adjusted operating profit	<b>5.9</b>	75.9	-92.2%
Adjusted operating margin	<b>1.1%</b>	9.1%	-800bps

(1) 2019 results translated using 2020 average exchange rates – constant currency.

Divisional revenue decreased by £304.1m (36.6%) to £526.2m (2019 – £830.3m) whilst adjusted operating profit decreased by £70.0m (92.2%) to £5.9m (2019 – £75.9m).

Revenue Reconciliation	£m
2019 revenue	830.3
Civil aerospace	(309.8)
Defence	9.7
Other	(4.0)
2020 revenue	526.2

Revenue in the Aerospace Division was significantly reduced as a result of the ongoing impact of COVID-19 and the 737 MAX situation. On a quarterly basis, Aerospace revenue declined 22% in Q1, 40% in Q2, 45% in Q3 and 39% in Q4, year-on-year. On a sequential basis, Aerospace revenue declined 20% in Q2 relative to Q1 and 18% in Q3 relative to Q2, with growth of 11% in Q4 relative to Q3. The year-on-year reduction reflected the substantial cuts in programme production rates by the civil aircraft and engine OEMs as many airlines cut capacity, retired older aircraft and deferred deliveries of new aircraft. Further disruption was caused by temporary customer production closures and rebalancing of inventory throughout the supply chain.

The civil aerospace sector was the most impacted with Senior's sales decreasing by 50.5% compared to prior year. Airbus and Boeing deliveries of their single aisle aircraft, A320neo and 737 MAX were down 36% year-on-year and deliveries of their wide-body aircraft were down 54%.

Total revenue from the defence sector increased by 6.5% during the period, primarily due to the ramp-up of the Joint Strike Fighter, CH-53 K King Stallion and higher demand for other defence products including the Black Hawk helicopter.

Revenue derived from other markets such as space, non-military helicopters, power & energy, medical and semi-conductor equipment, where the Group manufactures products using very similar technology to that used for certain aerospace products, decreased by £4.0m as growth from space and the semi-conductor equipment market was offset by weaker sales to non-military helicopter and power & energy markets.

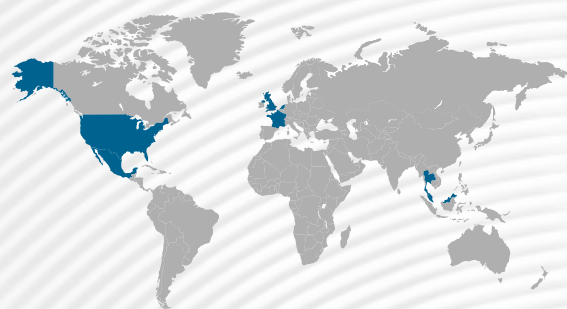
The significant reduction in revenue materially impacted the divisional adjusted operating margin, partially mitigated by additional savings from the restructuring programme. The net impact was a decrease of 800 basis points to 1.1% (2019 – 9.1%).

In 2021, Aerospace revenue is set to be at least as challenging as 2020 given the current customer-announced production rates. While it is likely to take several years for air traffic to return to 2019 levels, the demand for air travel is expected to continue to grow in the medium and long-term. The lower operating cost and better sustainability of new aircraft, on which Senior has significant content, will continue to be a necessity for the airline industry. A shift towards greater utilisation of single-aisle airframes over wide-body is also anticipated. With more favourable economics, single-aisle airframes are likely to experience a faster recovery than for wide-body aircraft. Senior is well positioned to take advantage of this dynamic with product on both Boeing and Airbus single-aisle programmes.

Senior also has the potential to add content on existing programmes in civil aerospace, defence and space. Our customers recognise and appreciate the global footprint, financial strength and stability of Senior. Our businesses are well capitalised with equipment that can be utilised across civil, defence and space sectors. New contracts of note that were signed in 2020, include:

- In April, the Aerospace Division secured a contract extension with MTU Aero Engines for the supply of Pratt & Whitney Geared Turbofan engines airfoils. The contract extension represents an additional ten years to the existing term and demonstrates the strong partnership Senior Aerospace has developed with MTU. This is a dual source arrangement from Senior Aerospace Thailand and Senior Aerospace Weston, UK which provides optimum risk mitigation for our customer.
- In October, Senior Aerospace Thailand announced a multi-year contract with Pratt & Whitney Canada as a supplier of precision machine parts of the PW800 engine series, commencing immediately.





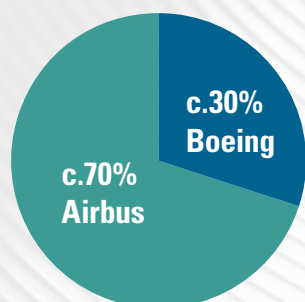
18

Global  
Aerospace  
operations

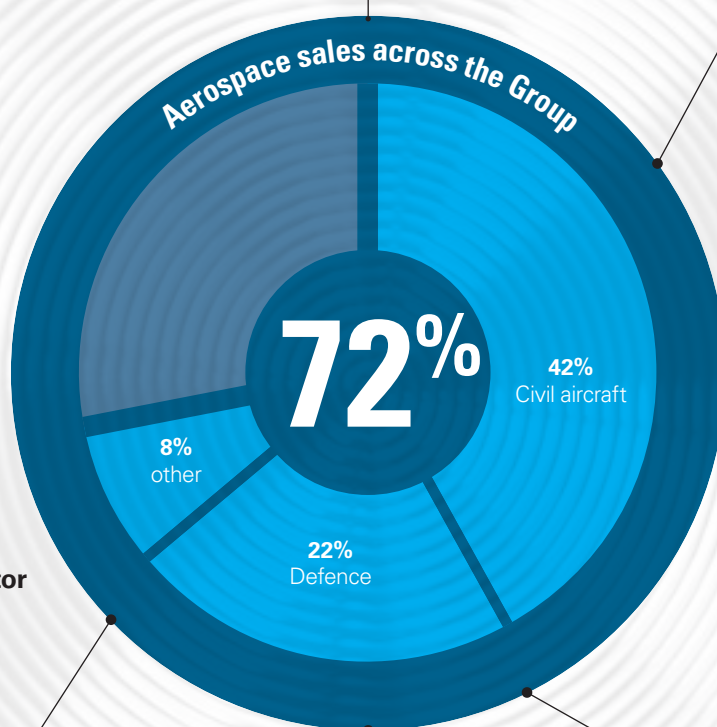
North America	9
Continental Europe <sup>(1)</sup>	3
Thailand	1
United Kingdom	4
Malaysia	1

Other markets in  
Aerospace includeNon-military  
helicopters

Space

Semi-conductor  
equipmentRevenue by large  
commercial platforms

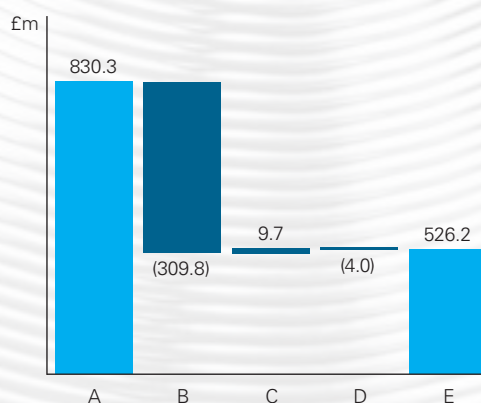
Aerospace sales across the Group

Sales in civil  
aerospace aircraft**-51%**

during the year

Sales in defence  
increased by**+7%**

Revenue reconciliation



(1) In 2020, the decision was made to close Senior Aerospace Bosman, Netherlands.

A 2019 revenue    D Other  
B Civil aerospace    E 2020 revenue  
C Defence

## Divisional review

## Flexonics

## Headlines 2020

## Revenue

**£208.3m**

(2019 – £272.3m)

## Adjusted operating profit

**£11.0m**

(2019 – £26.0m)

## Adjusted operating margin

**5.3%**

(2019 – 9.5%)

## Flexonics Division

The Flexonics Division represents 28% (2019 – 25%) of Group revenue and consists of 12 operations which are located in North America (four), continental Europe (two), the United Kingdom (two), South Africa, India, Malaysia and China where the Group also has a 49% equity stake in a land vehicle product joint venture. This Divisional review, presented before the share of the joint venture results, is on a constant currency basis, whereby 2019 results have been translated using 2020 average exchange rates and on an adjusted basis to exclude the charge relating to amortisation of intangible assets from acquisitions, goodwill write-off and restructuring. The Division's operating results on a constant currency basis are summarised below:

	2020 £m	2019 <sup>(1)</sup> £m	Change
Revenue	<b>208.3</b>	272.3	-23.5%
Adjusted operating profit	<b>11.0</b>	26.0	-57.7%
Adjusted operating margin	<b>5.3%</b>	9.5%	-420bps

(1) 2019 results translated using 2020 average exchange rates – constant currency.

Divisional revenue decreased by £64.0m (23.5%) to £208.3m (2019 – £272.3m) and adjusted operating profit decreased by £15.0m (57.7%) to £11.0m (2019 – £26.0m).

Revenue Reconciliation	£m
2019 revenue	272.3
Land vehicles	(32.0)
Power & energy	(32.0)
2020 revenue	208.3

Economic forecasts at the start of the year suggested that Flexonics' cyclical end markets would decline in 2020, before recovering in 2021, and Flexonics revenue was expected to be lower in 2020 compared to 2019. However, these declines were further exacerbated by the impact of COVID-19 on the land vehicle and the oil and gas markets with many of our customers temporarily shutting production facilities and reducing output once reopened. This resulted in Flexonics sales decreasing by 23.5% compared to prior year. On a quarterly basis, Flexonics sales declined 23% in Q1, 33% in Q2, 25% in Q3 and 13% in Q4, year-on-year. On a sequential basis, Flexonics revenue declined 20% in Q2 relative to Q1 and 1% in Q3 relative to Q2, with growth of 10% in Q4 relative to Q3. The performance in the second half of the year benefited from improved conditions in the heavy-duty truck and passenger vehicle markets compared to the first half of the year, partly offset by continuing weakness in the oil & gas sector.

Group sales to land vehicle markets decreased by 26.4%. Senior's sales to the North American truck and off-highway market decreased by £19.0m (28.0%), as market production of heavy-duty diesel trucks declined by 38.0%. Sales to the rest of world truck and off-highway markets decreased by £4.9m (20.4%), due to substantial declines in the truck and off-highway markets in Europe, India and China. Group sales to passenger vehicle markets decreased by £8.1m (27.6%) in the year, reflecting lower end market demand.

In the Group's power & energy markets, sales decreased by £32.0m (21.2%) in the year. Sales to oil and gas markets decreased by £20.5m (32.2%), as result of weaker demand, particularly for upstream activity. The considerable decline in land and air travel contributed to an excess of crude oil supply over demand and the mothballing of some upstream capacity. Downstream oil and gas activity was lower year-on-year as some maintenance projects were deferred by customers. Sales to power generation markets decreased by £5.8m (14.1%) as customer demand was impacted by the pandemic, partly offset by some higher sales into nuclear power in North America. Sales to other industrial markets decreased by £5.7m (12.3%) as demand was impacted by lower activity due to the pandemic.

The significant reduction in revenue materially impacted the Divisional adjusted operating margin, partially mitigated by additional savings from the restructuring programme. The net impact was a decrease of 420 basis points to 5.3% (2019 – 9.5%).

Current economic forecasts suggest that land vehicle markets will continue to improve into 2021. ACT Research is forecasting a 41% increase in North American heavy-duty truck production in 2021. The North American medium-duty diesel truck market is also forecasting to increase by 10% in 2021. Oil and gas markets continue to be challenging in the near term given the low levels of drilling activity and inventory levels at our customers. We therefore anticipate modest revenue growth in Flexonics in 2021.

Looking further ahead, the truck, off-highway and passenger vehicle sectors continue to present growth opportunities for the Flexonics Division. Market penetration and growth of electric vehicles will depend on a number of factors such as vehicle type, customer acceptance and level of government support. Senior's technology solutions are applicable across a wide range of land vehicles as the transition to electric powertrains takes place. We are developing solutions for electric land vehicle applications as well as the next generation of more efficient internal combustion engines ("ICE").

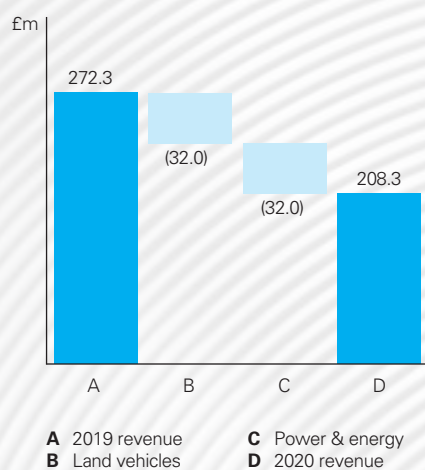
Our fluid conveyance and thermal management expertise is being used to develop fluid and air handling products that extend battery life and enhance fuel cell efficiencies; our Battery Heat Exchanger technology has now entered series production for use in commercial vehicle applications; and we are currently in discussion with a number of customers to develop similar solutions for off-highway, passenger vehicle and stationary power applications.

We will continue to focus our development efforts on differentiated technology and products, applicable across a diverse range of attractive industrial markets. In 2020, new contracts of note that were signed include:

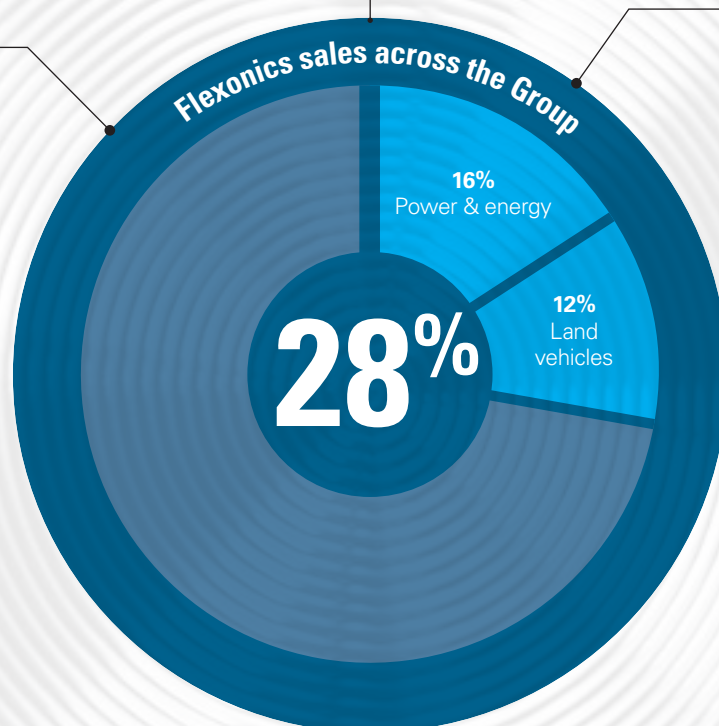
- In July, the Flexonics Division in Germany was awarded a contract with Daimler Truck AG to manufacture and supply Exhaust Gas Recirculation Bellows and Exhaust Manifolds for their new Heavy-Duty Engine Platform.
- Senior Flexonics secured new contracts with three major European passenger and commercial vehicle manufacturers for battery cooling pipes, drain tubes and turbo oil feed tubes with production starting in 2020, 2022 and 2023. The work will be performed in our cost competitive facilities in Olomouc, Czech Republic and Cape Town, South Africa.



## Revenue reconciliation



Global energy usage will drive increased demand for many of the Flexonics Division's products



## 12

Global Flexonics operations



North America	4
Continental Europe	2
United Kingdom	2
India	1
South Africa	1
Malaysia <sup>(1)</sup>	1
China	1

(1) In 2020, the decision was taken to close Senior Flexonics Upeca in Malaysia.

# Financial review



“Senior delivered strong free cash flow of £46.5m, with liquidity headroom of £157.1m at 31 December 2020.”

**Bindi Foyle**  
Group Finance Director

## Financial Summary

A summary of the Group's operating results (at reported currency) is set out in the table below. Further detail on the performance of each Division is set out in the Divisional Review.

	Revenue		Adjusted operating profit <sup>(1)</sup>		Margin	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 %	2019 %
Aerospace	526.2	835.4	5.9	76.4	1.1	9.1
Flexonics <sup>(2)</sup>	208.3	275.8	11.0	26.1	5.3	9.5
Share of results of joint venture	–	–	0.2	0.4	–	–
Inter-segment sales	(0.9)	(0.5)	–	–	–	–
Central costs	–	–	(13.4)	(13.5)	–	–
Group total	733.6	1,110.7	3.7	89.4	0.5	8.0

(1) See table below for reconciliation of adjusted operating profit to reported operating profit.

(2) Flexonics results are presented before share of results of joint venture.

Adjusted operating profit may be reconciled to the operating profit that is shown in the Consolidated Income Statement as follows:

	2020 £m	2019 £m
Adjusted operating profit	3.7	89.4
Amortisation of intangible assets from acquisitions	(7.7)	(13.1)
Goodwill impairment and write-off	(134.3)	–
Restructuring	(39.0)	(12.1)
US class action lawsuits	–	(2.6)
Operating profit	(177.3)	61.6

## Financial detail

### COVID-19

These are unusual, uncertain and unparalleled times for many listed Groups including Senior and provide specific context to our year end results. As discussed in the Group Chief Executive Officer's review, COVID-19 introduced unprecedented challenges and severely impacted our end markets particularly in civil aerospace. The impact on the Divisions is set out in the divisional reviews. The significant reduction in demand from our customers, as they responded to the pandemic, resulted in reduced revenues for 2020 when compared to the prior year.

The Group responded immediately to preserve cash, accelerated our restructuring plans, limited any discretionary spend, and the Board, Executive Committee and senior leaders throughout the business took a reduction in their salaries. These mitigating actions were successful in partially offsetting the reduced adjusted operating profits that resulted from the reduction in revenues.

We increased the frequency of profit and cash performance forecasts with business reviews taking place monthly and with the support of our lenders, both banks and US private placement investors, we agreed appropriate covenant relaxations for 2020 and 2021 to provide financial flexibility for the Group.

The well-being of all our employees has been our key priority throughout this period of uncertainty, and all employees have worked tirelessly in response to the changing environment, even as we had to take some very difficult decisions across Senior with many loyal and highly-valued colleagues leaving the organisation.

Against this backdrop, the Group delivered strong free cash flow of £46.5m, with liquidity headroom of £157.1m at 31 December 2020, and is well positioned to capitalise on the market opportunities as and when the global economy recovers post the pandemic.

### Revenue

Group revenue was £733.6m (2019 – £1,110.7m). Excluding the adverse exchange rate impact of £8.6m, Group revenue decreased by £368.5m (33.4%) with revenue lower in both Aerospace and Flexonics year-on-year. In 2020, 65% of revenue originated from North America, 14% from the UK, 11% from the Rest of Europe and 10% from the Rest of the World.

### Operating loss/profit

Adjusted operating profit decreased by £85.7m (95.9%) to £3.7m (2019 – £89.4m). Excluding the adverse exchange rate impact of £0.6m, adjusted operating profit decreased by 95.8% on a constant currency basis. After accounting for £7.7m amortisation of intangible assets from acquisitions (2019 – £13.1m), £134.3m goodwill impairment and write-off (2019 – £nil), £39.0m restructuring (2019 – £12.1m) and £nil costs associated with the US class action lawsuits (2019 – £2.6m), reported operating loss was £177.3m (2019 – £61.6m profit). The Group's adjusted operating margin decreased by 750 basis points, to 0.5% for the full year. The



**Revenue (£m)**

19	1,110.7
20	733.6

significant reduction in revenue materially impacted the adjusted operating margin, partially mitigated by savings from the restructuring programme as well as our focus on cost management activities.

The Group has participated in the job retention schemes made available in some countries as part of their coronavirus relief measures to help ease the impact COVID-19 otherwise would have had, including potential additional headcount reductions. Grant income from such schemes of £9.0m was recorded in the year and offset against the associated payroll costs.

As set out in Note 9, adjusted operating profit and adjusted (loss)/profit before tax are stated before £7.7m amortisation of intangible assets from acquisitions (2019 – £13.1m), £134.3m goodwill impairment and write-off (2019 – £nil), £39.0m restructuring (2019 – £12.1m) and £nil costs associated with the US class action lawsuits (2019 – £2.6m). Adjusted (loss)/profit before tax is also stated before disposal activities of £4.6m (2019 – £22.0m).

**Restructuring**

The Group continues to focus on taking actions to conserve cash to manage through the crisis, including curtailing capital expenditure, tightly managing working capital and implementing further cost cutting actions. At 31 December 2020, 7% of the Group's employees were on furlough (2019 – nil).

The restructuring programme, which commenced in the second half of 2019, has been further adapted through the course of 2020 to the changing end market conditions and to further manage the business through the pandemic. The programme is progressing to plan and delivering the expected benefits. In addition, in response to the lowering of future orders and build rates, the Group has continued to review inventory levels and any exposures to programmes that have been reduced, cancelled or where the Group will no longer participate. This has been driven by the response to the pandemic where some customers have reduced demand and/or ceased orders on certain programmes. As part of the restructuring focus, we have assessed critically any inventory or asset exposures on these programmes and written down the carrying values on excess holdings and assets where there is no alternate use.

The restructuring, which involves business closures, headcount reductions and other efficiency improvements, has resulted in a charge of £39.0m (2019 – £12.1m) of which £13.5m (2019 – £4.4m) related to headcount reduction costs, £10.5m (2019 – £nil) related to the closures of Senior Aerospace Bosman and Senior Flexonics Upeca and £1.5m (2019 –

**Adjusted operating profit (£m)**

19	89.4
20	3.7

£1.4m) consultancy and other costs. For certain specific programmes, and in conjunction with the focus on restructuring, management has also identified further inventory and property, plant and equipment that have been impaired in 2020 with a total charge of £8.5m and £5.0m respectively (2019 – £3.4m and £2.9m). These relate to programmes where there are no alternative uses for the inventory or assets and is in part due to the impact COVID-19 has had on the Group's end markets, with customers choosing to cancel and/or significantly reduce future build rates. Senior has responded by further extending and broadening the scope of the restructuring plans, and with provisions recorded to cover the risks arising.

Total cash outflow related to restructuring activities was £15.2m (2019 – £2.9m) with £36m of savings (2019 – £4m) delivered, mainly related to lower headcount.

At 31 December 2020, a restructuring provision of £8.9m (31 December 2019 – £2.9m) was recognised and expected to be utilised in 2021.

**Finance costs and investment income**

Finance costs, net of investment income decreased to £9.9m (2019 – £10.9m) and comprise IFRS 16 interest charge on lease liabilities of £3.0m (2019 – £3.5m), net finance income on retirement benefits of £0.9m (2019 – £0.7m) and net interest charge of £7.8m (2019 – £8.1m). The decrease was mainly due to lower lease liabilities, higher retirement benefit asset position in the UK at the beginning of 2020 compared to the beginning of 2019, and the repayment in October 2020 of \$20.0m (£14.6m) US Private Placement Note carrying a high interest rate.

**Disposal activities**

Costs associated with disposal activities were £4.6m in 2020 relating to employee costs and external professional fees incurred in relation to the potential divestment of the Aerostructures business. In 2019, a loss of £22.0m arose on disposal of three non-core operating businesses, Blois, São Paulo and Absolute. See Note 31 to the Financial Statements for further details.

**Loss/profit before tax**

Adjusted loss before tax was £6.2m (2019 – £78.5m profit). Reported loss before tax was £191.8m (2019 – £28.7m profit). The reconciling items between adjusted and reported profit before tax are shown in Note 9 to the Financial Statements.

**Free cash flow (£m)**

19	58.3
20	46.5

**Tax charge**

The adjusted tax rate for the year was 43.5% credit (2019 – 14.5% charge), being a tax credit of £2.7m (2019 – £11.4m charge) on adjusted loss before tax of £6.2m (2019 – £78.5m profit). The adjusted tax rate for the year benefits from the recognition of prior year adjustment credits in the US arising from measures in the US CARES Act (Coronavirus Aid, Relief and Economic Security Act) that are effective retrospectively and resulted in amendments to our prior year tax filings.

The reported tax rate was 17.4% credit, being a tax credit of £33.3m on reported loss before tax of £191.8m. This included £30.6m tax credit against items excluded from adjusted loss before tax, of which £21.7m related to the reversal of deferred tax liabilities held against goodwill impaired in the year. The 2019 reported tax rate was 1.7% credit, being a tax credit of £0.5m on reported profit before tax of £28.7m. This included the tax credit of items excluded from adjusted profit before tax of £8.3m and an exceptional non-cash tax credit of £3.6m on recognition of a deferred tax asset related to restricted interest deductions in the US.

Cash tax paid was £3.5m (2019 – £5.3m) and is stated net of refunds received of £0.3m (2019 – £0.8m) of tax paid in prior periods. Due to the phasing of corporation tax, payments during the year largely relate to taxable profits arising in the prior year and are lower than they would otherwise have been as a result of coronavirus relief measures in some countries allowing the deferral of tax bills normally due in 2020 into 2021 of £2.3m.

**Tax policy**

The Group acts with integrity in all tax matters, in accordance with the Group's ethics and business conduct programme. It is the Group's obligation to pay the amount of tax legally due and to observe all applicable rules and regulations in the jurisdictions in which it operates. While meeting this obligation, the Group also has a responsibility to manage and control the costs of our business including the taxes we pay for the benefit of all our stakeholders. The Group seeks to achieve this by conducting business affairs in a way that is efficient from a tax perspective, including maintaining appropriate levels of debt in the countries we operate in and claiming available tax reliefs and incentives. The Group is committed to building and maintaining constructive working relationships with the tax authorities of the countries in which it operates. Further details on our approach to tax may be found on Senior's website at [www.seniorplc.com](http://www.seniorplc.com).

# Financial review continued

## Loss/earnings per share

The weighted average number of shares, for the purposes of calculating undiluted loss/earnings per share, decreased to 414.9 million (2019 – 415.0 million). The decrease arose principally due to shares purchased by the employee benefit trust during 2019. The adjusted loss per share was 0.84 pence (2019 – adjusted earnings per share of 16.17 pence). Basic loss per share was 38.20 pence (2019 – basic earnings per share of 7.04 pence). See Note 12 to the Financial Statements for details of the basis of these calculations.

## Return on capital employed (ROCE)

ROCE, a key performance indicator for the Group as defined on page 30, decreased by 1060 basis points to 0.5% (2019 – 11.1%) and was below the Group's cost of capital. The decrease in ROCE was a result of the reduction in adjusted operating profit compared to prior year, partly offset by lower average capital employed mainly due to the impairment and write-off of goodwill.

## Research and design

The Group's expenditure on research and design was £18.7m during 2020 (2019 – £28.1m). Expenditure was incurred mainly on funded and unfunded work, which relates to designing and engineering products in accordance with individual customer specifications and investigating specific manufacturing processes for their production. The Group also incurs costs on general manufacturing improvement processes which are similarly expensed. Unfunded costs in the year have been expensed, consistent with the prior year, as they did not meet the strict criteria required for capitalisation.

## Exchange rates

A proportion of the Group's operating profit in 2020 was generated outside the UK and consequently, foreign exchange rates, principally the US Dollar against Sterling, can affect the Group's results.

The 2020 average exchange rate for the US Dollar applied in the translation of income statement and cash flow items was \$1.29 (2019 – \$1.28). The exchange rate for the US Dollar applied to the translation of Balance Sheet items at 31 December 2020 was \$1.37 (31 December 2019 – \$1.33).

Using 2020 average exchange rates would have decreased 2019 revenue by £8.6m and decreased 2019 adjusted operating profit by £0.6m. A 10 cents movement in the £:\$ exchange rate is estimated to affect full-year revenue by £36m, adjusted operating profit by £1m and net debt by £9m.

## Cash flow

The Group generated strong free cash flow of £46.5m in 2020 (2019 – £58.3m) as set out in the table below:

	2020 £m	2019 £m
Operating (loss)/profit	(177.3)	61.6
Amortisation of intangible assets from acquisitions	7.7	13.1
Goodwill impairment and write-off	134.3	–
Restructuring	39.0	12.1
US class action lawsuits	–	2.6
Adjusted operating profit	3.7	89.4
Depreciation (including amortisation of software)	53.9	54.6
Working capital and provisions movement, net of restructuring items	32.3	3.4
Pension payments above service cost	(5.0)	(8.7)
Other items <sup>(1)</sup>	2.0	0.0
Interest paid, net	(10.6)	(11.0)
Income tax paid, net	(3.5)	(5.3)
Capital expenditure	(26.8)	(64.8)
Sale of plant, property and equipment	0.5	0.7
Free cash flow	46.5	58.3
Dividends paid	–	(31.2)
Disposal costs and net debt left in the businesses in excess of proceeds	(4.2)	(8.2)
Purchase of shares held by employee benefit trust	–	(6.3)
Restructuring cash paid	(15.2)	(2.9)
US Class action lawsuits	(3.9)	–
Net cash flow	23.2	9.7
Effect of foreign exchange rate changes	2.4	7.3
IFRS 16 non-cash additions and modifications after disposals	(1.9)	2.5
Change in net debt	23.7	19.5
Opening net debt	(229.6)	(249.1)
Closing net debt	(205.9)	(229.6)

(1) Other items comprises £3.0m share-based payment charges (2019 – £(1.8m)), £(0.2m) profit on share of joint venture (2019 – £(0.4m)), £(0.7m) working capital and provision currency movements before £0.5m foreign exchange loss recycled to the Income Statement on restructuring activities (2019 – £(1.4m)) and £(0.1m) profit on sale of fixed assets (2019 – £nil).

## Capital expenditure

Gross capital expenditure of £26.8m (2019 – £64.8m) was 0.6 times depreciation excluding impact of IFRS 16 (2019 – 1.5 times). The disposal of plant, property and equipment raised £0.5m (2019 – £0.7m). As previously advised, following several years of high capital investment to support growth, we are now past the peak investment phase and can expect future capital investment to be at more normal levels. In the near term, as we did in 2020, we will continue to focus on conserving cash including carefully managing capital expenditure. Where possible we are redeploying equipment to better utilise it in the Group, for example for use on our growing defence and space programmes instead of civil aerospace. We are prioritising new investment on health and safety related items; important replacement equipment for current production; and growth projects where contracts have been secured.

## Working capital

Working capital decreased by £41.4m in 2020 to £106.0m (2019 – £147.4m) mainly due to a reduction in receivables and inventories, partly offset by a reduction in payables. This reflected our relentless and effective focus on working capital management as we aligned to reduced activity levels in some of our end markets as a result of the pandemic. We introduced a Group-wide initiative focusing on inventory reduction with identified inventory champions in each operating business, ensuring each business had the right tools to define its own inventory reduction plan and the responsibility to deliver on it.

The Group also benefited from coronavirus relief measures in some countries allowing the deferral of indirect taxes normally due in 2020 into 2021/2022 of £6.7m.

The Group participates in some non-recourse reverse factoring schemes which are arranged by our customers as a way of reducing credit risk. The trade receivables reverse factored under such non-recourse schemes at 31 December 2020 were £17.6m (31 December 2019 – £30.9m). The net impact of reverse factoring on 2020 was a cash outflow in working capital of £13.3m (2019 – £13.0m inflow) and the discount interest presented within other finance costs is a charge of £0.2m in 2020 (2019 – £0.5m). These arrangements follow standard market terms and conditions and, as noted above, are 100% non-recourse to the Group, thereby transfer all credit risk to the financial institutions who provide the factoring schemes.

## Dividend

The Group had a long and stable track record of dividend growth prior to 2020; however, in the current operating environment the Board has taken the decision not to recommend the payment of a 2020 final dividend. This follows the Board's decisions to not recommend the payment of an interim dividend for 2020 and, as noted in the Market Update issued on 26 March 2020, to not recommend the payment of a final dividend for 2019. Therefore no cash outflow was incurred during 2020 in respect of dividends. The cash outflow incurred during 2019 in respect of the final dividend for 2018 and the interim dividend for 2019 was £31.2m.

The Board recognises the importance of the dividend for our shareholders and will continue to follow a progressive dividend policy reflecting earnings per share, free cash flow generation, market conditions and dividend cover over the medium term, when it is appropriate to do so.

## Goodwill

The reduction in goodwill from £297.1m at 31 December 2019 to £165.0m at 31 December 2020 reflects goodwill impairment and write-off of £134.3m and an increase of £2.2m due to foreign exchange differences. During the first half of 2020, an impairment of £110.5m was recognised in relation to the goodwill allocated to the Aerostructures CGU group, reflecting the significant impact of COVID-19 on the short to medium term outlook for the civil aerospace sector. The pandemic has led to a severe decline in global air traffic and as a result many airlines have cut capacity, retired older aircraft and deferred deliveries of new aircraft. Accordingly, civil aircraft and engine OEMs have announced significant cuts to programme production rates. During the second half of 2020, goodwill of £23.8m was written-off in respect of the decisions to close the Senior Aerospace Bosman and Senior Flexonics Upeca Malaysia operating businesses.

## Retirement benefit schemes

The retirement benefit surplus in respect of the Group's UK defined benefit pension plan ("the UK Plan") decreased by £2.4m to £46.5m (31 December 2019 – £48.9m) due to £8.4m net actuarial losses and £0.2m past service cost partly offset by £5.1m cash contributions by the Group, in excess of running costs, and £1.1m net interest income. Retirement benefit deficits in respect of the US and other territories increased by £3.1m to £10.9m (31 December 2019 – £7.8m), principally due to £3.0m net actuarial losses.

The latest triennial actuarial valuation of the UK Plan as at 5 April 2019 showed a deficit of £10.2m (5 April 2016 – deficit of £37.4m). As a result, and effective from April 2019, the Group's deficit reduction cash contributions to the UK Plan have reduced from an annual amount of £8.1m to an annual amount of £5.5m. The Group continues to contribute £0.5m per annum towards plan administration costs. These contributions are payable over the three-year

## Net debt/EBITDA

19	1.1x
20	2.8x

## Funding headroom (£m)

19	159
20	157

period to March 2022 and are subject to review and amendment as appropriate at the next funding valuation in 2022.

## Net debt

Net debt which includes IFRS 16 lease liabilities decreased by £23.7m to £205.9m at 31 December 2020 (31 December 2019 – £229.6m). As noted in the cash flow above, the Group generated net cash flow of £23.2m (as defined in Note 32(c) of the Financial Statements) and benefited from £2.4m favourable foreign currency movements, partially offset by £1.9m non-cash changes in lease liabilities due to additions and modifications.

Net debt excluding IFRS 16 lease liabilities of £76.5m (31 December 2019 – £83.7m) decreased by £16.5m to £129.4m at 31 December 2020 (31 December 2019 – £145.9m).

## Funding and liquidity

As at 31 December 2020, the Group's gross borrowings excluding leases and transaction costs directly attributable to borrowings were £154.4m (31 December 2019 – £163.0m), with 62% of the Group's gross borrowings denominated in US Dollars (31 December 2019 – 64%). Cash and bank balances were £23.6m (31 December 2019 – £15.8m).

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

	Gross borrowings <sup>(2)</sup> £m	Committed facilities £m
Within one year	0.4	–
In the second year	15.4	48.8
In years three to five	91.7	190.8
After five years	46.9	46.9
	154.4	286.5

(2) Gross borrowings include the use of bank overdrafts, other loans and committed facilities, but exclude leases of £76.5m and transaction costs directly attributable to borrowings of £(1.4m).

At the year-end, the Group had committed facilities of £286.5m comprising private placement debt of £132.3m and revolving credit facilities of £154.2m. The Group is in a strong funding position, with headroom at 31 December 2020 of £157.1m under its committed facilities.

In July 2020, the Group refinanced its US revolving credit facility of \$50.0m (£36.5m) and extended the maturity to June 2022. In October 2020, the Group repaid its \$20.0m (£14.6m) US Private Placement Note on maturity.

The weighted average maturity of the Group's committed facilities at 31 December 2020 was 3.8 years.

The Group has £0.4m of uncommitted borrowings which are repayable on demand.

The Group has two existing covenants ("Existing Covenants") for committed borrowing facilities, which are tested at June and December: the Group's net debt to EBITDA (defined in the Notes to the Financial Headlines) must not exceed 3.0x and interest cover, the ratio of EBITDA to interest must be higher than 3.5x. The Group's lenders, both banks and US private placement investors, have been supportive and we agreed covenant relaxations ("New Covenants") in relation to the June 2020, December 2020, June 2021 and December 2021 testing periods and agreed an additional September 2021 testing period to provide financial flexibility for the Group through this unprecedented period.

For the testing period ended 31 December 2020, the New Covenants required the Group's net debt to EBITDA must not exceed 6.0x, interest cover must be higher than 2.0x and liquidity headroom must be higher than £40.0m. At 31 December 2020, the Group's net debt to EBITDA was 2.8x and interest cover was 6.1x, both within the Existing Covenants and comfortably within the New Covenants limits. The Group's liquidity headroom at £157.1m was also comfortably within covenant limits.

## UK withdrawal from the European Union

The Group's Brexit Committee undertook detailed reviews to assess the impact of the UK's decision to leave the European Union including from a regulatory, supply chain, people and financial perspective. Appropriate steps were taken to prepare for the transition, particularly to minimise any potential operational disruption. While we do not anticipate a significant direct impact from Brexit on the Group's activities, we remain alert to any long-term impact of Brexit on macroeconomic conditions. Our assessment is that any direct or indirect impact from Brexit will be limited given the Group's global positioning.

## Bindi Foyle

Group Finance Director



# Viability statement

Following a robust assessment, the Directors have concluded that the Group and Parent Company have sufficient funds to operate for the foreseeable future (evaluated to 31 December 2023), even in a severe but plausible downside scenario.

In accordance with provisions 30 and 31 of the 2018 UK Corporate Governance Code, published by the Financial Reporting Council in 2018, the Directors have assessed the prospects of the Group over the three-year period to 31 December 2023.

The high level of uncertainty as to how COVID-19 might evolve over 2021 and 2022 and the continuing impact on the economies and end markets renders precise forecasting challenging. There is a higher degree of uncertainty than would usually be the case. The Board has therefore applied a higher level of caution than in prior years in evaluating the severe but plausible downsides. The Board has considered a three-year period as this reflects the normal mid-term planning cycle of its business operations while adequately covering customer lead times for both new and expansion investment. In addition, this period provides sufficient clarity to consider the business prospects and any bounce back from the pandemic under a base case, while also assessing continued impacts under a severe but plausible downside scenario.

These projections are borne out of extensive scenario testing, based on a variety of end market assumptions. The global response to COVID-19 has resulted in an unprecedented decline in air travel which has had a major impact on the Group's largest market, which is civil aerospace. As a result, civil aerospace OEMs have announced significant cuts to production rates as noted on page 7 of the Group Chief Executive Officer's Statement. Most industry commentators expect air traffic to return to 2019 levels by 2023/2024 and production rates to recover to pre-COVID-19 levels by 2024/25 for narrow-body aircraft with wide-body expected to take longer to recover. As demand recovers, production of new aircraft will be supported by the replacement cycle driven by the accelerated retirement of older, less efficient, aircraft during the pandemic. Beyond this, the drivers supporting air traffic growth over the long term of c. 4% per annum remain in place. The lower operating cost and better sustainability of new aircraft, on which Senior has significant content, will continue to be a necessity for the airline industry.

In determining a severe but plausible downside scenario, the Board has assessed the build rates announced by the OEMs, on all major programmes where Senior has significant content, and applied an additional downside to reflect the current uncertainties.

In the Group's other key markets, defence is anticipated to remain stable, the Flexonics land vehicle markets are expected to continue to recover in 2021 through the medium-term and in the power and energy markets, recovery in the oil and gas sector is unlikely before 2022. Nevertheless, the Board has applied risk factors to future demand assumptions in assessing a severe but plausible downside for these other key markets.

To address the impacts under the severe but plausible downside, the Board has considered the mitigating actions within the Group's direct control. These include a continued focus on conserving cash through vigilant management of capital expenditure and working capital together with further restructuring actions and limiting non-critical discretionary spend. Many of these mitigations have been successfully actioned in 2020 in the Group's immediate response to COVID-19.

## Committed facilities and debt covenants

At 31 December 2020, the Group held committed borrowing facilities of £286.5m with liquidity headroom of £157.1m. The weighted average maturity of the Group's committed facilities at the end of February 2021 was 3.7 years. Net debt (defined in Note 32c) was £205.9m, including £76.5m of capitalised leases which do not form part of the definition of debt under the committed facilities and do not impact the Group's lending covenants.

The Group has two Existing Covenants for committed borrowing facilities, which are tested at June and December: the Group's net debt to EBITDA (defined in the Notes to the Financial Headlines on page 1) and interest cover, the ratio of EBITDA to interest. The Group's lenders, both banks and US private placement investors, have been supportive and agreed New Covenants in relation to the December 2020, June 2021 and

December 2021 testing periods, and an additional September 2021 testing period to provide financial flexibility for the Group through this unprecedented period.

## Board's conclusion

Modelling the base case and severe but plausible downside scenarios and mitigations indicate that the Group is in compliance with all debt covenants at all measurement dates out to 31 December 2023. The scenarios also highlight sufficient liquidity headroom throughout the period in light of the committed facilities available.

Accordingly, following a robust assessment the Directors have concluded that the Group and Parent Company have sufficient funds to operate for the foreseeable future, even in a severe but plausible downside scenario. For the going concern assessment the foreseeable future covers a minimum period of 12 months from the date of approval of these Financial Statements, and with the viability period evaluated out to 31 December 2023.

## Going concern

As a consequence of the work undertaken to support the viability statement above, the Directors have, at the time of approving these Financial Statements, a reasonable expectation that the Group and Parent Company have adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of these Financial Statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing these Financial Statements, having undertaken a rigorous assessment of the financial forecasts.

## Approval

The Strategic Report from pages 1 to 46 was approved by the Board of Directors on 5 March 2021 and signed on its behalf by

## David Squires

Group Chief Executive Officer



# Chairman's governance letter



"Senior's proactive response to the challenges brought forth by the COVID-19 pandemic in 2020, and the earlier grounding of the Boeing 737 MAX in March 2019, demonstrates that the governance framework is sufficiently robust in dealing with unexpected circumstances."

**Ian King**  
Chairman

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## Statement of compliance with the Corporate Governance Code

The Company is subject to the UK Corporate Governance Code 2018 (the Code), which is published by the Financial Reporting Council and available on their website: [www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code](http://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code)

We have been fully compliant with the Code throughout 2020. Further details of how the Company applied the Principles of the Code can be found on pages 55 to 65.

## Dear Shareholders,

The challenges brought forth by the COVID-19 pandemic in 2020, and the earlier grounding of the Boeing 737 MAX in March 2019, and Senior's proactive response, demonstrates that the governance framework is sufficiently robust in dealing with unexpected circumstances. The non-executive Directors have brought a broad, professional and complementary experience to the Board, which has been particularly valuable in such a difficult year. Furthermore, despite these challenges, the Board has retained its focus on environmental, social and governance ("ESG") matters, policies and procedures.

Good corporate governance has always been given prominence across the Senior plc Group; the Board sets the tone and takes the lead on all governance matters. The Governance section of this Annual Report is intended to provide Senior's shareholders with a clear and meaningful explanation of what governance means to the Board and how this guides its decision-making processes.

The Board remains committed to ensuring the long-term sustainable growth of the Group, generating value for shareholders, whilst considering the needs of all its stakeholders.

I have summarised below the Company's approach to key governance matters.

## Board governance Leadership

The Board is led by me, as the non-executive Chairman, together with two executive Directors and four independent non-executive Directors, who were selected for appointment because of their wide industrial and commercial experience. In addition, the Group's Executive Committee, chaired by the Group Chief Executive Officer, comprises the executive Directors and other key executives. Details of the members of the Board and of the Executive Committee can be found on pages 49 to 52. My role as Chairman includes:

- (a) setting the Board's agenda, style and tone of Board discussions and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues;
- (b) supporting the Group Chief Executive Officer in the development of strategy and, more broadly, to offer guidance to the Group Chief Executive Officer;

- (c) promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors, in particular, and ensuring constructive relations between non-executive Directors and executive management;
- (d) ensuring that the Directors receive accurate, timely and clear information;
- (e) ensuring, in conjunction with the Group Chief Executive Officer, effective communication with shareholders; and
- (f) ensuring that the performance of the Board, its main committees and individual Directors are formally evaluated on an annual basis.

The non-executive Directors have an important role in reviewing and challenging executive management's decisions and actions. The events of 2020 have highlighted the importance of having an effectively functioning Board, with the Directors working together to ensure the Group was able to contend with multiple issues arising from the global pandemic.

The Directors consider that an effective Board is in place which leads and controls the Group, with clear division of responsibilities between the running of the Board and the running of the Group's businesses. In 2020, a detailed Board evaluation review was undertaken in conjunction with Equity Communications Limited which confirmed that the Board was performing well. The review found that communications between the executive Directors and the Board had been very good during the pandemic and the increased frequency of Board meetings had meant all Directors were kept up to date with developments on a regular basis. The review found the Directors had missed holding face-to-face meetings, but all key issues had been dealt with in an efficient and timely manner throughout 2020. Once the pandemic has been brought under control, the Directors will reconsider the number of physical and virtual Board meetings to be held in a typical year. The review showed the Board to be effective and had been agile in addressing the new dynamics of responding to the pandemic. A fuller report on the Board evaluation findings and a list of actions are provided on page 57.

I was independent upon appointment as Chairman. The Board considers all non-executive Directors of the Company continue to be independent, having taken into account a list

# Chairman's governance letter *continued*

## Board and Committee membership and attendance

As the pace of decision-making increased in 2020 as a result of the pandemic, the Board increased its frequency of meetings. The membership and attendance record of the full Board Meetings and its full Committee Meetings during 2020 are shown in the table below:

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee <sup>(2)</sup>
Chair	Ian King	Giles Kerr	Ian King	Celia Baxter
Total number of meetings	18	5	3	5
Ian King	18/18	–	3/3	5/5
Celia Baxter	18/18	5/5	3/3	5/5
Susan Brennan	18/18	5/5	3/3	5/5
Bindi Foyle	18/18	–	–	–
Giles Kerr	18/18	5/5	3/3	5/5
Rajiv Sharma	18/18	5/5	3/3	5/5
David Squires	18/18	–	–	–
Mark Vernon <sup>(1)</sup>	7/7	1/1	1/1	1/1

(1) Mark Vernon stepped down from the Board following the conclusion of the AGM on 24 April 2020.

(2) There were five scheduled Remuneration Committee meetings and one unscheduled Remuneration Committee meeting in 2020.

of relationships and circumstances that may appear relevant in determining independence. The Chairman encourages open and honest discussions between Directors, both within and outside Board meetings, and ensures no Director or group of Directors exerts pressure or dominates the Board's decision-making.

## Engagement with stakeholders

### Shareholders

The Company maintains regular contact with its institutional shareholders and continued to consult with its major shareholders during 2020. Twice a year, the Group Chief Executive Officer, Group Finance Director and Director of Investor Relations & Corporate Communications undertake a series of meetings with the Company's major shareholders, following the announcement of the full-year and interim results, to discuss both the Board's strategic objectives and the detailed performance of the business. Notwithstanding the restrictions imposed as a result of the Coronavirus pandemic, regular communication continued. The frequency of meetings with major shareholders increased in 2020, to address the challenges everyone faced as a result of the pandemic; these exchanges highlighted the value of establishing early relationships.

During 2020, the Company's non-executive Chairman also attended the full-year 2019 and 2020 interim results announcements made to analysts, in person in March and by Webcast in August respectively. The Chairman also corresponds with and meets with the Company's major shareholders on a regular basis, with a cycle that is complementary to the executive Directors' shareholder engagement process. During 2020, the Company's major shareholders were consulted on the proposed changes to the Directors' Remuneration Policy. The Senior Independent non-executive Director is also available to attend meetings with major shareholders upon request, so providing an alternative channel of communication between

the Company and its shareholders.

The Company typically makes constructive use of its AGMs to communicate with its private shareholders; in April 2020 this process had to be limited because of the U.K. Government's restrictions due to the pandemic, but we intend to return to our previous AGM structure whenever practicable. At our AGMs, we value the engagement with shareholders and the opportunity for the Group Chief Executive Officer to present on the Group's business.

### Employees

Celia Baxter is the Director designated by the Board to engage with the Group's workforce and listen to any employee concerns. During the year, she participated in Focus Group meetings with the Group HR Director, Jane Johnston. In early 2020, the Group HR Director was able to hold face to face Focus Group meetings with employees of Senior Flexonics Pathway. Following the onset of the pandemic, Celia Baxter and the Group HR Director held 17 virtual Focus Group meetings with employees of other Group operations. Feedback from the meetings was provided to local management and to the Company's Board of Directors.

➤ Further details on Employee Engagement can be found on page 19

### Customers

Due to the nature of the business, the Group has well-established relationships with all its key customers, including Boeing, Spirit and Rolls-Royce in the Aerospace Division, and Schlumberger, Cummins and Caterpillar in the Flexonics Division. These relationships are maintained on an ongoing basis and managed in a transparent and constructive manner; any customer concerns are addressed in a timely manner, to ensure continuity of supply and customer satisfaction. In 2020, it was particularly important for the Group to maintain regular contact with its customers, as the Group's supply chain was forced to address the difficult

conditions created by the Coronavirus pandemic.

The Group has dedicated account managers to deal directly with key customers on existing and new customer agreements. Relationships with potential and new customers are also established on an open and professional basis, and in compliance with the Group's Corporate Framework and Code of Conduct.

## Suppliers

Maintaining a good relationship with Senior's supply chain is fundamental to providing customers with products in a timely manner and to a high standard. In 2020, it was particularly important for the Group to maintain regular contact with its suppliers and work together constructively to ensure the Group's supply chain was able to maintain continuity of supply during the challenging business environment created by the Coronavirus pandemic.

Agreements with major suppliers have, in many cases, been arranged to support long-term agreements with the Group's key customers. Due to the nature of the materials utilised, supplies may involve long lead times, and so communication and managing good relations with suppliers is paramount to the Group's operating businesses.

## Community and the environment

Many of the Group's operations are major employers within their local communities and nurture good relationships with their stakeholders, finding ways to contribute to local society, in addition to providing employment opportunities. In the UK and the US our operations produced full-face visors for frontline workers in response to the critical shortage of PPE. Furthermore, where possible, community engagement programmes were maintained. The Group's commitment to the environment continued with Senior becoming the first company in the global Aerospace & Defence sector to have its carbon emission reduction targets independently verified and approved by the Science Based Targets initiative ("SBTi") and we once again achieved a Leadership rating of "A-" from the globally recognised Carbon Disclosure Project ("CDP"). Equally, the Group's operations that are smaller in size take stakeholder engagement very seriously, ensuring they adhere to high standards for the protection of health, safety and the environment and, in many cases, maintaining relationships with local schools and colleges to offer training or apprenticeship programmes.

2020 has been an extremely challenging year for the Company. We have shown resilience, been agile in our response and not compromised our standards and values. The behaviour of all across the Group has been exemplary. 2021 will be equally demanding, but hopefully with conditions easing in the second half of the year. Your support has been unflinching and appreciated. The Board thanks you for your commitment, which it does not take lightly.

## Ian King

Chairman

5 March 2021

# Board of Directors

The Board is responsible for strategic decisions affecting the Group, including the setting of commercial strategy and the approval of annual operating budgets and Financial Statements.



## Ian King

### Chairman and Chair of the Nominations Committee

#### Responsibilities

Leadership of the Board, setting its agenda and ensuring its effectiveness.

#### Qualifications

Fellow of the Chartered Institute of Management Accountants.

#### Appointment to the Board

Ian King joined the Board on 13 November 2017 as a non-executive Director and became Chairman in April 2018.

#### Committee membership

Nominations (Chair) and Remuneration.

#### Skills and experience

For more than 40 years Ian has held many senior management and directorship roles, including finance, executive management, customer support and strategic planning.

#### Career experience

Ian joined Marconi in 1976 and held a number of roles with them. He was Chief Executive of Alenia Marconi when Marconi and British Aerospace merged in 1999 to form BAE Systems plc. He then became Group Strategy and Planning Director of BAE Systems; Ian was its Chief Executive from 2008 until his retirement in June 2017. He was also the senior independent director of Rotork plc until June 2014.

#### Current directorships/business interests

Ian is the senior independent director of Schroders plc, the lead non-executive director for the Department for Transport and a senior adviser to the Board of Gleacher Shacklock LLP. In July 2020, Ian was appointed a non-executive director of High Speed Two (HS2) Limited.

#### Independence

Ian met the UK Corporate Governance Code's independence criteria on his appointment as Chairman.

#### Specific contribution to the Company's long-term success

Ian leads the Board in defining the strategy of the Group and driving the Company's vision to produce sustainable growth in operating profit, cash flow and shareholder value. Ian has relevant direct experience in Aerospace, a key element of Senior's strategy.



## Celia Baxter

### Senior Independent Non-Executive Director, Chair of the Remuneration Committee and Director designated to engage with the Group's employees

#### Responsibilities

To support the Chairman and to act as an intermediary for other non-executive Directors, if necessary. Celia chairs the Remuneration Committee and is also the Director designated to engage with the Group's employees.

#### Qualifications

BSc – Botany/Plant Biology and PhD and a Member of the Chartered Institute of Personnel and Development.

#### Appointment to the Board

Celia Baxter joined the Board on 2 September 2013, became Chair of the Remuneration Committee in December 2013 and the Senior Independent non-executive Director in April 2019.

#### Committee membership

Remuneration (Chair), Audit and Nominations.

#### Skills and experience

Celia is an experienced non-executive Director, Remuneration Committee and Pension Trustee Company Chair.

#### Career experience

Celia's early HR career was with Ford Motor Company and KPMG. She has held executive HR positions with Hays plc, Enterprise Oil Plc and Tate & Lyle Plc, and most recently was Director of Group HR of Bunzl plc. In May 2020, Celia stepped down as a non-executive director of N.V. Bekaert S.A.

#### Current directorships/business interests

Celia is a non-executive director of RHI Magnesita N.V. and DS Smith plc.

#### Specific contribution to the Company's long-term success

Celia brings extensive experience of working in international, decentralised businesses and managing HR departments to the Board. She holds a key role in engaging with the Group's stakeholders, particularly its employees. She advises and guides on succession planning matters.



## Susan Brennan

### Independent Non-Executive Director

#### Responsibilities

To challenge the executive Directors and monitor the delivery of the strategy within the risk and control framework set by the Board.

#### Qualifications

BSc in Microbiology and MBA.

#### Appointment to the Board

Susan Brennan joined the Board in January 2016.

#### Committee membership

Audit, Nominations and Remuneration.

#### Skills and experience

Susan brings more than 25 years of manufacturing experience, including automotive vehicle, powertrain and components assembly. Susan has dedicated her career to improving American manufacturing and assuring that the United States maintains a vital manufacturing footprint. In her time as a manufacturing practitioner, she has always been a strong proponent of sustainability, starting in her first role as the Environmental and Coating Manager with Douglas and Lomason, leading the plant to the State of Iowa's first ever Waste Minimization award and, more recently, launching the all-electric Nissan Leaf in Smyrna, USA.

#### Career experience

Susan served as VP of Manufacturing at Nissan North America, Inc. and as Director of global manufacturing at Ford, where she led a global business office for Ford's assembly, powertrain and stamping plants.

#### Current directorships/business interests

Susan is the Executive Vice-President and Chief Operations Officer of Bloom Energy Corporation.

#### Specific contribution to the Company's long-term success

Susan brings valuable manufacturing experience to the Board, especially in areas of key technological advances. Her operational and executive experience, particularly in automotive and component assembly, means she is well placed to understand issues at both operational and strategic levels.



# Board of Directors *continued*



## **Bindi Foyle**

### **Group Finance Director**

#### **Responsibilities**

To manage the Group's financial affairs and to contribute to the management of the Group's business and to the implementation of the strategy and policies approved by the Board.

#### **Qualifications**

BSc (Hons) in Economics & Accounting and a Chartered Accountant.

#### **Appointment to the Board**

Bindi Foyle joined the Board as an executive Director on 3 May 2017 and became Group Finance Director on 1 July 2017.

#### **Committee membership**

Bindi sits on the Group Executive Committee and the Treasury Committee, which is not formally appointed as a Committee of the Board.

#### **Skills and experience**

Bindi joined Senior as Group Financial Controller in January 2006, a role she held until July 2014 when she became responsible for the Group's Investor Relations activities. Prior to her appointment as an executive Director, Bindi was Director of Investor Relations and Corporate Communications for the Group.

#### **Career experience**

Prior to joining Senior, Bindi held senior finance roles at Amersham plc and GE, having previously worked with BDO Stoy Hayward.

#### **Current directorships/business interests**

In May 2020, Bindi was appointed a non-executive director of Avon Rubber p.l.c.; in January 2021 she became the Chair of its Audit Committee.

#### **Specific contribution to the Company's long-term success**

Bindi's experience of financial control and investor relations and communications means that she is ideally placed to implement the strategy and policies approved by the Board. Since joining the Group in 2006, she has gained extensive knowledge of the running of all the Group's operations and is instrumental in managing the Group's finances and assisting the Group Chief Executive Officer in the management of the Executive team.



## **Giles Kerr**

### **Independent Non-Executive Director and Chair of the Audit Committee**

#### **Responsibilities**

To challenge the executive Directors and monitor the delivery of the strategy within the risk and control framework set by the Board. To Chair the Audit Committee and focus its agenda on its key matters: quality, financial accounting, corporate reporting and effective internal controls.

#### **Qualifications**

BA (Hons) in Economics and a Chartered Accountant.

#### **Appointment to the Board**

Giles Kerr joined the Board on 2 September 2013 and became Chair of the Audit Committee in April 2014.

#### **Committee membership**

Audit (Chair), Nominations and Remuneration.

#### **Skills and experience**

Giles has over 35 years' experience in finance across a broad range of industrial sectors. During his tenure as Director of Finance at Oxford University, he established a successful investment office and he gained considerable experience of establishing and growing technology-based companies.

#### **Career experience**

Giles is a former Director of Finance of Oxford University and non-executive director of BTG Plc and Victrex plc. In May 2020, Giles stepped down as a non-executive director of Adaptimmune Therapeutics plc. Giles held a number of positions with Amersham plc within finance and corporate development, including Group Finance Director. He was formerly a Partner with Arthur Andersen & Co.

#### **Current directorships/business interests**

Giles was appointed a non-executive director of PayPoint plc in November 2015 and became its Chairman in May 2020. He is a non-executive director of Abcam plc and Arix Bioscience plc.

#### **Specific contribution to the Company's long-term success**

Giles' extensive experience as a chairman and senior independent director, and as the chair of several UK and US listed company audit committees, enables him to make a strong contribution to the Board and he has ensured strong financial governance of the Group.



## **Rajiv Sharma**

### **Independent Non-Executive Director**

#### **Responsibilities**

To challenge the executive Directors and monitor the delivery of the strategy within the risk and control framework set by the Board.

#### **Qualifications**

BTech in Mechanical Engineering and MBA, Marketing & Strategy.

#### **Appointment to the Board**

Rajiv Sharma was appointed to the Board on 1 January 2019.

#### **Committee membership**

Audit, Nominations and Remuneration.

#### **Skills and experience**

Rajiv has nearly 30 years' experience which includes commercial, operations, M&A, strategy, digital and general management. Rajiv joined Coats Group plc in November 2010 as Global CEO Industrial and was responsible for developing and executing a growth strategy. He has lived and worked in the US, Europe and Asia and has multi-industry global experience. He has managed complex businesses with blue-chip companies. The majority of his career has been dedicated to growing or turning around businesses and he has been on the board of joint ventures.

#### **Career experience**

During his career, Rajiv has held senior roles in various companies including Honeywell, GE and Shell.

#### **Current directorships/business interests**

Rajiv has been the Group Chief Executive of Coats Group plc since January 2017, having served as an executive director since March 2015.

#### **Specific contribution to the Company's long-term success**

Rajiv has had a long career running and growing multinational companies across the world, particularly in South East Asia. His background in mechanical engineering means that he brings operational and technical understanding to the Board's discussions. His experience of developing and executing growth strategy make his contribution to delivering the Company's long-term success an important one.





## David Squires

### Group Chief Executive Officer

#### Responsibilities

To manage the Group's business and to implement the strategy and policies approved by the Board.

#### Qualifications

BA in Business Management Studies, a Fellow of the Chartered Institute of Purchasing and Supply and Fellow of the Royal Aeronautical Society.

#### Appointment to the Board

David Squires was appointed to the Board on 1 May 2015 and became Group Chief Executive Officer on 1 June 2015.

#### Committee membership

David chairs the Group's Executive Committee. He is also the Chair of the Health, Safety & Environment Committee, which meets formally three times a year to formulate the Group's HSE strategy and objectives for approval by the Board.

#### Skills and experience

A graduate in business management, member of the Chartered Institute of Purchasing and Supply and Fellow of the Royal Aeronautical Society. David has held senior posts in operations and procurement, business development, programme management and general management.

#### Career experience

David started his career in the oil industry working for Shell; however, most of his working life has been spent in the aerospace industry, initially with Hughes Aircraft Company (now Raytheon), then GEC-Marconi/BAE Systems and Eaton Corporation. Prior to joining Senior plc in May 2015, David was Chief Operating Officer of Cobham plc.

#### Current directorships/business interests

David holds no other directorships.

#### Specific contribution to the Company's long-term success

David has a long-established career in manufacturing, for the most part having specialised in the aerospace sector. He brings extensive knowledge of the aerospace industry and understanding of procurement and business development to the Board. David has been the guiding force in driving the Group's vision and operating in a safe and ethical manner.



## Mark Vernon

### Non-Executive Director (Retired)

Mark Vernon joined the Board in April 2011 and was the Senior Independent non-executive Director from April 2016 to April 2019, when he was succeeded by Celia Baxter. Mark retired from the Board in April 2020. The Board would like to formally thank Mark for his hard work and dedication to the roles he held, to maintaining independence throughout his tenure and to challenging the executive Directors on their plans in order to ensure their decisions and actions were in accordance with the best interests of the Group.



## Andrew Bodenham

### Group Company Secretary

Andrew Bodenham acts as Secretary to the Senior plc Board and its Committees. See biography on page 52.

### Tenure – Board



### Diversity – Board



# Executive Committee



The Executive Committee oversees the running of all Senior Group Operations.

## 1. David Squires

See biography on page 51.

## 2. David Beavan

David took up the role of Director of Business Development & Strategy (formerly the Head of Business Development) in April 2014. He joined the Group in 2004, when he was appointed the Chief Executive of Senior Aerospace BWT. Prior to joining Senior, David had general management experience within automotive and commercial aircraft Tier 1 supplier industries.

## 3. Andrew Bodenham

Andrew was appointed Group Company Secretary in 2002. He acts as Secretary to the Senior plc Board and its Committees; he also sits on the Group's Treasury Committee. Prior to joining Senior, Andrew had gained experience working for businesses in technology/software, manufacturing, insurance and aviation services sectors.

## 4. Laurie Fleming

A US citizen, he has worked for the Group for over 20 years. Laurie joined the Executive Committee upon his appointment as Chief Executive of Aerospace Fluid Systems in September 2008; in October 2020, Laurie was appointed Chief Executive of the Aerospace Division, formed by the consolidation of the Aerospace Fluid Systems division and Aerospace Structures division. Prior to these divisional roles, Laurie was the Chief Executive of Senior Aerospace SSP.

## 5. Bindi Foyle

See biography on page 50.

## 6. Jane Johnston

Jane joined the Group in May 2016. A Fellow of the Chartered Institute of Personnel and Development, Jane has considerable experience heading up HR functions across a range of global geographies. She has worked in a number of different sectors including technology, drug development, construction, and professional services and, prior to joining Senior, was Group HR Director at Pace plc.

## 7. Mike Sheppard

A US citizen, he has worked for the Group for over 30 years and is the Chief Executive of the Flexonics Division. A qualified engineer, Mike's previous positions within the Group included operational roles at the two largest Flexonics businesses, Pathway and Bartlett.

## 8. Michelle Yorke

Michelle took up the role of Director of Risk and Compliance in September 2018; having joined the Group in April 2016 as Head of Risk and Assurance. Prior to joining Senior, Michelle had more than 20 years of experience in the aerospace sector having held a variety of leadership roles. Michelle is a Chartered Accountant.

## Joe Mockus

On 30 September 2020, Joe stepped down from his role as Chief Executive of Aerospace Structures division and departed the Group. He had formerly been the Chief Executive of Senior Flexonics Bartlett. The Executive Committee would like to thank Joe for his hard work and leadership skills during the years he spent with the Group; the Committee benefited from his knowledge and experience of both the Aerospace and Flexonics Divisions.

## Executive Committee

The Executive Committee, although not formally appointed as a Committee of the Board, oversees the running of all Senior Group operations.

The purpose of the Executive Committee is to assist the Group Chief Executive Officer in the performance of his duties, including:

- the development and implementation of strategy, operational plans, policies, procedures and budgets;
- the monitoring of operating and financial performance;
- the assessment and control of risk;
- the prioritisation and allocation of resources; and
- the monitoring of competitive forces in each area of operation.

The Committee is also responsible for the consideration of all other matters not specifically reserved for consideration by the Board. A report on the activities of the Executive Committee is provided to the Board by the Group Chief Executive Officer at each Board meeting.

The Committee is comprised of two members of the Board, David Squires and Bindi Foyle, together with Laurie Fleming (Chief Executive of the Aerospace Division), Mike Sheppard (Chief Executive of the Flexonics Division), David Beavan (Director of Business Development & Strategy), Andrew Bodenham (Group Company Secretary), Jane Johnston (Group HR Director) and Michelle Yorke (Director of Risk and Compliance).

Joe Mockus was also a member of the Executive Committee until his departure from the Group on 30 September 2020.

## Health, Safety & Environment ("HSE") Committee

The HSE Committee is also not formally appointed as a Committee of the Board, but officially oversees all health, safety and environmental matters across the Group. Its Terms of Reference can be found on the Company's website.

The members of this committee are David Squires (Chairman of the Committee), Mike Sheppard (Chief Executive of the Flexonics Division) and Laurie Fleming (Chief Executive of the Aerospace Division). Joe Mockus was also a member of the HSE Committee until his departure from the Group on 30 September 2020. Mark Roden, the Group HSE & Sustainability Director, attended all meetings held during the year. The Committee met three times during the year.

# Report of the Directors

The Directors present their Report and supplementary reports, together with the audited Financial Statements for the year ended 31 December 2020.

## Activities and business review

Senior plc is a holding company. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 2 to 46. Its Group undertakings are shown on pages 146 and 147. Six of the Company's operating businesses are located in the UK and 24 in the Rest of the World.

The Strategic Report includes details of Senior's business model, strategic priorities, key performance indicators, risks and uncertainties, market overview, key growth drivers and a summary of the Group's 2020 performance.

## Acquisitions and disposals

There were no business acquisitions or disposals made during 2020.

## Results and dividends

The results for the year are shown in the Consolidated Income Statement on page 94.

At the April 2020 AGM, the Directors withdrew the proposed shareholders' resolution to pay a 2019 final dividend, as part of the Board's cash preservation measures taken in response to the Coronavirus pandemic. Similarly, no 2020 interim dividend has been paid to shareholders during the year (2019 – 2.28 pence) and the Directors do not propose payment of a 2020 final dividend (2019 – nil pence).

## Share capital

The Company has one class of ordinary shares, which carries no right to a fixed income. Each share carries the right to vote at general meetings of the Company. The Company issued no new shares in 2020. The total number of shares in issue at 31 December 2020 was 419,418,082. Further details on share capital can be found in Note 25.

## Diversity policy

Senior has an Equality, Diversity and Inclusion policy which is contained within its Code of Conduct. Senior values diversity and inclusion and promotes equal opportunities for all employees in a workplace free from discrimination. Further details can be found on page 21.

## Engagement with employees

At Senior, everyone's opinion matters and this is reflected in how we engage with our employees. The Group promotes the dissemination of relevant information through workshops, newsletters and a number of other methods, so that employees are kept regularly advised on the Group's and local operational developments. Where appropriate, local briefing sessions are held concerning such matters as business performance, corporate ethics, health and safety. In 2020, the Group's employees were invited to complete a short, voluntary survey on how Senior's management had responded to the COVID-19 pandemic. This is

the first Group-wide employee survey Senior has undertaken. The feedback from employees on our response was positive with a score of above eight out of ten on the five key drivers that were measured. For further information, please see Employee Engagement on page 19.

At an Operating Business level, we continue to gather feedback through locally-managed engagement surveys and while maintaining social distancing and safety protocols where possible other activities, for example, skip level meetings, Value workshops, CEO Breakfasts and All-hands meetings, sharing business information and encouraging two-way communication through questions and discussion.

We have also employed new ways of encouraging two-way communication with employees. As a result of our engagement with employees in 2020, we were able to assess the culture across much of the organisation, providing feedback to the Board; since the sessions, the Operating Businesses have been focusing on areas for improvement. The Board's programme of visiting operating businesses and taking the opportunity to meet with teams at all levels has had to be undertaken virtually in 2020.

Senior continues to invest in its workforce through training and development opportunities, including "Learn", our global learning management programme. In addition, the ongoing roll-out of "Perform", our performance management system, ensures there is an adequate focus on developing skills, abilities and knowledge of our employees. Across the Group, we have a range of rewards and recognition initiatives to encourage employees' involvement in business performance. Whilst 2020 was a very challenging year as a result of the pandemic, engagement with employees was considered by management to be invaluable and allowed the Group's businesses to continue to operate and support their customers throughout a number of locally imposed lockdown periods, where this was permitted by governments.

## Policy on employee disability

Senior provides support, training and development opportunities to all our employees irrespective of any disabilities they may have. We give full and fair consideration to disabled applicants, and where an existing employee becomes disabled during their employment, we will make every effort to ensure they are able to continue working for Senior in their original or an alternative role.

## Engagement with other stakeholders

Senior aims to create value for all its stakeholders. By engaging and collaborating with the key groups of stakeholders, Senior can ensure its business grows and delivers long-term sustainable value. Further details on this engagement can be found on pages 28, 29 and 48.

## Employee share plans

Details of employee share plans are set out in Note 33.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. No person has any special rights of control over the Company's share capital, and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code 2018 (the Code), the Companies Act 2006 and related legislation. The Articles may be amended by special resolution of the shareholders. The powers of Directors are described in the Matters Reserved for the Senior plc Board, which may be found on the Company's website. Each year, shareholder approval is sought to renew the Board's authority to allot relevant securities.

There are also a number of other agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements, and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

## Risk management

The Board has ultimate accountability for the Group's risk management process, which is described on pages 32 to 37.

## Financial instruments

Note 20 contains disclosures on the Company's financial instruments.

## Directors

Details of the Directors who served throughout the year can be found on pages 49 to 51. The Directors' interests in the shares of the Company are included in the Directors' Remuneration Report on page 81 and 82. No Director has any interest in contracts with the Company or its subsidiary undertakings. As shown on page 49, Susan Brennan is Executive Vice President and the Chief Operations Officer of Bloom Energy Corporation. Note 52 provides details of the contract Bloom Energy has with a Group subsidiary. Procedures have been adopted by Bloom Energy which mean Susan Brennan has no involvement in this contract.



# Report of the Directors continued

The provisions of the Corporate Governance Code require that all Directors of FTSE 350 companies should be subject to annual election by shareholders. Celia Baxter, Susan Brennan, Bindi Foyle, Giles Kerr, Ian King, Rajiv Sharma and David Squires will all stand for re-election at the AGM to be held in April 2021. Mark Vernon retired from the Board in April 2020, as planned.

## Board diversity

Senior remains committed to all aspects of Board diversity including gender, nationality, experience, background and personal attributes and keeps under review its balance and composition. The appointments of Celia Baxter to the Board in 2013, Susan Brennan in 2016, and Bindi Foyle in 2017 mean that Senior has strong female representation on its Board. The Board strongly believes that its composition is well-balanced in terms of diversity, including gender and ethnicity, and that this balance drives the Group's business performance and creation of longer-term sustainable growth.

The Nominations Committee annually reviews and approves management development and succession plans and makes recommendations to the Board on its structure, size and composition to ensure that it is appropriate for the Senior Group.

## Directors' indemnities

Qualifying third-party indemnity provisions for the benefit of the Directors were renewed by the Company during the year and remain in force at the date of this Report.

## Research and Design

In 2020, whilst cash preservation measures were key to ensuring the Group's stability during the pandemic, investment for future business activities was also viewed to be important by the Board. In 2020, the Group incurred £18.7m (2019 – £28.1m) on research and design. Product development and improving manufacturing processes represent the primary focus of the Group's research and design activities.

## Political donations

No political donations were made by the Company or any of the Group's operations during the year.

## Greenhouse gas emissions

Our report under the Streamlined Energy and Carbon Reporting requirements can be found on pages 14 to 17.

## Major shareholdings

The Company has been notified that the following shareholders were interested in 3% or more of the issued share capital of the Company:

	% at 10 February 2021
Alantra Asset Management	15.6
Aberforth Partners	7.6
Heronbridge Investment Management	5.84
Columbia Threadneedle Investments	5.39
Legal & General Investment Management	4.19
BlackRock	4.12
Janus Henderson Investors	3.67
Vanguard Group	3.36

So far as is known, no other shareholder had a notifiable interest amounting to 3% or more of the issued share capital of the Company, and the Directors believe that the close company provisions of the Income and Corporation Taxes Act 1988 (as amended) do not apply to the Company.

## Compliance with the UK Corporate Governance Code

The statement of compliance with the provisions of the UK Corporate Governance Code 2018 issued by the Financial Reporting Council is set out on page 47. This Code is publicly available on the Financial Reporting Council's website: [www.frc.org.uk](http://www.frc.org.uk). The Corporate Governance Letter on pages 47 and 48 forms part of this Report of the Directors.

## Remuneration Report and Policy

The Annual Report on Remuneration and a revised Directors' Remuneration Policy are to be put to shareholder vote at the 2021 AGM. The Directors' Remuneration Policy was last approved by shareholders at the 2018 AGM. Details of the proposed revised Directors' Remuneration Policy can be found on pages 71 to 76.

## Annual General Meeting

The Notice of Meeting describes the business to be considered at the AGM to be held at 09.00 on Friday 23 April 2021 at 59/61 High Street, Rickmansworth, Hertfordshire WD3 1RH.

At the time of writing, compulsory Government measures remain in force in relation to the pandemic and the holding of public meetings. Please see the Notice of Meeting 2021 for the details of the AGM.

A copy of the Notice of Meeting 2021 may be found on the Company's website.

## Acquisition of the Company's own shares

The Company purchased no ordinary shares of 10 pence each in the capital of the Company; no shares (2019 – 2.3m shares) were purchased by the Senior plc Employee Benefit Trust in the year to satisfy the future vesting of executive share awards and employee share plans. At the end of the year, the Directors had authority, under a shareholders' resolution dated 24 April 2020, to make market purchases of the Company's shares up to an aggregate nominal amount of £42m (2019 – £42m), which represented approximately 10% of the issued share capital of the Company. A resolution to renew this authority will be proposed at the forthcoming AGM.

## Auditor

- Each of the persons who is a Director of the Company at the date of approval of this Annual Report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- the Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

In 2016, the Group undertook a formal tender process for its external audit function, which resulted in KPMG LLP being appointed the Group's external auditor for the financial year commencing 1 January 2017. KPMG's re-appointment was last approved by the Company's shareholders at the 2020 AGM. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming AGM.

By Order of the Board

**Andrew Bodenham**  
Group Company Secretary  
5 March 2021



# Directors' duties

Under the Companies Act 2006, each of our Directors must: act within their powers; promote the success of the Company; exercise independent judgement; exercise reasonable care, skill and diligence, and avoid conflicts of interest.

**In July 2018, The Financial Reporting Council published a revised Corporate Governance Code, which was designed to set higher standards of corporate governance to promote transparency and integrity in business.**

The 2018 Corporate Governance Code established five new principles:

- 1. Leadership and purpose**
- 2. Division of responsibilities**
- 3. Composition, succession & evaluation**
- 4. Audit, risk and internal control**
- 5. Remuneration**

## Leadership and purpose

### Company purpose, values and strategy

The Board is responsible for strategic decisions affecting the Group, including the setting of commercial strategy and the approval of annual operating budgets and Financial Statements. It also approves significant financial and contractual commitments made by the Group. The Board's Terms of Reference more fully describe the responsibilities of the Board and may be found on the Company's website.

The Company's purpose is stated on page 12. Senior aims to create long-term sustainable value for all its stakeholders through its business model. In 2015, six strategic priorities were identified as key elements of the Company's business model, in order to drive the creation of shareholder value. Details of the Group's Business Model and Strategic Priorities can be found in the Strategic Report on pages 12, 24 and 25.

The Board recognises its role in assessing and monitoring the Group's culture. To that effect, "Culture" has been made a regular Board agenda item. The Board deploys various initiatives to monitor culture, from participating in site visits to reviewing qualitative and quantitative evidence of culture (succession plans, Health & Safety reporting, whistle-blowing notifications, payment practices reports, training completion rates). During 2020 where we were not able to rely on face-to-face meetings, virtual meeting methods were used as an alternative.

The Board demonstrated its strength and adaptability when guiding the Group during the pandemic. At the Annual Strategic Review in October 2020 the Group's Strategy was tested, given the impact of the pandemic on the Group's end markets, and still found to be relevant.

## Division of responsibilities

The Board delegates a certain number of its responsibilities to the Audit, Remuneration, Nominations, and Health, Safety & Environment Committees. The Group Chief Executive Officer, together with the Executive Committee, is responsible for the implementation of the decisions made by the Board and for the day-to-day conduct of the Group's operations.

The Board meets formally on a regular basis, 18 times in 2020; in addition, there were five meetings of the Audit Committee in 2020, together with five meetings of the Remuneration Committee and three meetings of the Nominations Committee. A table showing Board and Committee meeting membership and attendance is shown on page 48. Other Committees are appointed by the Board to deal with treasury matters, disclosure matters and specific matters such as acquisitions and disposals.

During 2020, the Chairman met with the non-executive Directors, without the executive Directors present, in line with good practice.

The minutes arising from all Committee meetings are made available to the Board. Procedures are in place to ensure that all Directors are properly briefed, so that decisions taken by the Board are based on the fullest, up-to-date, available information. The non-executive Directors are encouraged to visit the Group's operations to meet the local management teams and discuss any issues that they may face; this process had to be changed to virtual meetings during 2020, in accordance with COVID-19 travel restrictions imposed by governments. At every Board meeting, there are reviews of health, safety and environmental performance, and operational, financial and administrative matters. Social and ethical issues reported whistle-blowing incidents, and the agreement of budgets and levels of insurance cover are reviewed whenever appropriate.

There is a procedure by which all Directors can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

To enable the members of the Board and its Committees to discharge their duties effectively, the Chairman ensures that accurate and clear information is provided to all Directors in a timely manner in advance of meetings. The Group Company Secretary supports the Board to ensure that it has in place appropriate policies, processes, time and resources to enable it to operate efficiently and effectively.

## Directors' duties continued



"The Committee is tasked with administering the process for appointments, considering succession planning, regularly reviewing such processes and overseeing the composition of the Board."

**Ian King**  
Chairman

### Composition, succession and evaluation

#### Nominations Committee Report

##### Dear Shareholder,

##### Overview

The Nominations Committee is chaired by me and comprises all non-executive Directors. The Group Company Secretary acts as Secretary to the Committee. Senior members of management and advisers are invited to attend meetings when deemed appropriate. There were three scheduled meetings of the Committee in 2020. Two members constitute a quorum for the Nominations Committee. The Committee's attendance records are shown on page 48.

The Committee is tasked with administering the process for appointments, considering succession planning, regularly reviewing such processes and overseeing the composition of the Board. The Nominations Committee's Terms of Reference can be found on the Company's website.

##### Appointments to the Board

The Nominations Committee enlists an external consultancy firm to assist in the appointment of Directors to the Board. The Company typically provides the appointed firm with a role description, together with the required skills and personal attributes to be considered. The firm filters a list of candidates down to a number of those that it feels meet the skills and attributes required, then conducts preliminary interviews with the selected candidates. The candidates are then referred to Senior for interview, together with a written analysis on each candidate, with each candidate being interviewed by a number of members of the Board. The final recruitment decision is taken by the Board as a whole.

In addition, the Nominations Committee seeks confirmation that candidates under consideration would have sufficient time to carry out their duties as a Director of the Board, if appointed. The time commitment of continuing Directors is kept under review and the potential for over-boarding monitored and discouraged.

No new Directors were appointed to the Board in 2020.

Typically, following the appointment of a Director, a full and comprehensive induction programme is provided by the Company. Within the induction process, areas such as financial forecasts, Group strategy, values, ethics and Code of Conduct are explained, together with other relevant topics. Visits to the Group's operations are also undertaken, involving the new Director meeting local management teams and learning about the key issues faced by each operation.

The Nominations Committee and the Board have been taking due regard of Lord Davies' review into Women on Boards (February 2011), the Hampton-Alexander Review: FTSE Women Leaders (November 2016) and the Hampton-Alexander Review: Improving Gender Balance in FTSE Leadership (November 2017). I am pleased to report that the Board is supportive of the aim to increase diversity and the level of female representation in Board and senior leadership positions. Three of the seven Directors are currently female (43%).

In addition, the Nominations Committee and the Board have ensured the Board's composition is diverse in terms of the Directors' ethnic backgrounds, as recommended by the Parker Review.

Three of the eight members of the Executive Committee are female (38%).

The Board has been proactive in further promoting diversity and equality of all kinds throughout the Group, regardless of geography or position. The Committee regularly discusses the benefits of diversity with regard to the Board and its Committees.

In February 2020, the Committee noted the retirement of Mark Vernon, which would become effective in April 2020 following nine years' service on the Board.

##### Extension of appointments to the Board

In December 2020, the Committee considered the appointments of Susan Brennan and Rajiv Sharma, which were contractually due to expire in December 2021; the Committee proposes that they be re-appointed for further three-year periods from December 2021 and their re-election be put to shareholder vote at the 2021 AGM.

##### Other directorships/business interests

Early in 2020, Bindi Foyle notified the Committee that she had been offered the position of non-executive director of Avon Rubber p.l.c. The Committee discussed this position, noting that Avon Rubber p.l.c. had a 30 September financial year-end, which would not conflict with the Company's year-end. The Committee was supportive of Bindi accepting the role as non-executive director of Avon Rubber p.l.c. and confirmed that she may retain the fees paid for this role.

##### Succession planning

The Committee regularly considers the issue of succession planning for Board-level and the Group's senior management roles. The Group continues to focus on maximising the potential of its employees and improving succession planning. The Executive Committee, supported by the Group HR Director, conducted an extensive review of senior executive succession plans. The review identified key employees who are considered capable of being developed into leadership roles, which is critical to the success of the Group. Appropriate plans are in place to ensure there is a mix of employees within the Group who could fill key roles in the short and longer term. In 2020, the Nominations Committee reviewed the Group and divisional succession plans and maintained its focus on further strengthening diversity in these plans particularly gender diversity in operational roles.

##### Independence

The Nominations Committee and the Board consider all of the non-executive Directors to be fully independent and free from conflicting interests which could cause difficulties whilst carrying out their duties. Senior considers its non-executive Directors to be proactive in contributing their respective experiences and skills gained from a range of sectors. Conflicts of interests are fully disclosed by Directors upon appointment and are reviewed on a regular basis throughout each year.

I am confident that Senior has the desired diversity of skills, people, and experience that will guide the Company in delivering shareholder value. This Report was reviewed and approved by the Nominations Committee and signed on its behalf by:

**Ian King**

Chair of the Nominations Committee  
5 March 2021

## Nominations Committee

The Company's Nominations Committee leads the process for Board appointments and supervises management development and succession planning. It also makes recommendations to the Board on all new Board appointments and re-appointments, further details of which can be found on page 56. The Committee, which consists entirely of non-executive Directors, is chaired by Ian King; its composition is shown on page 48.

Details of the Directors' external statutory appointments can be found in their biographies on pages 49 to 51. The Board believes that the Directors' experience of working with other companies adds value to their contribution to the Company's Board and Committee meetings. In compliance with the Corporate Governance Code, all continuing Directors offered themselves for election or re-election at the Company's AGM 2020. All Directors will again offer themselves for re-election at the 2021 AGM. The resolutions to be put to shareholders at the 2021 AGM can be found in the Notice of Meeting, which is available on the Company's website.

The Board confirms that in 2020 all Directors had made a positive contribution to the running of the Company and believes they will continue to work to ensure its long-term success.

## Remuneration

The Remuneration Report on pages 66 to 84 fully describes the Board's approach to remuneration matters. A revised Directors' Remuneration Policy will be put to shareholders at the 2021 AGM. The current Directors' Remuneration Policy was approved by shareholders at the Company's 2018 AGM.

## Board effectiveness

The Board is structured under a non-executive Chairman and currently comprises two executive Directors and four independent non-executive Directors, who were selected for appointment because of their wide industrial and commercial experience. The Directors believe that the Board and its committees have the appropriate balance of skills, experience and knowledge to enable them to fulfil their duties and responsibilities effectively. The Nominations Committee regularly reviews the Board's composition.

## Board diversity and inclusion

The Group seeks to ensure diversity in the composition of its Board, including, amongst other qualities, diversity of gender, social and ethnic backgrounds, cognitive and personal skills. The Company's female representation on the Board complies with the recommendations of the Hampton-Alexander Review, and meets the proposals on ethnic diversity outlined by the Parker Review. Furthermore, we endeavour to incorporate diversity into our recruitment process by engaging, wherever possible, with recruitment firms that have committed to follow the Voluntary Code of Conduct for Executive Search Firms, and by widening the pool of candidates from diverse backgrounds.

## Board induction and development

Appointments to the Board are made following a rigorous, formal, recruitment process supported by professional consultants. All Directors receive induction upon joining the Board and are encouraged to update their knowledge and skills on a frequent basis. In 2020, all Directors continued to receive regular updates on statutory matters.

The Directors are cognisant of the fact that the Board, and its Committees, should have the appropriate combination of skills, experience and knowledge to enable them to carry out their duties effectively. Membership of the Board and its Committees is kept under regular review and refreshed when appropriate, taking into account the Directors' lengths of service and their ability to devote sufficient time to Company matters.

## Evaluation of the Board and the Directors

The Board undertakes an annual evaluation process; in 2020, this was supported by Equity Communications Limited. The Board had agreed an external evaluation was appropriate to ensure a robust review during the extreme times that the Company was facing. The 2020 evaluation process was carried out by means of a confidential questionnaire completed by each Director.

Equity Communications Limited was very positive about the manner in which the Board had operated and made only a limited number of recommendations for the Board to consider. The Board was found to have functioned well during 2020, having met a total of 18 times. It had made effective use of videoconferencing for the Board and its Committee meetings and had been flexible and adaptive to the dynamics the Company was facing.

The 2020 evaluation findings showed that the Board had operated effectively throughout the particularly difficult year and made some suggestions for additional focus, including:

- The Board was broad in experience, collegiate in style and a decision-making group. It was agreed that such dynamics could not be left to chance and it reinforced the need to increase focus on Board succession during 2021. The integration process of any new Board members would require careful consideration and structure.
- The decentralised structure of the management team had been a great strength during this crisis period. The workforce had performed exceptionally, although the significant restructuring that had been undertaken meant many employees had left the Group during 2020. Focus on succession planning within the organisation would be key to ensure the business was able to rebuild; this would be an essential area of Board diligence.
- The executive team were extremely attentive to the health, safety and well-being of all Senior's people. An employee survey was completed assessing the COVID-19 measures that had been implemented. A Group-wide employee engagement survey would be undertaken during 2021. The Board remained cognisant of the pressures under which everyone was living and working; and ethical and safety standards would be constantly reviewed and focus retained. The health, safety and well-being of employees would remain a key value of the Company.
- The strategy process had adapted and evolved during 2020 and momentum needed to continue in 2021, with increased focus on the core technologies and markets. Markets are dynamic and therefore the Group's strategic process needed to remain flexible.

The changes experienced in 2020 were challenging but they also catalysed substantial changes inside and outside Senior; the Board concluded that momentum must not be lost, and focussing on these key areas would move the Board forward.

The findings will be used to help support the development of the Board as the Group continues with its strategy to grow profitability, both organically and by acquisition. Equity Communications Limited has no other connection with the Company or its Directors.

In addition, the Chairman undertakes individual reviews of each Director and provides feedback and guidance on their performance and contribution to the Board. The Senior Independent Director, in consultation with the non-executive directors, undertakes a similar review process of the Chairman.

## Directors' duties continued

### Succession planning

The Nominations Committee met five times during the year and considered succession plans for Board-level and senior management roles.

The Group has continued to increase its focus on maximising the potential of its employees and improving succession planning. The Group Chief Executive Officer and Group HR Director present a detailed Executive Succession Plan for each Executive Committee role, to the Nominations Committee. This ensures that the Nominations Committee is able to undertake a detailed review of the succession plans for the Executive Committee, the talent pipeline, and a talent profile for each of the Executive Committee. The review includes discussions regarding individuals' strengths and areas for development plans. As a result, development activities are identified, for example supporting the Executives in pursuing external non-executive director roles. Prior to the Nominations Committee review, the Executive Committee, supported by the Group HR Director, conducted an extensive review of the Group's operating business leadership succession plans. By utilised skills and talent mapping this assists the both the Executive Committee and ultimately the Nominations Committee in identifying any gaps, taking into account the Group's long-term strategy to provide a solid foundation for Senior's growth aspirations.

When reviewing succession plans, the Committee recognises the benefits of a diverse workforce, diversity of thought and employing individuals from different backgrounds and experience across the organisation, including Board members and senior managers. Senior has achieved the Hampton-Alexander target and Parker Review recommendation targets.

### Audit, risk and internal control

#### Resources, internal controls and risk management

The Board has ultimate accountability for the Group's risk management process.

The Board determines the nature and extent of the significant actions necessary to achieve its strategic objectives and maintains a sound system of internal control. The Company's Audit Committee reports to and, for certain matters, advises the Board of Directors. The Audit Committee Report on pages 60 to 65 describes the role and activities of the Audit Committee, together with the significant issues that it considered in relation to the 2020 Financial Statements and its relationship with the internal and external auditors. Details of the Group's approach to risk management and its Risk and Assurance Framework can be found on pages 32 to 37.

#### Communicating the Senior plc Code of Conduct and operating with integrity

In 2018, the executive Directors published an updated booklet for issue to all employees and relevant third parties, explaining the Group's Code of Conduct (the Code) and Senior's Values; these values can be found on page 12. The booklet includes a message from the Group Chief Executive Officer, explaining that it is his unshakeable belief that how you do business is as important as what you do in business. It contains work-related scenarios, together with a selection of questions and answers, to help employees to understand the Code and relate it to their individual roles and working environment. Copies of the Code are issued to all new employees and reissued periodically to continuing employees to remind them of the required level of conduct.

Senior trains its employees on the requirements of the Code upon induction, educating them on what they can and cannot do, and how to address any ethical dilemmas they may face. A compulsory 2020 Global Code of Conduct online training course was rolled out across the Group to all employees during the year. The 2020 course contained training modules on: Global Business Ethics, Global Conflicts of Interest, Anti-bribery, Promoting Safety & Security at Work and Unconscious Bias; all employees and Directors were required to achieve a Pass grade.

Typically, the Group Chief Executive Officer, the Group Finance Director and the rest of the Executive Committee visit all the Group's operations on an annual basis and make presentations to local senior management, reinforcing the Code and the importance of maintaining an absolute commitment to the highest possible standards of ethics and a zero tolerance towards bribery and corruption. Because of the travel restrictions imposed as a result of COVID-19, physical presentations were not possible in 2020; however the Code of Conduct was reinforced by the executive Directors and Executive Committee by moving to monthly review meetings and ongoing training. The Board verifies compliance with the Code through its internal audit programme, ensuring that employees have received the mandatory training and that the Group's businesses operate with integrity at all times and in compliance with the Code.

Operating with integrity and in an ethical manner builds trust with customers and other stakeholders and underpins the Board's strategic objectives.

### Human rights

The Group recognises the importance of the Universal Declaration of Human Rights and adheres to the core principles and values defined within it. The majority of countries in which Senior operates have their own laws banning child labour and promoting human rights. Senior monitors the ages of its workforce across the world to ensure compliance and identify any potential succession issues.

Senior is committed to preventing slavery and human trafficking in its corporate activities and throughout its supply chain. Senior does not restrict any of its employees in any of the countries in which it operates from joining a trade union if they wish to do so. Senior also works closely with its suppliers to ensure that they at least meet internationally recognised minimum requirements for workers' welfare and conditions of employment.



## Reporting and investigating concerns and whistle-blowing

As part of its internal control procedures, the Company has a Whistle-blowing Policy that is communicated throughout the Group. This policy provides employees with the opportunity to report suspected unethical or illegal corporate conduct confidentially and anonymously.

Senior plc is committed to maintaining high ethical standards across the Group. Employees and representatives of Senior have an obligation to act honestly, with integrity, and to comply with applicable laws. Consequently, employees are encouraged to report unethical or illegal corporate conduct in accordance with this Policy.

Senior will not tolerate the harassment or victimisation (including the application of informal pressure) of a person reporting corporate conduct in good faith. In addition to the legal protection provided to such employees, Senior will treat retaliatory conduct in violation of this Policy as a serious disciplinary offence.

The Group encourages its employees to discuss any ethical concerns that they may have with local management, or at Group level if more appropriate. Where an employee feels unable to approach local or Group management, or are dissatisfied with the response, they can contact Senior's third-party whistle-blowing service provider by telephone, a web reporting tool or, in some languages, an App. The provider will pass on information to an investigating officer within Senior, maintaining anonymity of the individual, if requested.

All reports of suspected unethical or illegal corporate conduct are independently investigated and tracked from inception to resolution and, where necessary, actions are taken to rectify any weakness in systems that may have been identified. These actions, and the overall integrity of the reporting system, are subject to regular scrutiny by the Audit Committee. This process is also available to third parties, such as suppliers and customers. Subject to confidentiality considerations, the outcome of each investigation is provided, insofar as it is possible, to the individual who reported the concern. All reported whistle-blowing incidents are reviewed by the Board of Directors, which the Company believes to be the most appropriate forum.

Celia Baxter is the Senior Independent Director, providing employees and third parties with an alternative channel of communication to resolve issues if they have a concern that the Chairman, Group Chief Executive Officer or Group Finance Director have failed to resolve the issues, or where such contact with them is not appropriate.

## Managing external sales agents and representatives

Senior has in place a Responsible Sourcing Policy which establishes the minimum standards expected of our supply chain. Senior plc is committed to the highest possible standards of environmental, ethical and social responsibility performance in respect of all its products and services. Senior strives to be the best for its customers and its people and looks to make a positive contribution to society wherever it operates. Adherence to this policy is mandatory and all Group operations are required to ensure that they are aware of the requirements of the policy.

The Board recognises the potential bribery and corruption risks posed by the markets in which the Group operates and, in particular, the use of third-party intermediaries it engages. All external sales agents and representatives working on behalf of Senior across the world are required to operate in compliance with Senior's Code of Conduct or have their own code of conduct of a high standard. Local management is required to conduct a due diligence and risk assessment process prior to engaging or re-appointing any sales agents and to issue them with a copy of the Code, ensuring that they understand, acknowledge and accept its requirements.

## International trade compliance

The Board requires the Group's operations to comply with all relevant international export, trade and financial laws when carrying out their business activities. In 2020, the Group launched a short online International Trade Compliance training course, which was rolled out to all Group employees who did not hold shop floor roles.

## Managing gifts and hospitality

The Board recognises that gifts and hospitality have the potential to create a conflict of interest, or the perception of a conflict of interest. As a result, there is a Group policy restricting the receiving and giving of gifts and hospitality from, and to, third parties. This policy requires that all gifts and hospitality must be recorded annually through a self-declaration process. The Internal Audit Manager assesses adherence with the Group's gifts and hospitality policy during internal audit visits, which are carried out physically or virtually.

## Group information and operations business security policy and data protection

The Group's confidential information is valued highly by the Board and in 2019 a Group Head of Information Security was appointed. In 2019, an Acceptable Use Policy was issued to provide guidelines for the acceptable and appropriate use of Information and Operational Technologies by all Group employees. The policy sets out the controls that are in place to help reduce risk associated with the inappropriate use of Information and Operational Technologies, which could lead to data loss, manufacturing disruption, virus or malware infection or other issues that could have a negative financial or reputational impact on the Group. In compliance with the Data Protection (Charges and Information) Regulations 2018, the Company is registered with the Information Commissioner's Office.

To ensure compliance with the General Data Protection Regulation (GDPR), the Company and all relevant Group operations have in place a GDPR policy and breach incident procedure which have been communicated to their employees. As the Company is not a public authority, its core activities do not require regular and systematic monitoring of individuals on a large scale and it does not process special categories of personal data, criminal convictions or offences data on a large scale, it is not required to appoint a data protection officer. However, the Company and relevant Group operations each have a Data Protection Champion, whom employees can approach for guidance if they have any queries or concerns relating to data protection. Compliance with data protection regulations will continue to be monitored on an ongoing basis.

## Directors' duties continued



"The finance community across Senior have demonstrated resilience through the pandemic, and the Audit Committee has valued the continued focus on maintaining an effective control environment, addressing the challenges presented by the globalised lockdowns and new ways of remote working."

**Giles Kerr**

**Chairman of the Audit Committee**

### Audit Committee Report

#### Dear Shareholder,

The Audit Committee has been established by the Board and consists entirely of independent non-executive Directors. The primary role of the Audit Committee is to maintain the integrity of the financial reporting of the Group and to ensure appropriate risk management and internal control procedures. To enable the Audit Committee to fulfil this role, its main responsibilities include:

- conducting the process for selecting the external auditor and making recommendations to the Board, and ultimately shareholders for approval, of the appointment of the external auditor, the audit fee, initiating tender processes in accordance with regulatory requirements, and the resignation or dismissal of the external auditor;
- monitoring and assessing annually the independence and objectivity of the external auditor, its compliance with regulatory requirements, the effectiveness of the external audit process and authorising the provision, if any, of non-audit services and the impact this may have on independence;
- monitoring the integrity of the Company, including its annual and the half-yearly reports, preliminary announcements and related formal statements. Reviewing and reporting to the Board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the Auditor. Reviewing any other statements requiring Board approval which contain financial information where practicable and consistent with any prompt reporting requirements;
- reviewing the Company's statement on the Annual Report & Accounts prior to endorsement by the Board, that taken as a whole the Annual Report & Accounts is fair, balanced and understandable and provides the information necessary to assess the Group's position and performance, business model and strategy;
- discussing with the external auditor issues and reservations, if any, arising from the year-end audit and the half-year review, and any other matters the external auditor may raise;
- reviewing and approving the terms of the management representation letter addressed to the external auditor;
- reviewing the longer-term viability and the going concern basis of accounting in preparation of the Financial Statements of the Group;
- reviewing the effectiveness of the internal audit function (currently headed by the Group's Director of Risk and Compliance); considering the major findings of internal audit activities and management's response; ensuring co-ordination between the internal audit function and the external auditor; reviewing and approving the role and mandate of the internal audit function. Annually approving the Internal Audit Charter, ensuring it is appropriate for the Group's current needs, that the function is adequately resourced and has appropriate standing within the Group;
- ensuring the internal audit function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensuring there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensuring that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- reviewing the effectiveness of the Group's internal controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;
- developing and recommending to the Board the Group's Policy for the Provision of Non-Audit Services by the external auditor, including specifying permitted non-audit services and their approval requirements;
- agreeing with the Board a Policy on the Employment of Former Employees of the Group's External Auditor, taking into account the Ethical Standard and legal requirements, and monitoring the application of this Policy;
- understanding the strategy at both Group and operational levels to ensure that business risks and other relevant issues are effectively identified and communicated to the Board;
- assessing the Audit Committee's capabilities in relation to diversity, risk experience and the financial expertise of its members;
- understanding the implications of changes to accounting standards;
- ensuring the Company's corporate ethics, anti-bribery and compliance procedures are up to date in terms of addressing the potential risks of fraud and misconduct;
- reviewing the Group's Whistle-blowing Policy, to ensure that appropriate procedures are in place for employees to raise, in confidence, any concerns that they may have relating to suspected malpractice, illegal acts, omissions or other unethical corporate conduct, regarding financial or other matters; and ensuring that arrangements are in place for investigation of such matters and follow-up action; and
- considering any other topics specifically delegated to the Audit Committee by the Board from time to time.

The Audit Committee is required to report its findings to the Board, identifying any matters where it considers that action or improvement is needed, and to make recommendations as to the steps taken.

### Composition of the Audit Committee

The Terms of Reference for the Audit Committee state that the Audit Committee shall be appointed by the Board from amongst the independent non-executive Directors of the Company, excluding the Company Chairman, at least one of whom shall have recent and relevant financial experience. The Audit Committee shall consist of not less than three members, of which all shall be independent of any business connection with the Group. Appointments to the Audit Committee shall be for a period of up to three years, which may be extended by a maximum of two additional three-year periods, subject to the members remaining independent. One Audit Committee member, Susan Brennan, is Executive Vice President and the Chief Operations Officer of Bloom Energy Corporation. Note 52 provides details of the contract Bloom Energy has with a Group subsidiary. Procedures have been adopted by Bloom Energy which mean Susan Brennan has no involvement in this contract.

The Audit Committee is composed entirely of independent non-executive Directors, as shown below:

Member	Appointment date	Retirement date
Giles Kerr (Committee Chair)	2 September 2013	–
Celia Baxter	2 September 2013	–
Susan Brennan	1 January 2016	–
Rajiv Sharma	1 January 2019	–
Mark Vernon	22 April 2016	24 April 2020

Two members constitute a quorum for the Audit Committee. The Group Company Secretary acts as Secretary to the Audit Committee.

There was full attendance at every Audit Committee Meeting held during 2020.

Collectively, the members of the Audit Committee have significant commercial and financial experience at a senior management level. Giles Kerr has the recent and relevant financial experience required by the UK Corporate Governance Code to chair the Audit Committee. For details of the qualifications of members of the Audit Committee, please refer to the Board of Directors' biographies shown on pages 49 to 51.

No member of the Audit Committee has any connection with the company's external Auditor, KPMG LLP.

### Audit Committee's Terms of Reference

Periodically, the Audit Committee's Terms of Reference are reviewed to take into account current views on good practice and recent updates to the UK Corporate Governance Code. The UK Corporate Governance Code 2018 was adopted by the Audit Committee from the accounting period beginning on 1 January 2019. The Audit Committee's Terms of Reference were updated in December 2020.

The Board expects the Audit Committee to have an understanding of:

- the principles, contents and developments in financial reporting, including the applicable accounting standards and statements of recommended practice;
- the key aspects of the Group's operations, including corporate policies, its products and services, Group financing, and systems of internal control;
- the matters that could influence or distort the presentation of accounts and key figures;
- the principles of, and developments in, company law, sector-specific laws and other relevant corporate legislation;
- the roles of internal and external auditing and risk management; and
- the regulatory framework for the Group's businesses.

The full Terms of Reference of the Audit Committee may be found on the Company's website.

## Activities of the Audit Committee

The Audit Committee met on 26 February 2020 to consider the 2019 year-end report and during the subsequent 12 months conducted the following business on the three standard scheduled meeting dates, as indicated below:

30 July 2020	5 October 2020	23 February 2021
<ul style="list-style-type: none"> <li>• Received and considered an Internal Audit Report including Risk &amp; Assurance and Mapping reports presented by the Group's Director of Risk &amp; Compliance.</li> <li>• Reviewed the accounting presentation and judgemental issues, and the funding and liquidity reports for the half-year ended 30 June 2020, which included consideration of compliance with all debt covenants at all measurement dates out to 31 December 2021.</li> <li>• Reviewed, challenged and agreed the basis for going concern to be adopted for the 2020 Interim Results.</li> <li>• Reviewed the assessment of goodwill at 30 June 2020 that resulted in the recognition of an impairment in relation to the goodwill allocated to the Aerostructures CGU group.</li> <li>• Reviewed the Tax Memorandum for the half-year ended 30 June 2020.</li> <li>• Reviewed and accepted KPMG LLP's Report to the Audit Committee on the half-year review for the six months ended 30 June 2020.</li> <li>• Reviewed and approved the terms of the management representation letter addressed to the external auditor.</li> <li>• Discussed the Group's draft Announcement of the 2020 Interim Results together with the draft slides for the analysts' presentation.</li> </ul>	<ul style="list-style-type: none"> <li>• Discussed and approved the external auditor's confirmation of the 2020 audit scope and fee.</li> <li>• Noted KPMG LLP's proposed Lead Partner succession plan.</li> <li>• Reviewed the effectiveness of the external audit.</li> <li>• Assessed the significant risks that are considered by the Audit Committee and approved the inclusion of goodwill.</li> <li>• Received and considered an Internal Audit Report presented by the Group's Director of Risk &amp; Compliance. The Audit Committee was also updated on the implementation of the Deloitte Managed Security Service which was strengthening the Group's Cyber/ Information Security measures.</li> <li>• Received an update on the Group's cyber risk communications programme and on 2020 Code of Conduct training.</li> <li>• Reviewed the effectiveness of the external audit.</li> <li>• Considered a draft Policy for the Provision of Non-Audit Services by the External Auditor* and a draft Policy on the Employment of Former Employees of the Company's External Auditor.*</li> <li>• Reviewed the draft updated Terms of Reference of the Audit Committee.*</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewed the accounting presentation and judgemental issues, and the funding and liquidity reports for the year ended 31 December 2020, which included consideration of compliance with all debt covenants at all measurement dates out to 31 December 2023.</li> <li>• Reviewed and approved the statements included in the Annual Report &amp; Accounts 2020 concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the Viability Statement.</li> <li>• Reviewed, challenged and agreed the going concern basis to be adopted for the 2020 Accounts.</li> <li>• Reviewed the Tax Memorandum for the year ended 31 December 2020.</li> <li>• Reviewed and accepted KPMG LLP's Report to the Audit Committee on the audit of the Financial Statements for the year ended 31 December 2020.</li> <li>• Reviewed KPMG LLP's confirmation of its objectivity and independence.</li> <li>• Reviewed and approved the terms of the management representation letter addressed to the external auditor.</li> <li>• Approved the Audit Committee Report for 2020.</li> <li>• Reviewed the effectiveness of the Group's risk management and internal control systems and disclosures made in the Annual Report &amp; Accounts 2020.</li> </ul>

## Directors' duties continued

30 July 2020	5 October 2020	23 February 2021
<ul style="list-style-type: none"> <li>Discussed and approved the external audit plan and strategy proposed by KPMG LLP for the 2020 audit, including materiality, scope, significant risks and other areas of audit focus, the audit cycle and auditor reporting.</li> <li>Received and reviewed KPMG LLP's assessment on its objectivity and independence.</li> <li>Held a private meeting with the external auditor, without executive management being present.</li> </ul>		<ul style="list-style-type: none"> <li>Reviewed the draft Annual Report &amp; Accounts 2020 and reviewed the Company's statement on the draft Annual Report &amp; Accounts prior to endorsement by the Board, that taken as a whole the draft Annual Report &amp; Accounts is fair, balanced and understandable and provides the information necessary to assess the Group's position and performance, business model and strategy.</li> <li>Discussed the Group's draft Announcement of the 2020 Final Results together with the draft slides for the analysts' presentation.</li> <li>Reviewed the Notice of Meeting for the 2021 AGM and the Proxy Form for the 2021 AGM.</li> <li>Received and considered a report presented by the Group's Director of Risk &amp; Compliance, which included the proposed 2021 internal audit plan.</li> <li>Reviewed and approved the Internal Audit Charter.</li> <li>Assessed the effectiveness of the internal audit function.</li> <li>Held a private meeting with the external auditor, and a separate private meeting with the Group's Director of Risk &amp; Compliance without executive management being present.</li> </ul>

\* The draft Policy for the Provision of Non-Audit Services by the External Auditor, the draft Policy on the Employment of Former Employees of the Company's External Auditor and the draft updated Terms of Reference of the Audit Committee were approved by the Board of Directors on 2 December 2020.

In addition to the three standard scheduled meetings reviewed above, three additional meetings were held in September, November and December 2020 to discuss correspondence received from, and the Company's response to, the Financial Reporting Council (FRC).

### Communications with the FRC

During the year, the FRC wrote to the Company in relation to changes in accounting policies for taxation in the Senior plc 2019 Annual Report and Accounts. Following our response to this matter, the FRC responded to our explanations and closed their enquiries. No changes to the Financial Statements were necessary as a result of the FRC's review. In their letter, the FRC also highlighted for consideration our presentation of certain other items in the Financial Statements and, following this, we have made a small number of minor disclosure improvements in the 2020 Financial Statements. The FRC's review was based on the Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. The review carried out by the FRC provides no assurance that the Annual Report and Accounts were correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

### Audit Committee Attendance and Separate Discussions

The Audit Committee normally invites the non-executive Chairman, Group Chief Executive Officer, Group Finance Director, Group Financial Controller, the Group's Head of Tax, the Group's Director of Risk & Compliance (who heads up the internal audit function) and senior representatives of the external audit firm to attend its meetings, although it reserves the right to request any of these individuals to withdraw from any meeting.

During 2020, the Audit Committee also held separate discussions with the external auditor, and the Chair of the Audit Committee held separate discussions with the Director of Risk and Compliance, without executive management being present. In addition, the Chair of the Audit Committee held separate meetings with the Director of Risk and Compliance and external auditor during the course of the year.



## Significant risks considered by the Audit Committee

Significant risks considered by the Audit Committee	How the risk was addressed by the Audit Committee
<p><b>Inventory net realisable value</b></p> <p>Inventory held covers a wide range of products in both the Aerospace and Flexonics Divisions. The ability of the Group to sell this inventory at a value above its carrying value in the future can be adversely affected by many factors. Accordingly, there is a risk that inventory is carried at amounts that exceed net realisable value.</p> <p>The global pandemic has had an adverse impact on demand levels in the short term from the OEMs that the Group serves. In response, certain programmes on which the Group has content have been cancelled or significantly reduced. This has heightened the exposure to any specific inventory or assets held where there is no alternate use.</p>	<p>The Audit Committee recognises the risk that the Group may not recover the full cost of inventory via future sales and may not hold appropriate provisions against obsolete and slow-moving inventory.</p> <p>Management included with the restructuring focus an assessment of any actions required to address the exposures on programmes where the end customer significantly reduced or cancelled demand. Management presented an analysis by business of proposed inventory and asset impairments. The Audit Committee challenged to ensure there was no alternative use, and agreed with the proposed impairments and accompanying disclosures.</p> <p>These were further discussed with the External Auditor.</p> <p>The Audit Committee believes there are no reportable issues arising from this significant risk.</p>
<p><b>Other provisions</b></p> <p>Provisions are held where management considers there is an obligation, payment is probable and the amount payable can be reliably estimated.</p> <p>Provisions held by the Group include but are not limited to:</p> <ul style="list-style-type: none"> <li>those held against legal claims and contractual matters, restructuring, product warranties; and</li> <li>tax provisions for uncertain risk exposures.</li> </ul> <p>There is a risk that other provisions overstate or understate the associated liability.</p>	<p>The Audit Committee considered the basis upon which management had made its accounting judgements to determine the level of other provisions. The Audit Committee receives a separate report from the Group Head of Tax that sets out the various uncertain risk exposures and any related provisions that are based on the best estimate of the amounts likely to be payable. The Audit Committee carefully considers the assumptions applied and provides appropriate challenge including an assessment of the related sensitivities. These were further discussed with the External Auditor.</p> <p>The Audit Committee believes there are no further reportable issues arising from these significant areas. As discussed earlier, the Company received a letter from the FRC relating to tax accounting. The Audit Committee reviewed the responses and correspondence between the FRC and the Company. The FRC responded to the Company's explanations and closed their enquiries. The Audit Committee is satisfied that appropriate improvements were made to address the minor disclosure points raised.</p>
<p><b>Goodwill</b></p> <p>The carrying value of goodwill relies on assumptions and estimates made by executive management. There is risk that the carrying value of goodwill is overstated.</p> <p>As highlighted in the Strategic Report, the global pandemic introduced unprecedented levels of economic uncertainty. This triggered the need for an impairment review at 30 June 2020, being the first reported balance sheet date post COVID-19. Management performed an impairment assessment at 30 June 2020 for all its groups of Cash Generating Units ("CGU groups").</p> <p>Management also performed an annual impairment assessment at 30 September 2020 with no further impairment identified. In addition, management assesses at the end of each reporting period if there is an indication that goodwill may be impaired. When such an indication of impairment exists, then impairment testing as at that reporting date is also required.</p>	<p>The Audit Committee recognises the carrying value of goodwill as a key source of estimation and uncertainty, and as such closely reviews executive management's assumptions at each assessment date and provides appropriate challenge including an assessment of the related sensitivities. These were further discussed with the External Auditor.</p> <p>The COVID-19 pandemic has had a direct impact on the Group's end markets and management determined therefore that there was a triggering event during the first half of 2020 and assessed goodwill for impairment as at the half-year reporting date of 30 June 2020. No further new triggers were present at 31 December 2020.</p> <p>The assessment at 30 June 2020 resulted in the recognition of an impairment of £110.5m in relation to the goodwill allocated to the Aerostructures CGU group, whilst the recoverable amount of the Fluids Systems CGU group and the Flexonics CGU group exceeded their carrying value, with no impairment required. The Audit Committee appropriately challenged and was satisfied with these assessments.</p> <p>As a result of the Group's decision to close its Senior Aerospace Bosman and Senior Flexonics Upeca operating businesses, during the second-half of 2020 goodwill of £23.8m was written-off. Following its review of the annual impairment assessment at 30 September 2020, the Audit Committee was satisfied that no additional impairment of goodwill was required.</p> <p>Goodwill impairment and the accompanying disclosures were further discussed with the External Auditor.</p> <p>The Audit Committee reviewed the disclosures setting out the events leading to the impairment and write-offs and was satisfied that proportionate information was presented.</p>

## Directors duties continued

### Presentation of results

The Board presents adjusted key measures of profit, in addition to reported measures, where items are significant in size and either they do not form part of the trading activities of the Group or their separate presentation enhances understanding of the underlying financial performance. This has been achieved by separating and disclosing separately significant adjusted items which for 2020 comprised the impairment of goodwill allocated to the Aerostructures CGU group, goodwill write-off in respect of business closures, amortisation of intangible assets from acquisitions, restructuring, and disposal activities. The Audit Committee assessed the presentation to ensure a fair and balanced treatment of what is and is not included as an adjusting item.

The Audit Committee considered the accounting policy applied to exclude adjusted items by reference to guidance issued by the FRC and the European Securities and Markets Authority (ESMA), and the need to ensure any alternative performance measures are presented with equal prominence to reported figures and on a consistent basis year-on-year.

The Audit Committee discussed the presentation of adjusted items with the external auditor, and concurs with management's view that the presentation of items excluded from adjusted results provides useful disclosure to aid the understanding of the performance of the Group.

### Resilience through the pandemic

The finance community across Senior have demonstrated resilience through the pandemic, and the Audit Committee has valued the continued focus on maintaining an effective control environment, addressing the challenges presented by the globalised lockdowns and new ways of remote working. This supported the further strengthening of the risk management framework, and delivery of the key elements of the internal audit programme in 2020. Similarly, the external audit progressed as planned and to the set timescales, with no changes required to the strategy or scope approved by the Audit Committee.

### External audit

#### Independence of the External Auditor and policy on the provision of non-audit services

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- a report from the External Auditor describing the arrangements that had been made to identify, report and manage any conflicts of interest and to maintain its independence; and
- the FRC's Audit Inspection Unit public report on KPMG LLP.

The Audit Committee's policy in respect of services provided by the external auditor and its Policy on the Provision of Non-Audit Services by the External Auditor are as follows:

- The External Auditor is invited to provide services which, in its position as auditor, it must or is best placed to undertake. This includes formalities relating to borrowings, shareholder and other circulars, various other regulatory reports and certain work in respect of larger acquisitions and disposals;
- In December 2020, the Company adopted a new Policy on the Provision of Non-Audit Services by the External Auditor, which is in line with the recommendations set out in the Financial Reporting Council's (FRC) Guidance on Audit Committees (2016) and the requirements of the FRC's Revised Ethical Standard (2019) (the "Ethical Standard"). In line with these recommendations and requirements, the external audit firm is only appointed to perform a service when doing so would be consistent with both the requirements and the overarching principles of the Ethical Standard, and when its skills and experience make it the most suitable supplier. In addition, the Ethical Standard requires an assessment of whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised. The approval of the Audit Committee must be obtained before the external auditor is engaged to provide any non-audit services and these services are limited to activities which feature on the approved Permitted Non-Audit Services list. The total fees for non-audit services shall be limited to no more than 70% of the average of the statutory audit fee for the Company, of its controlled undertakings and of the consolidated Financial Statements paid to the external auditor in the last three consecutive financial years;
- Other services may not be provided where precluded by law, regulation, or Ethical Standards or where the Audit Committee believes that it would compromise audit independence and objectivity; and

- All proposed contracts for permitted services to be provided by the external auditor require the Audit Committee's approval. Approval for permitted services below £0.050m has been delegated by the Audit Committee to its Chair and below £0.025m to the Group Finance Director.

In 2020, the level of permitted services undertaken by KPMG LLP was broadly unchanged, as set out in the table below. The Audit Committee considered that it was beneficial for the Company to retain KPMG LLP for a small amount of permitted non-audit work and audit related services, because of the firm's knowledge of the Group and our requirements that the Interim audit to be performed by the external auditor. The Audit Committee continues to closely monitor the nature and level of such permitted non-audit work.

Fees	2020	2019
Interim review	£0.09m	£0.04m
Auditor assessment of tax incentives in Malaysia and India	£nil	£0.01m
Total audit-related services:	£0.09m	£0.05m
Non-audit related services:	£nil	£nil

### Policy on tendering

In order to maintain auditor independence and comply with FRC, EU guidance and the provisions of the CMA Order 2014 on audit tendering, the Group undertook a formal tender of its external audit during the first half of 2016, led by the Audit Committee. The appointment of KPMG LLP as the Group External Auditor for the financial year commencing 1 January 2017 received approval by shareholders at the Annual General Meeting held in April 2017. The Audit Committee reviews annually whether it is appropriate to put the external audit out to tender and concluded in 2020 that it was not appropriate to do so. The Audit Committee fully evaluates auditor performance and independence annually but does not favour mandatory five-year rotation.

### Specific areas referred to the External Auditor

In 2020, the Audit Committee asked the external auditor to look into the areas of significant risk identified during the year, in particular. These were inventory net realisable value, other provisions and goodwill and further details can be found earlier in this report on page 63.

## Assessment of external audit effectiveness

The Audit Committee reviewed the effectiveness of the external audit process at its October 2020 meeting.

In 2020, the effectiveness of the external audit process was performed by assessing a range of key areas through a formal questionnaire that was individually distributed to all the members of the Audit Committee and all other executive and non-executive Directors. The framework required Audit Committee members to consider which areas of performance needed future focus by the external auditor, the areas where the external auditor was meeting expectations and those where it was considered to have a special strength.

Senior management received answers and comments from all questionnaires and consolidated them into a report. The Audit Committee used this report to facilitate a debate at its October 2020 meeting and to assist in assessing the level of external audit effectiveness. The Audit Committee discussed: the calibre of the external audit firm, the quality of the process, the Audit Partner, the audit approach and planning, the role of management, the communication by the Auditor to the Audit Committee, the provisions of support for the work of the Audit Committee by the Auditor's, the sharing of insights and adding value by the Auditor, the audit fee, the Auditor's independence and objectivity, and the quality of formal reporting by the Auditor to the Audit Committee. Feedback about the effectiveness of the external audit process from the local management teams was also considered by the Audit Committee. The Audit Committee concluded that the external Auditor had challenged the thinking of the Company and of the Audit Committee on a number of significant issues and had maintained its independence.

Following completion of the assessment process, the Audit Committee concluded that it was satisfied with the effectiveness of the external Auditor; as a consequence, the Audit Committee has recommended to the Board that KPMG LLP be re-appointed as Auditor for 2021.

## Internal audit

The Audit Committee is required to assist the Board in fulfilling its responsibilities relating to the effectiveness, resourcing and plans of the Group internal audit function which is headed by the Director of Risk & Compliance. In August 2019, an Internal Audit Manager was appointed, reporting to the Director of Risk & Compliance. This has provided additional resource and greater flexibility in delivering the internal audit plan.

In 2020, as set out on pages 32 to 37, the Group further strengthened its risk management procedures and these have been reviewed by the Audit Committee. Risk has been assessed on a top down and bottom up basis and the consideration of emerging risks has been

formally added to the process. A risk-based programme of internal audit has been conducted in the year. In response to constraints imposed by the pandemic, the internal audit programme was largely delivered remotely in 2020.

Under normal circumstances, the Chairman and non-executive Directors are actively encouraged to visit the Group's operating businesses unaccompanied by executive Directors. This enables them to meet the local management teams and employees and also undertake site tours to review matters including production methods, health and safety and the status of internal audit findings. These visits are viewed by the Audit Committee as making a positive contribution to the internal control framework. In 2020, due to the restrictions imposed by governments in order to deal with the pandemic, no site visits by the Chairman and the non-executive Directors were possible; the Board is keen to resume such site visits, as soon as practicable.

## Challenging management's judgements

### Going concern and viability

Consideration of the going concern assumption, and viability of the Group and Parent Company, is the responsibility of the Board. The Audit Committee conducted a robust assessment as part of its support role to the Board given the inherent judgements in assessing the projections. This was a critical area of focus for 2020 given the unparalleled economic uncertainties introduced by the global pandemic and the impact on many of Senior's end markets as discussed in the Strategic Report.

The Audit Committee challenged management on the adoption of the going concern basis in the preparation of Financial Statements at each of its February and July meetings. In addition, at each of its February meetings, the 3-year viability assessment was also challenged. The Audit Committee received reports from management and KPMG LLP concerning the going concern and viability assessments, including the key risks identified. The Audit Committee also considered the risks identified to form a view on the severity and plausibility of the risk in setting the downside scenario.

The level of challenge was proportionate to the difficult year that the Group had experienced as a result of the pandemic and the grounding of the 737 MAX aircraft. After careful consideration at each of those meetings, the Audit Committee agreed the going concern basis proposed by management. The Audit Committee recommended to the Board that the going concern assumption be applied, and the Viability Statement approved.

The Audit Committee is satisfied that the 2020 Going Concern and Viability Statements includes proportionate disclosures to inform the users of the assessments undertaken by the Audit Committee and Board; these can be found on page 46.

## Other key judgements

At each of its February and July meetings, the Audit Committee reviewed the accounting presentation and judgemental issues paper, including a funding and liquidity report, for the related reporting period from the Group Financial Controller. In addition, at these meetings the Audit Committee received a tax memorandum paper for the related reporting period from the Group's Head of Tax. In its review of these presentation papers, the Audit Committee challenged management on the critical accounting judgements, and the key sources of estimation and uncertainty that were taken in the preparation of the Financial Statements, and concluded that they were appropriate. In addition, the Audit Committee used these reports in its consideration of significant risks of inventory net realisable value, other provisions, and goodwill set out on page 63.

## Conclusion

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its Terms of Reference. At its meeting held on 23 February 2021, the Audit Committee considered each section of the Annual Report & Accounts 2020, and the document as a whole, as proposed by the Company; it reached a conclusion and advised the Board that it considered the Annual Report & Accounts 2020 to be fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Chairman of the Audit Committee will be available at the 2021 AGM to answer any shareholders' questions about the work of the Audit Committee, subject to any Government restrictions on the holding of such meetings in April 2021.

## Approval

This Report was reviewed and approved by the Audit Committee and signed on its behalf by:

## Giles Kerr

**Chairman of the Audit Committee**

5 March 2021



# Remuneration



"Remuneration Policy revised to meet evolving practice. Remuneration outcomes strike a balance between incentivisation and stakeholder expectations."

**Celia Baxter**

**Chairman of the Remuneration Committee**

## Remuneration Report: annual statement from the Chair of the Remuneration Committee

### Dear Shareholder

I am pleased to present the Report of the Remuneration Committee for the financial year ended 31 December 2020. This statement sets out the work of the Committee during the year and provides the context for the decisions taken.

### Remuneration is linked to our strategy and operation

Senior's vision is to be a trusted and collaborative high value-added engineering and manufacturing company delivering sustainable growth in operating profit, free cash flow and shareholder value.

Our Remuneration Policy (the "Policy") and practices support this vision with our bonus plans incentivising earnings growth and free cash flow and our long-term plans rewarding both the creation of shareholder value and earnings growth. We regularly consider the alignment of our performance metrics with the business strategy. During our consultation with shareholders in 2019 and 2020, we heard views expressed by some that greater focus should be given to return on capital. Whilst we consider Return on Capital Employed (ROCE) as defined on page 30 as part of the M&A evaluation process, capital investment decisions and customer bid evaluation, we have not to date included it in how we incentivise executives. We are introducing ROCE as a third measure within our LTIP for awards granted for 2021.

Sustainability is a key element of our strategy and this is demonstrated by Senior being the first company in its sector to set science-based CO<sub>2</sub> reduction targets. Although our Policy allows the Committee to include in the bonus, strategic measures limited to 25% of the bonus opportunity, this facility has not been used. Having carefully considered shareholder feedback and current market conditions we wanted to ensure that the executives are focused on delivering the core financial performance of EPS and Free Cash Flow. We have therefore decided not to introduce a strategic metric related to sustainability this year, but we will continue to keep this matter under review.

### Senior's performance during 2020

As explained in the Chairman's Statement and the Group Chief Executive Officer's Statement, Senior delivered strong free cash flow in a period when the pandemic had a profound effect on our markets and customers and the business continued to be impacted by the grounding of the Boeing 737 MAX fleet. Accordingly, sales, adjusted operating profit and adjusted earnings per share all declined in the period, with key headlines being:

- the Group's revenue decreased by 33.4% (on a constant currency basis);
- adjusted operating profit decreased by 95.8% on a constant currency basis;
- the Group's adjusted operating margin decreased by 750 basis points, to 0.5% or the full year;
- adjusted loss per share was 0.84 pence; and
- the Group generated strong free cash flows of £46.5m.

During this unprecedented time the business acted quickly to incorporate appropriate working practices, maintained controls processes and capital discipline. The restructuring of the Group to meet our strategy and purpose continued in a focused manner to provide a solid foundation to support the Company's future growth aspirations.

### Executive Directors' remuneration 2020

As disclosed last year, the basic salaries of the Group Chief Executive Officer and Group Finance Director were increased by 2.9% and 3.1% respectively with effect from 1 January 2020, broadly in line with the increase applied to the wider workforce. In line with the Remuneration Policy that was approved at the AGM in 2018, the executive Directors were eligible for a maximum bonus equivalent to 125% of basic salary, payable subject to the satisfaction of performance targets linked to Adjusted EPS and Free Cash Flow targets as disclosed in detail on page 80.

LTIP awards were granted to both executive Directors subject to the satisfaction of challenging three-year targets linked to Adjusted EPS growth and relative TSR, with the application of a two-year holding period on vested awards. The Committee was cognisant that the share price had fallen since the awards

in 2019. Historically we have made awards to the Group Chief Executive Officer and Group Finance Director at 150% of their salary, however, having considered the fall in the share price during the year, the value of the awards in 2020 were reduced to 125% of salary for the Group Chief Executive Officer and Group Finance Director.

### COVID-19

Senior's commercial aerospace business had already been negatively affected during 2019 and into 2020 by the Boeing 737 MAX grounding; when COVID hit, this impact was compounded and we saw a deterioration of many of our other end markets.

Due to these external challenges, the restructuring programme, more fully described on page 6, that had commenced in 2019 and continued into 2020 was broadened. Unfortunately, this has resulted in a 27% reduction in headcount since June 2019. In addition, a significant number of employees were furloughed and the Company received support amounting to £9.0m from government assistance schemes available in some countries in which we operate.

Between May and July inclusive, the whole of the Board of Directors volunteered to reduce their basic salaries/fees by 20%. In addition, members of the Executive Committee and the majority of the senior management teams across the business voluntarily agreed to a reduction in their pay during the year.

Due to the unstable business environment and the need to ensure liquidity, the final dividend of 2019 and 2020 dividends were not paid.

### Consultation with stakeholders during the year

**Consultation with employees regarding executive remuneration:** During the year the Group HR Director and I built on the previous year's employee consultation by holding a video/telephone conference with works council representatives from Senior's six UK operating businesses. We updated them on our Board of Directors' pay and we asked them for their comments and views on the proposed changes to the Policy. The overall feedback from the session was that the representatives were in agreement to the proposed changes. We will continue to run these sessions as we are keen



to get input from our employees.

Last year was the first year that we had run employee focus groups and we were determined to continue the momentum despite the travel restrictions. The Group HR Director and I held seventeen employee focus groups by video in five of our operating businesses in the UK and the USA. The use of the video in this situation, particularly where our employees do not have work-based computers, held some challenges but we felt that the meetings and discussions were helpful and we were able to gather views, opinions and take questions. It was also an opportunity for me on behalf of the Board to thank employees for the efforts that they had made for the Company in a very difficult year. There were no questions related to executive pay.

**Consultation with shareholders:** At the end of 2019 we consulted major shareholders with regard to potentially including ROCE as a performance measure within the LTIP and including a strategic target in the annual bonus plan. After the time of consulting, there were significant changes in the market and in particular the impact of the reduction of the 737 MAX build rates, as outlined in our 2019 trading update, released on 31st January 2020. This impacted materially our forward-looking position and we had to rebase the budget for 2020. Although during the consultation we received broad shareholder support for including ROCE as an LTIP performance measure, in the more uncertain business climate we believed that we should make minimal changes and deferred its introduction until 2021. We also decided not to introduce a strategic measure into the annual bonus plan. In the second half of 2020 we consulted major shareholders with regard to our proposals to amend the Policy. The feedback was helpful and we have subsequently amended our policy proposals relating to post employment shareholding requirement and the alignment of Directors' pension contributions to the workforce.

## Incentive scheme outcomes for 2020

For the Annual Bonus Plan, we set Adjusted EPS and Free Cash Flow targets at the start of the year which were viewed as appropriately challenging. The proportion of bonus related to the achievement of Free Cash Flow targets was increased for the year, reflecting its importance to the business. The split of 28.5% of bonus based on achieving Free Cash Flow targets and 71.5% on achieving adjusted EPS targets was for 2020 changed to 40% and 60% respectively. Targets were set prior to the onset of COVID-19 and have not subsequently been adjusted. The Committee retains an overriding discretion in relation to the amount of bonus it awards not withstanding any formulaic calculations and targets. The targets are disclosed in the Annual Report on Remuneration on page 80.

After the end of the financial year, the Committee reviewed the extent to which the targets under the Annual Bonus Plan had been achieved. In considering the outcome, the

Committee took into account the excellent performance of the management team to maintain liquidity in the business and the impact of the challenges faced during 2020, as described previously, which were outside the control of the management team and stakeholders.

The Group's 2020 cash flow performance, net of payments from government assistance schemes of £9.0m, was in excess of the maximum Free Cash Flow target. The minimum Adjusted EPS threshold was not achieved. Further details of the out-turn of the bonus are provided on page 80.

The Committee is aware of the sensitivities relating to executive reward with the impact of the current situation on other stakeholders. Having weighed up all of these factors, in particular the need to retain the very strong and resilient leadership of the executive Directors which resulted:

- in strong mitigation of pandemic risk,
- renegotiation of appropriate banking covenants,
- superb cash management allowing continued investment in R&D, and
- further reshaping of the footprint,

the Committee decided that the annual bonus outturn was appropriate and in the best interest of the business. Therefore, the executive Directors' bonus awards for the year shall be 40% of the maximum bonus opportunity (representing 50% of the 2020 base salary), of which one third would be delivered in shares deferred for three years and two thirds would be delivered in cash. The executive Directors have committed to invest the cash portion net of tax paid, in Senior shares within the current financial year. The Committee is supportive as this increased investment in shares will further align the executive Directors with shareholders. Bonuses will be paid to other managers and staff across the Group to the extent that they also achieved their bonus targets.

Awards made under the LTIP in 2018 were subject to Adjusted EPS and TSR performance measured over three years up to the end of 2020. Unfortunately, the Adjusted EPS and the TSR performance was below threshold and therefore there was no vesting of this award.

The Committee is satisfied that the above outcomes were a fair reflection of the performance of the Company over the relevant performance periods for the incentive schemes. The Committee did not have to exercise any discretion in agreeing the outcome of the incentive plans.

## Policy review for 2021 AGM

The Committee conducted its triennial review of the Policy during 2020. Its general conclusion was that the current Policy remains broadly appropriate and provides the Committee with suitable flexibility in its implementation each year. We do not propose to make any increases to the maximum award opportunities under the

incentive schemes. However, we continuously monitor changes to the UK Corporate Governance Code and through our previous consultation have listened to shareholders. The proposed amendments are outlined below.

- **Post-employment shareholding requirements:** This new post-employment shareholding requirement will apply for a period of two years following cessation at the lower of (1) 80% of the in-employment shareholding guideline in place prior to cessation (currently 200% of salary) and (2) the actual shareholding held at the time of cessation. This requirement will only apply to any shares which vest from LTIP awards granted from 2021 onwards and any shares that vest from deferred bonus from the 2021 bonus scheme onwards. Any shares purchased by the executive Directors on their own account will be excluded from this requirement.
- **Pensions:** The incumbent executive Directors' pension arrangements reflect their contractual entitlement of pension contributions (or cash allowances in lieu) at a level of 20% of salary. In consideration of guidance in the UK Corporate Governance Code and feedback from investors during the recent consultation, their existing pension contributions will be aligned with that available to the majority of the UK workforce (currently 10% of salary) by the end of the new Remuneration Policy period, January 2024. As disclosed in the 2019 Directors' Remuneration Report, new executive Directors will receive a pension contribution in line with that available to the majority of employees in the relevant jurisdiction. We intend to formalise this commitment in the new Policy.
- **The ability to override the formulaic outcomes of LTIP vesting:** We propose to update the Policy to ensure that it reflects the Committee's ability to exercise discretion and override the formulaic outcomes of the LTIP if required. Such discretion is already explicit in the Policy in respect of the annual bonus scheme.
- **Clawback and malus:** At present, recovery provisions are in place for LTIP awards and for deferred share awards granted as part of the annual bonus scheme. We will extend clawback to apply also to cash bonuses, as is common practice elsewhere. We will also extend the "trigger events" such that clawback and malus can be applied (if required) in a wider variety of circumstances. These will now include situations where payments were made on the basis of erroneous or misleading data, where serious reputational damage to Senior has occurred and in the event of corporate failure.

The full Remuneration Policy is laid out on pages 71 to 76.

# Remuneration continued

## Implementation of the Policy for 2021

The basic salaries of the Group Chief Executive Officer, Group Finance Director, the rest of the Board and the majority of senior management across the Company have not been increased from 1 January 2021. For the wider workforce, pay increases have been applied to a limited extent in some businesses to satisfy mandatory wage increases and to address retention concerns.

During the Committee's annual consideration of how we implement our Policy we considered the alignment of our performance metrics with the business strategy. We have previously consulted major shareholders on potentially including ROCE as a performance within the LTIP and gained broad support. Due to the importance of building the business back to healthy levels of returns, the Committee has decided that the time is now right to include ROCE as a third performance measure for the 2021 LTIP award.

We believe that incentive plans should be both stretching and achievable in order to incentivise executives to deliver the business strategy. With this in mind the Committee has concluded the following:

### LTIP 2021:

#### Performance measures and weighting:

Adjusted EPS and TSR metrics will be retained and ROCE added as a third performance measure in the LTIP and have equal weighting of 33.3%: 33.3%: 33.3%.

Adjusted EPS target has been set in the usual fashion and we believe that it is stretching and challenging in the current circumstances. The target is expressed as an absolute number rather than a cumulative growth percentage.

TSR performance will continue to be measured against the FTSE 350 (excluding companies in the following sectors: Financial Services (e.g. banks and insurance companies), Oil & Gas Producers, Mining, Support Services and Real Estate (e.g. REITs)) and the vesting scale will remain the same as for awards granted in 2020.

The Company has consistently stated that its medium-term ROCE target is a minimum of 13.5% pre-tax, post IFRS 16 and this has not changed. Of course, the starting point for ROCE has been severely affected by the COVID-19 pandemic impact to Company profits and in our recent trading statements we have observed that meaningful improvements in end market dynamic is not expected until 2022, with Aerospace at least as challenging in 2021 as in 2020. The ROCE targets set for the 2021 LTIP award are set at a stretching level that takes account of these market conditions and the minimum medium-term target.

The Committee will annually review the targets to ensure that they remain challenging and stretching as the Company continues to rebuild as its strategy is implemented in recovering markets.

Further details of the targets to be set for the 2021 LTIP awards are set out in the Annual Report on Remuneration on page 84.

### Quantum of LTIP awards 2021:

We intend to make LTIP awards to the Group Chief Executive Officer and the Group Finance Director at a level of 150% of basic salary. The Committee feels that this is appropriate as it further aligns the executive Directors with shareholders. We are aware that none of the inflight LTIPs are likely to vest. At this stage in the development of the Company it is crucial that we retain our executive Directors and we see this LTIP award as an important part of maintaining stability as we move into the recovery stage. The Committee retains the discretion to adjust the level of vesting if it considers the outcome to be anomalous or is not reflective of the underlying performance of the Group over the period, taking into account the resilience of the markets in which Senior operates and trends in the underlying equity markets.

### Annual bonus plan 2021:

Having considered the priorities for the year we will be maintaining the same bonus performance conditions and weightings as in 2020: Adjusted EPS (60% weighting) and Free Cash Flow (40% weighting).

The Committee has set targets that are both stretching and challenging in the current environment and retains an overriding discretion in relation to the amount of bonus it awards not withstanding any formulaic calculations and targets. We also have malus and clawback arrangements in place.

At the AGM in April 2021, shareholders will be asked to vote on the Remuneration Policy and the Annual Remuneration Report. I hope that our amended Remuneration Policy and the decisions the Committee has taken in respect of 2020 will have your support.

**Celia Baxter**

**Chair of the Remuneration Committee**

# 2020 Remuneration Report at a glance

## Overview of our remuneration framework for 2020

Element of remuneration	Key features
Salary and employment benefits	Market competitive to attract and retain high quality executives (including fully expensed car or car allowance, private medical insurance, life insurance, income protection defined contribution retirement benefits)
Annual bonus: Adjusted EPS 60% Free Cash Flow 40%	Rewards achievement against annual performance objectives: <ul style="list-style-type: none"> <li>• Maximum bonus is 125% of salary</li> <li>• 1/3 of any award is paid in shares, deferred for three years</li> <li>• Group Chief Executive Officer and Group Finance Director target: 62.5% of salary</li> </ul>
Long-Term Incentive Plan: Adjusted EPS (50%) TSR (50%)	Supports the Company's longer-term strategic aims to create sustainable growth in shareholder value and to incentivise, motivate and retain senior talent: <ul style="list-style-type: none"> <li>• Maximum award is 200% of salary but normal awards are 150% of salary</li> <li>• 25% vesting at "threshold"</li> </ul>
Shareholding requirements	Equivalent to 200% of executive Directors' salary
Clawback and malus provisions	Unvested Deferred Bonus Award subject to clawback  Long-Term Incentive Plan subject to clawback and malus during the period of three years following the date of vesting

## Performance highlights and incentive outcomes

Annual bonus	Target	Actual	Achieved (% of maximum)
<b>Performance condition</b>			
Free Cash Flow – full year	£23.0m	£46.5m	100%
Adjusted EPS – full year internal target <sup>(1)</sup>	9.24p	(0.92)p	0%
Bonus award to Group Chief Executive Officer and Group Finance Director: 40.0% of maximum			

(1) Adjusted EPS is measured on a constant currency basis to reduce the impact of exchange rate movements on bonus outcomes

Long-Term Incentive Plan (2018 award)	Targets (threshold – stretch)	Actual
<b>Adjusted EPS (50%)</b>	15% – 30% growth over three-year performance period	-106.4% (below threshold)
<b>Total Shareholder Return (50%)</b>	TSR ranking: 75th percentile (maximum threshold); 50th percentile (minimum threshold)	4.8th percentile (below threshold)

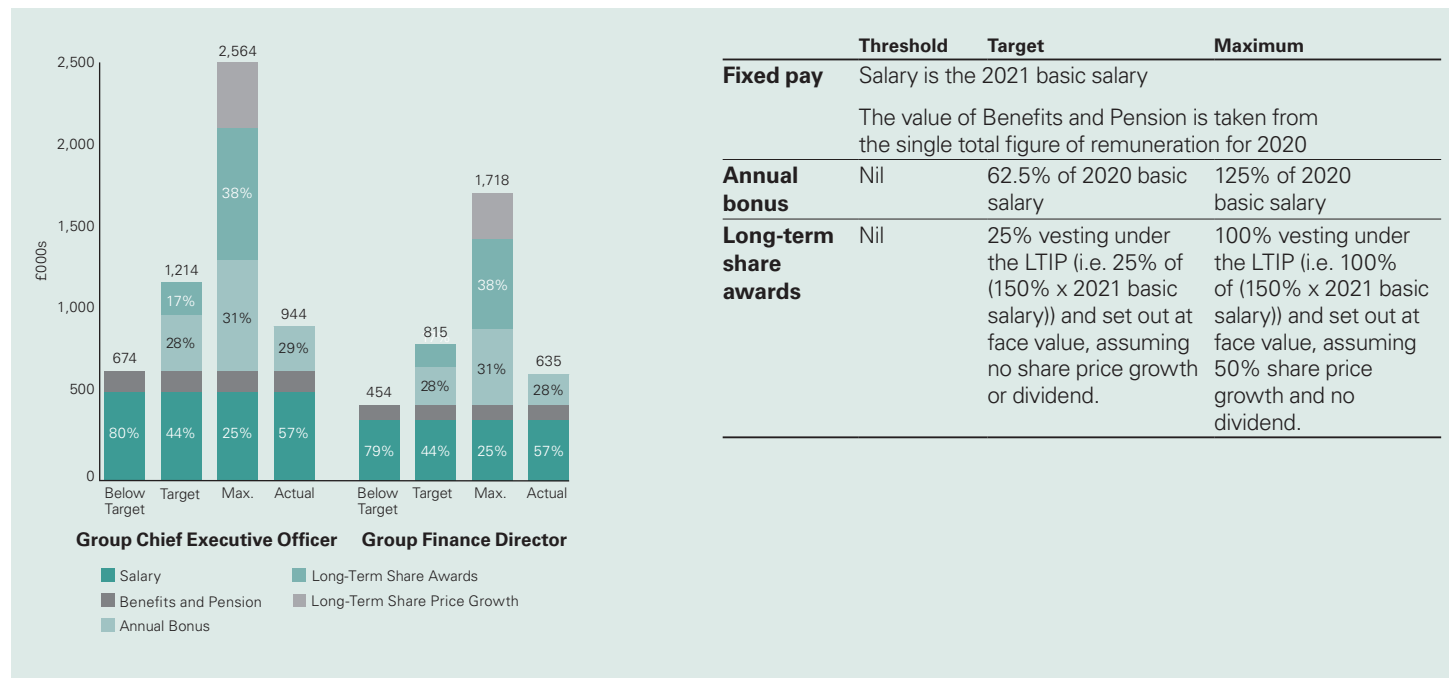
**Neither performance condition for the 2018 Awards were achieved and therefore the awards shall lapse in full.**

# Remuneration continued

## Application of Remuneration Policy

The chart below shows how the composition of each of the executive Directors' packages varies at different levels of performance under the Remuneration Policy. The assumptions noted for "target" performance in the graph below are provided for illustration purposes only.

This chart is based on the following assumptions:



## Changes made in 2020

No changes were made to the Remuneration Policy in 2020, although changes to the policy are proposed in 2021, the details of which are contained in the Annual Statement from the Chair of the Remuneration Committee on page 67 and in the Remuneration Report: Policy section below.

### About this Report

The Report on Remuneration on pages 77 to 84 is produced in accordance with the 2013 Regulations and the relevant provisions of the Listing Rules of the Financial Conduct Authority. Parts of the Annual Report on Remuneration are subject to audit, as indicated within this Report.

The rest of the Report covers the following key areas:

- Remuneration Policy:
  - Proposed Policy for executive Directors
  - How shareholder views are taken into account
  - Discretions of the Remuneration Committee
  - Policy for non-executive Directors
- Annual Report on Remuneration



# Remuneration Report: Policy

This part of the report sets out the proposed Remuneration Policy to be put to a binding vote of the shareholders at the AGM to be held on 23 April 2021. This new policy will apply for a maximum of three years from the date of approval. If approved, it will take effect from 1 January 2021. In developing this new policy, which builds on the policy approved by shareholders at our 2018 AGM, we reviewed it in the context of the business strategy and the evolving expectations of our shareholders and stakeholders, which included pension alignment and post-employment shareholding provisions.

The current remuneration policy was applicable from 1 January 2018 when the policy was approved by shareholders at the AGM by 328,273,693 (94.71%) voting in favour and 18,336,560 (5.29%) voting against; with 55,808 votes withheld, being votes that are not recognised as a vote in law. That policy can be read in full in the 2019 Annual Report at <https://www.seniorplc.com/investors/reports.aspx>.

When developing policies and practices, the Remuneration Committee regularly considers the approach to remuneration and makes decisions to ensure it is aligned to the business strategy. We do this by developing an overall package that reflects the skills and experience of the individuals and appropriate short and long-term incentive plans. The key performance metrics for both the bonus plan and the long-term incentive plan are directly linked to the delivery of the strategy and the creation of shareholder value. Currently the bonus incentivises free cash flow and earnings growth, and following shareholder consultation, in 2021 we are including ROCE as a third performance condition in the long-term incentive plan.

## Factors considered in reviewing the Policy

The Committee has considered as part of its review, and is comfortable that, the Policy and its implementation are fully consistent with the factors set out in Provision 40 of the 2018 UK Corporate Governance Code (set out below):

- **Clarity:** The Policy and the way it is implemented is clearly disclosed in this policy section of the Directors' Remuneration Report, with full transparency of all elements of Directors' remuneration.
- **Simplicity:** The Policy is simple and straightforward, based on a mix of fixed and variable pay. The annual bonus and LTIP include performance conditions which are aligned with Senior's business strategy.
- **Risk:** The Committee believes that the performance targets in place for the incentive schemes provide appropriate rewards for stretching levels of performance without driving behaviour which is inconsistent with the Company's risk profile and values. Potential reward is aligned with market levels of peer companies and the reputational risk from a perception of "excessive" pay-outs is limited by the maximum award levels set out in the Policy and the Committee's discretion to adjust formulaic remuneration outcomes.
- **Predictability:** The Policy includes full details of the individual limits in place for the incentive schemes as well as "scenario charts" which set out potential pay-outs in the event of different levels of performance, based on a number of reasonable assumptions. Any discretion exercised by the Committee in implementing the Policy will be fully disclosed.
- **Proportionality:** The link between the delivery of strategy, long-term performance, shareholder return and the remuneration of the executive Directors is set out in the Remuneration Report.
- **Alignment to culture:** The approach to Directors' remuneration is consistent with the Group's culture and values.

## Summary of Decision-Making Process for Policy Changes

In determining and implementing the Policy, the Committee follows a robust process which includes discussions on the content of the Policy at Remuneration Committee meetings. To support this process, the Committee receives advice from independent advisers. It also considers representations from other key stakeholders, including shareholders and executive management (whilst ensuring potential conflicts of interest are suitably managed), in the context of the evolving corporate governance landscape. The Committee monitors changes in corporate governance guidance and regulations to ensure the Policy remains compliant. The implementation of the Policy takes account of the remuneration of the wider workforce and is aligned with the Group's strategy by appropriately incentivising the executive Directors to deliver the strategic objectives.

### Proposed Policy for executive Directors

The three most significant changes being proposed in 2021 to the policy approved in 2018 are intended to align the new policy with the latest best practice and expectations of shareholders and institutional investor bodies:

- Pension alignment
- Post-employment shareholding requirements
- Extension of the circumstances when malus and clawback could apply.

Other proposed changes to the policy are of a housekeeping nature or changes which were intended to provide some degree of future proofing as we set down the policy for the next three years.

The key proposed changes to the Policy which are to be put to the shareholders' vote at the 2021 AGM are highlighted in bold in the table below.

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
<b>Salary</b>	<ul style="list-style-type: none"> <li>• Reflects the performance of the executive Director, his or her skills and experience over time and the responsibilities of the role</li> <li>• Provides an appropriate level of basic fixed pay avoiding excessive risk arising from over-reliance on variable income</li> </ul>	<ul style="list-style-type: none"> <li>• Will normally be reviewed annually with effect from 1 January</li> <li>• Benchmarked periodically against companies with similar characteristics and sector companies</li> <li>• Normally positioned within a range around the mid-market level taking into account the experience and performance in the role of the individual, complexity of the role, market competitiveness and the impact of salary increases on total remuneration</li> </ul>	<ul style="list-style-type: none"> <li>• Other than to reflect change in the size and complexity of the role/ Company, the Committee will have regard to the basic salary percentage increases taking place across the Company more generally when determining salary increases for the executive Directors</li> <li>• No maximum salary cap</li> </ul>	<ul style="list-style-type: none"> <li>• Individual performance in the role and Group performance are among the factors taken into consideration when awarding increases</li> </ul>

# Remuneration Report: Policy *continued*

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
<b>Bonus</b>	<ul style="list-style-type: none"> <li>Incentivises annual delivery of corporate financial and non-financial goals</li> <li>Delivery of a proportion of bonus in deferred shares provides alignment with shareholders and assists with retention</li> </ul>	<ul style="list-style-type: none"> <li>Up to 83.3% of salary paid in cash with up to a further 41.7% of salary paid as a conditional award of deferred shares</li> <li>Maximum bonus only payable for achieving demanding targets</li> <li>Deferred shares are released three years after award but are subject to forfeiture by a "bad leaver"</li> <li>Executives are entitled to receive the value of dividend payments that would have otherwise been paid in respect of vested deferred shares</li> <li>All bonus payments are at the discretion of the Committee</li> <li>Different performance conditions may be set when recruiting an executive Director</li> <li>The Committee may review the performance conditions from time to time</li> <li>The Committee has the discretion in certain circumstances to grant and/or settle an award in cash. In practice, this will only be used in exceptional circumstances for executive Directors</li> <li>The Committee has the discretion to adjust bonus targets or outcomes if deemed appropriate, where the bonus outcome feels perverse. In practice, this will only be used in exceptional circumstances for executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>Overall maximum of 125% of salary</li> </ul>	<ul style="list-style-type: none"> <li>The Committee determines appropriate performance targets and weightings at the start of each year</li> <li>Details of the financial performance targets will normally be disclosed in the following Annual Report on Remuneration for reasons of commercial sensitivity</li> <li>The Committee may include non-financial metrics up to 25% of the overall award</li> <li>Performance below threshold results in zero payment. Payment rises from 0% to 100% of the maximum opportunity for levels of performance between the threshold and maximum targets</li> <li>Typically, threshold is around 90% of target, and on-target performance delivers approximately 50% of the maximum opportunity</li> <li>Subject to clawback at the Committee's discretion over <b>cash bonus outcomes</b> and unvested deferred shares in the event of material misstatement, gross misconduct, <b>serious reputational damage or corporate failure</b> and, if required, over any unvested LTIP awards</li> </ul>
<b>Long-Term Incentive Plan (LTIP)</b>	<ul style="list-style-type: none"> <li>Incentivises sustained performance over the longer term</li> <li>The use of longer-term performance targets and delivery of awards in shares rewards the achievement of the Company's strategic goals and increases in shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>Annual grants of performance shares which vest subject to performance measured over three years and continued service</li> <li>Executives are entitled to receive the value of dividend payments that would have otherwise accrued during the 3-year performance period in respect of vested LTIP awards</li> <li>All awards are subject to the discretions contained in the plan rules</li> <li>The Committee may review the performance conditions from time to time</li> <li>The Committee has the discretion in certain circumstances to grant and/or settle an award in cash. In practice, this will only be used in exceptional circumstances for executive Directors</li> <li>A two-year post-vesting holding period applied to LTIP awards from the March 2018 award, creating a five-year period between the grant of the awards and their final release</li> </ul>	<ul style="list-style-type: none"> <li>150% of salary</li> <li>200% of salary in exceptional circumstances, such as upon recruitment</li> </ul>	<ul style="list-style-type: none"> <li>The Committee determines performance conditions and weightings at the start of each year, providing that the targets are not materially less challenging</li> <li>In respect of each performance element, performance below the threshold target results in zero vesting. Vesting of each performance element starts at the 25% threshold and rises to 100% for maximum level of performance</li> <li>Subject to clawback at the Committee's discretion during the period of three years following the date of vesting in the event of material misstatement, gross misconduct, <b>serious reputational damage or corporate failure</b>.</li> </ul>

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
<b>All-Employee Share Schemes</b>	<ul style="list-style-type: none"> <li>Employees including executive Directors are encouraged to become shareholders through the operation of the Sharesave Plan, the HMRC-approved all-employee share plan</li> </ul>	<ul style="list-style-type: none"> <li>The Sharesave Plan has standard terms under which participants can normally enter a savings contract in return for which they are granted options to acquire shares at the market value of the shares at the start of the performance period</li> <li>The rules for this plan were first approved by shareholders at the 2006 AGM and the updated rules were approved at the 2016 AGM</li> </ul>	<ul style="list-style-type: none"> <li>Employees can normally elect for a three-year savings contract under standard terms and within HMRC limits</li> <li>The option price for Sharesave awards can be set at a discount of up to 20% of the market value of the shares at the start of the savings contract, although to date no awards granted under the 2006 Sharesave Plan have been set at a discount</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Pension</b>	<ul style="list-style-type: none"> <li>Provides competitive retirement benefits for the Group's employees</li> </ul>	<ul style="list-style-type: none"> <li>The executive Directors may participate in the Senior plc Group Flexible Retirement Plan (Senior GFRP), a contract-based, money purchase pension plan and/or receive cash allowances</li> <li>Bonuses are not included in calculating retirement benefits</li> <li><b>From 2020, any new executive Directors will receive a pension contribution in line with that available to the majority of employees in the relevant jurisdiction.</b></li> <li><b>The pension contributions or pension allowance for executive Directors will be aligned with the majority of the UK workforce by the end of the new Remuneration Policy period, January 2024.</b></li> </ul>	<ul style="list-style-type: none"> <li>20% of basic salary either as a Company contribution to Senior GFRP or as salary in lieu of pension</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Other benefits</b>	<ul style="list-style-type: none"> <li>Provides a competitive package of benefits that assists with recruitment and retention</li> </ul>	<ul style="list-style-type: none"> <li>Benefits include provision of a fully expensed car or car allowance, private medical insurance, life insurance and income protection, tax equalisation and relocation benefits</li> <li>Any reasonable business-related expenses (including tax thereon) can be reimbursed</li> </ul>	<ul style="list-style-type: none"> <li>The value of benefits is based on the cost to the Company and is not predetermined</li> <li>There is no monetary cap on other benefits</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Shareholding guidelines</b>	<ul style="list-style-type: none"> <li>Aligns executive Directors' interests with those of other shareholders in the Company</li> </ul>	<ul style="list-style-type: none"> <li>Executive Directors to retain at least 50% of the shares that vest under the LTIP and Deferred Bonus Award, after allowing for tax liabilities, until a shareholding equivalent in value to 200% of base salary is built up</li> <li><b>Post employment shareholding requirements will apply, for all LTIP awards granted from 2021 onwards and any shares that vest from deferred bonus from the 2021 bonus scheme onwards, for a period of two years following cessation of employment at the lower of (1) 80% of the in-employment shareholding guideline in place prior to cessation and (2) the actual shareholding held at the time of cessation.</b></li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>

# Remuneration Report: Policy continued

## Recruitment of executive Directors

Salaries for newly appointed executive Directors will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role.

Where it is appropriate to offer a below median salary initially, the Committee will have the discretion to allow phased salary increases over time for newly appointed Directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits will be provided in line with those offered to other employees, with national or international relocation expenses/arrangements (e.g. schooling, tax equalisation) provided for if necessary.

The aggregate incentive offered to new recruits will be no higher than that outlined in the Policy report on pages 71 to 73. The Remuneration Committee has flexibility to grant share awards of up to 200% of salary upon recruitment. Different performance measures may be set initially for the annual bonus and LTIP, taking into account the responsibilities of the individual, and the point in the financial year that they joined.

Current entitlements (benefits, bonus, share schemes) may be bought out on terms that are no more favourable than a like-for-like basis (with a comparable time horizon, fair value and subject to performance conditions). Existing incentive arrangements will be used to the fullest extent possible, although awards may also be granted outside these schemes if necessary and as permitted under the Listing Rules. In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment).

## Rationale behind performance metrics and targets

The performance-related elements take into account the Company's risk policies and systems and are designed to align the Directors' interests with those of shareholders. Variable pay elements aim to reward executive Directors for performance at the highest levels and, as such, the Committee aims to set targets that are both stretching and achievable. All targets are set on a sliding scale. The Committee reviews the annual bonus measures set for all the Company's senior executives (not only the executive Directors) every year in order to ensure that they are aligned with the Company's strategy and annual goals and to ensure that bonus arrangements amongst the Company's senior executive team are consistent.

The annual bonus may include a mix of financial and non-financial measures reflecting the key annual priorities of the Group. The financial metrics currently include two of the Company's KPIs: Free Cash Flow, which is a key measure of the business's ability to fund future acquisitions; and Adjusted EPS, which will reflect the Group's ability to expand into new regions and product markets and increase the profitability of the existing operations. From 2018, Adjusted EPS is measured on a constant currency basis to reduce the impact of exchange rate movements on bonus outcomes. If non-financial measures are selected, these may include reference to the Group's sustainability, safety and organisational goals.

The implementation of the Policy in 2021 will involve the Free Cash Flow measure continuing to apply to 40% of the total bonus award, and the Adjusted EPS measure applying to the remaining 60% of the total bonus, reflecting the importance of both measures to the running of the Group.

Following consultation with shareholders, the 2021 LTIP awards shall consist of Adjusted EPS, TSR and ROCE performance measures. In line with the Policy, the Committee retains the ability to amend performance measures to reflect changes in market conditions and business strategy.

The targets will be reviewed prior to each grant by taking account of internal and external expectations. The targets for awards granted under this Remuneration Policy are set out in the Annual Report on Remuneration.

## Relationship between executive Director and employee pay

The Remuneration Policy for the executive Directors is designed taking into account the policy for employees across the Group as a whole. There are some differences in the structure of the Remuneration Policy for the executive Directors and other senior employees, which the Remuneration Committee believes are necessary to reflect the different levels of responsibility of employees across the Company and reflect different market norms for different roles. The key differences in remuneration policy between the executive Directors and employees across the Group are the increased emphasis on performance-related pay and the inclusion of a share-based long-term incentive plan for executive Directors.

Executive Directors are provided with a competitive package of benefits that includes (depending on role) participation in the Group's occupational pension arrangements, and/or receipt of pension allowance, provision of a fully expensed car or car allowance, private medical insurance, life insurance and income protection.

The majority of Senior's managers are eligible to participate in annual bonus arrangements with challenging targets tied to the performance of their employing entity, Division and, for the most senior executives, the Group's performance.

Long-term incentives are provided to the most senior executives and those anticipated as having the greatest potential to influence performance levels within the Company. A lower aggregate incentive quantum operates at below executive level with levels driven by the impact of the role and market comparatives.

Awards under the Restricted Share Award Plan, a deferred share award plan without performance conditions, are made to selected individuals who were not in receipt of other long-term incentives but are considered to have significant potential or are key contributors.

In order to encourage wider employee share ownership, the Company operates a Sharesave Plan in which employees in the UK, North America and continental Europe, including executive Directors, may participate.

## How employees' pay is taken into account when setting executive Director remuneration

The Committee also reviews the salaries of corporate, divisional and senior operational managers and therefore is fully cognisant of pay levels in the Group when determining the pay of the executive Directors.

In addition, the Committee's policy is that salary increases for the executive Directors and senior executives should not normally be greater than the general level of increases awarded to other senior managers in Europe and North America, other than when an executive changes role or when it is necessary in order to ensure levels of remuneration remain market competitive.

As laid out in the Chair's Statement, the Company did consult with employees when drawing up the Directors' Remuneration Policy set out in this part of the Remuneration Report. In addition, the Group HR Director and Remuneration Chair held focus group meetings using videoconference with employees at all levels across five operations.

## Policy on outside appointments

The Remuneration Committee believes that it is beneficial both for the individual and the Company for an executive Director to take up one external non-executive appointment. Fees paid for the appointment may be retained by the executive.



## Executive Directors' service agreements and loss of office payments

The table below summarises the key provisions of each executive Director's contract:

Provision	Detailed terms
<b>Employment contract dates</b>	David Squires – 5 January 2015 Bindi Foyle – 3 May 2017
<b>Notice period</b>	12 months from both the Company and the executive Director
<b>Termination payment</b>	Contracts may be terminated without notice by the payment of a sum equal to the sum of salary due for the unexpired notice period, and the value of pension contributions and other benefits such as use of company car, life cover, income protection and private healthcare  There are no provisions in the agreements, or otherwise, for additional termination payments  Payments may be made in monthly instalments and, in these circumstances, there is a requirement for the Director to mitigate loss
<b>Change of control</b>	There are no enhanced provisions in relation to a change of control

Copies of the executive Directors' service contracts are available from the Group Company Secretary at the Company's Registered Office during normal business hours. The Committee's policy in the event of early termination of employment is set out below.

## Policy on payment for departure from office

On termination of an executive Director's service contract, the Committee will take into account the departing executive Director's duty to mitigate his or her loss when determining the amount of compensation. The Committee's policy in respect of the treatment of executive Directors leaving the Group is described below and is designed to support a smooth transition from the Company, taking into account the interests of shareholders:

Component of pay	Voluntary resignation or termination for cause	Death, ill health, disability, retirement excluding redundancy	Departure on agreed terms
<b>Base salary, pension and benefits</b>	Paid for the proportion of the notice period worked	Paid up to the date of death or leaving, including any untaken holidays prorated to such date. In the case of ill health, a payment in lieu of notice may be made and, according to circumstances, may be subject to mitigation. In such circumstances, some benefits such as company car or medical insurance may be retained until the end of the notice period	Treatment will normally fall between the two treatments described in the previous columns, subject to the discretion of the Committee and the terms of any termination agreement
<b>Annual bonus cash</b>	Cessation of employment during a bonus year will normally result in no cash bonus being paid	Cessation of employment during a bonus year or after the year-end but prior to the normal bonus payment date will result in cash and deferred bonus being paid and prorated for the relevant portion of the financial year worked and performance achieved	
<b>Annual bonus deferred shares</b>	Unvested deferred share awards will lapse	In the case of the death of an executive Director, all deferred shares will be transferred to the estate as soon as possible after death. In all other cases, subject to the discretion of the Committee, unvested deferred shares will be transferred to the individual on a date determined by the Committee	
<b>LTIP share awards</b>	Unvested LTIP share awards will lapse	Subject to the discretion of the Committee, unvested LTIP share awards will remain subject to the relevant performance conditions and normally be measured at the original vesting date. The awards will normally be prorated for the relevant proportion of the performance period worked. However, in the case of the death of an executive Director, the Committee will determine the extent of vesting within 12 months of the date of death	
<b>Options under Sharesave</b>	As per HMRC regulations	As per HMRC regulations	
<b>Other</b>	None	Statutory payments and disbursements such as any legal costs and outplacement fees	

### Notes

- a) The Committee will have the authority to settle any legal claims against the Company e.g. for unfair dismissal etc that might arise on termination.  
b) There are no enhanced provisions in relation to a change of control.

## How shareholder views are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally. During 2019 and early 2020, major shareholders were consulted on the Committee's proposed changes to performance measures applying to LTIP awards and executive bonuses. In late 2020, major shareholders were consulted on the updating of the Remuneration Policy. Consultation with shareholders has always been constructive. The Committee intends to continue working closely with shareholders in future.

# Remuneration Report: Policy continued

## Discretions of the Remuneration Committee

The Committee operates the Group's various incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans, the Committee may apply certain operational discretions. These include the following:

- selecting the participants for the annual bonus plan and LTIP awards;
- determining the timing of grants and/or payments;
- determining the quantum of grants and/or payments (within the limits set out in the policy table commencing on page 71);
- adjusting the constituents of the TSR comparator group;
- determining the extent of LTIP vesting based on the assessment of performance, including the discretion to allow the override of formulaic outcomes;
- determining "good leaver" status and the extent of vesting in the case of the LTIP and deferred shares;
- determining the extent of vesting in the case of the LTIP in the event of a change of control;
- making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends);
- varying the performance conditions to apply to LTIP awards if an event occurs which causes the Committee to consider that it would be appropriate to amend the performance conditions, provided the Committee considers the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event in question;
- undertaking the annual review of weighting of performance measures, and setting targets for the annual bonus plan and LTIP from year to year; and
- adjusting bonus and LTIP targets or outcomes if deemed appropriate, for example to take account of material M&A activity or other exceptional circumstances when they arise.

**adjusting bonus targets or outcomes if deemed appropriate, where the bonus outcome feels perverse.**

## Policy for non-executive Directors

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
<b>Non-executive Directors and Chairman fees</b>	<ul style="list-style-type: none"> <li>• Takes account of recognised practice and set at a level that is sufficient to attract and retain high calibre non-executive Directors</li> </ul>	<ul style="list-style-type: none"> <li>• The Chairman is paid a single fee for all his responsibilities as determined by the Remuneration Committee. The non-executive Directors are paid a basic fee. The Senior Independent Director and the Chairs of the Audit and Remuneration Committees receive additional fees to reflect their extra responsibilities</li> <li>• When reviewing fee levels, account is taken of market movements in non-executive Director fees, Board Committee responsibilities, ongoing time commitments and the general economic environment</li> <li>• Fee increases, if applicable, are normally effective from 1 January</li> <li>• The Chairman and non-executive Directors do not participate in any pension, bonus, share incentive or other share option plans</li> <li>• The remuneration of the non-executive Directors is determined by the Board of Directors. The non-executive Directors do not participate in any discussion or decisions relating to their own remuneration</li> <li>• Any reasonable business-related expenses (including tax thereon) can be reimbursed</li> </ul>	<ul style="list-style-type: none"> <li>• Other than when a non-executive Director changes role or where benchmarking indicates fees require realignment, fee increases will not normally exceed the general level of increases for the Group's employees</li> </ul>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>

## Non-executive Directors' letters of appointment

The Chairman and non-executive Directors do not have service agreements but the terms of their appointment, including the time commitment expected, are recorded in letters of appointment. The Chairman's appointment may be terminated on providing 12 months' notice by either party. The appointments of the other non-executive Directors may be terminated by the Company or non-executive Director on providing one month's notice. Copies of the Chairman's and non-executive Directors' letters of appointment are available from the Group Company Secretary at the Company's Registered Office during normal business hours.

## Non-executive Directors' terms of appointment

Name	Date original term commenced	Date current term commenced	Expected expiry date of current term
Ian King	Joined the Board November 2017 and became Chairman in April 2018	—	—
Celia Baxter	September 2013	September 2019	September 2022
Susan Brennan	January 2016	January 2019	December 2021 <sup>(1)</sup>
Giles Kerr	September 2013	September 2019	September 2022
Rajiv Sharma	January 2019	—	December 2021 <sup>(1)</sup>

(1) Rajiv Sharma's first three-year term of appointment and Susan Brennan's second three-year term of appointment are both due to expire in December 2021. The terms of appointment for both Directors have been extended for a further period of three years from the end of December 2021.

# Remuneration Report: Annual Report on Remuneration

## Summary of the Committee's Terms of Reference

The Terms of Reference of the Remuneration Committee, available in full on the Company's website, are summarised below:

- determine and agree with the Board the framework or broad policy for the remuneration of the Chairman of the Board, the executive Directors and other members of the executive management as it is designated to consider;
- within the terms of the agreed policy and in consultation with the Chairman and/or Group Chief Executive Officer, as appropriate, determine the total individual remuneration package of the Chairman, each executive Director, and other designated senior executives including bonuses, incentive payments and share options or other share awards;
- approve the design of, and determine targets for, any performance related pay plans operated by the Company and approve the total annual payments made under such plans;
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive Directors, and other designated senior executives and the performance targets to be used;
- determine the policy for, and scope of, pension arrangements for each executive Director and other designated senior executives;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is recognised; and
- oversee any major changes in employee benefits structures throughout the Group.

## Members

The Remuneration Committee consists entirely of non-executive Directors.

Member	Number of meetings during term <sup>(1)</sup>	Number of meetings attended
Celia Baxter – Chair	5	5
Susan Brennan	5	5
Giles Kerr	5	5
Ian King	5	5
Rajiv Sharma	5	5
Mark Vernon <sup>(2)</sup>	1	1

(1) The full Committee met five times in 2020. In addition, authority was delegated to two members of the Committee, Celia Baxter and Ian King, to hold seven additional meetings to confirm the granting and vesting of share awards.

(2) Mark Vernon retired from the Board on 24 April 2020.

## Other attendees at Remuneration Committee meetings

The Group Chief Executive Officer and Group HR Director attend meetings by invitation and the Group Company Secretary acts as secretary to the Committee but no executive Director or other employee is present during discussions relating to his or her own remuneration.

## Advisers

Before recommending proposals for Board approval, the Remuneration Committee may seek advice from external remuneration consultants to ensure that it is fully aware of comparative external remuneration practice as well as shareholder, legislative and regulatory developments. The Committee also considers publicly available sources of information relating to executive remuneration.

All advisers to the Remuneration Committee are appointed and instructed by the Committee. During the year, the Committee was advised by Aon Hewitt in relation to LTIP performance monitoring and the provision of LTIP advice, and by Korn Ferry in relation to remuneration advice and the provision of LTIP advice. During 2020, the Company incurred fees of £23,940 from Korn Ferry and of £6,804 from Aon Hewitt, and these costs were based on a combination of hourly rates and fixed fees for specific items of work. Neither adviser provided any other services to the Group during 2020.

The Committee does not have a formal policy of subjecting its remuneration consultants to a regular fixed-term rotation, although the Committee remains cognisant of the need to seek objective advice and good value whilst also benefiting from the consultants' knowledge of the Company. Neither remuneration consultants have other connections with the Company or its Directors. The Committee is satisfied that the advice it has received during 2020 has been objective and independent.

# Remuneration Report: Annual Report on Remuneration continued

## Principal activities and matters addressed during 2020

The Committee has a calendar of standard items within its remit and in addition it held in-depth discussions on specific topics during the year. The Committee typically meets three times each year, although more meetings were held in 2020 as the Committee worked on updating the Remuneration Policy. In addition, authority was delegated to two members of the Committee, Celia Baxter and Ian King, to hold seven additional meetings to confirm the grant and vesting of share awards. The table below shows the standard items considered at each meeting, leading up to the meeting in February where the key decisions regarding performance, outcomes and grants for the coming year are determined.

	Standard agenda items	Ad hoc items
February	Review of performance and outcomes under the Annual Bonus and Deferred Bonus Award. Review of performance and vesting under long-term incentives. Determine incentive structure for the next financial year including finalisation of targets, having considered the outcome of shareholder consultation on potential changes to performance targets for long-term incentives. Review of Remuneration Report and Remuneration Policy.	
March (two meetings)	Confirmation of grants and vestings of LTIP and Deferred Bonus Awards, and grants of Restricted Share Awards.	
May		Vesting of LTIP Award.
June	Review of Remuneration Policy in the context of legislative and governance changes concerning Executive Remuneration.	
August		Vesting of LTIP and Restricted Share Awards.
September (two meetings)		Grant of Restricted Share Awards.
October (two meetings)	Review of Remuneration Policy and shareholder consultation process.	Vesting of Deferred Bonus Award.
December (two meetings)	Review and approval of Directors' and senior managers' salary and total remuneration packages for the following financial year taking into consideration available FTSE 250 salary market data. Performance update on outstanding incentive and bonus awards. Discussion on 2021 LTIP and bonus targets; and associated shareholder consultation. Determine remuneration of Chairman. Review of Remuneration Policy. Review of Committee's Terms of Reference.	

## Statement of voting at General Meeting

At the AGM held on 24 April 2020, votes on the Directors' Remuneration Report were cast as follows:

	Voting	For	Against	Total	Withheld <sup>(1)</sup>	Reason for vote against, if known	Action taken by Committee
Remuneration Report	Votes	323,299,072	16,247,267	339,546,339	1,331,648	N/A	N/A
	%	95.22%	4.78%	100%	N/A		

(1) A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "For" and "Against" a resolution.



## Single total figure of remuneration (Audited information)

The following table shows a single total figure of remuneration in respect of qualifying service for the 2020 financial year for each executive Director, together with comparative figures for 2019. Aggregate Directors' emoluments are shown at the end of the Single Total Figure of Remuneration section.

	Salaries and fees £000s		Taxable benefits and allowances <sup>(2)</sup> £000s		Bonus <sup>(3)</sup> £000s		Long-term incentives <sup>(4)</sup> £000s		Pension benefits including cash in lieu of pension £000s		Total fixed remuneration £000s	Total variable remuneration £000s	Total <sup>(4)</sup> £000s	
	2020 <sup>(1)</sup>	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2020	2020	2019
Executives														
David Squires	513	525	26	31	270	378	–	164	108	105	647	270	917	1,203
Bindi Foyle	343	350	21	21	181	252	–	61	72	70	436	181	617	754
Total remuneration	856	875	47	52	451	630	–	225	180	175	1,083	451	1,534	1,957
Non-executives														
Ian King (Chairman)	181	185	–	1	–	–	–	–	–	–	181	–	181	186
Celia Baxter <sup>(6)</sup>	67	67	–	1	–	–	–	–	–	–	67	–	67	68
Susan Brennan	50	52	–	–	–	–	–	–	–	–	50	–	50	52
Giles Kerr	59	61	–	–	–	–	–	–	–	–	59	–	59	61
Rajiv Sharma	50	52	–	–	–	–	–	–	–	–	50	–	50	52
Mark Vernon <sup>(6)</sup>	17	55	–	1	–	–	–	–	–	–	17	–	17	56
Total remuneration	424	472	–	3	–	–	–	–	–	–	424	–	424	475

(1) During 2020, the executive Directors, the Chairman and the non-executive Directors voluntarily reduced their salaries and fees by 20% for a three-month period. Without the reductions, David Squires' base salary would have been £540,000 and Bindi Foyle's base salary would have been £361,000. The fees that the Chairman and the non-executive Directors would have received, before reductions, are as stated in the table below.

(2) Taxable benefits for executive Directors include the provision of a fully expensed company car or car allowance and private medical insurance. During the year, David Squires exchanged his company car for a car allowance. Taxable benefits for non-executive Directors are travel expenses.

(3) Awards under the deferred bonus award, the Enhanced SMIS, in respect of 2020 performance will be granted following the announcement of the 2020 results. The deferred bonus element that is to be granted in the form of shares to David Squires and Bindi Foyle following the announcement of the 2020 results, and is included in the Bonus figure and will be equivalent in value to 16.67% of 2020 base salary, namely £90,000 and £60,167 respectively.

(4) The performance conditions attached to David Squires' and Bindi Foyle's 2018 LTIP Awards were not achieved and this award will lapse in March 2021. Further details on the performance conditions can be found on page 80. The value of the vested LTIP shares shown in the 2019 comparator column have been updated to show the actual value of the shares upon vesting, whereas the estimated 2019 figures shown in the 2019 Annual Report had been calculated using the average of the daily closing market value of the shares over the last three months of 2019 of 181.0p. In addition, the 2019 Long-term incentives figures have also been adjusted to include Dividend Equivalent values of £6,805 for David Squires and £3,366 Bindi Foyle (calculated using the average of the daily closing market value of the shares over the last three months of 2020 of 67.11p) which had been previously omitted. The 2019 Total figure has been updated accordingly.

(5) The aggregate amount of remuneration paid to or receivable by Directors in respect of qualifying services as per paragraph 9 of SI 2008/40 Schedule 5 was £1,565,071.

(6) Mark Vernon retired from the Board on 24 April 2020 and his 2020 fee is the amount paid to that date. Celia Baxter's 2020 salaries and fees figure includes the fee for acting as the Senior Independent non-executive Director from 24 April 2020.

## Fees received for outside appointments

The Board supports executive Directors taking up appointments outside the Company to broaden their knowledge and experience. Each executive Director is permitted to accept one non-executive appointment from which they may retain any fee. Any external appointment must not conflict with a Director's commitments to Senior plc.

David Squires does not hold any outside appointments for which he is remunerated. Bindi Foyle was appointed to the Board of Avon Rubber p.l.c. as a non-executive director with effect from 1 May 2020 and retained fees of £29,375 for the year ending 31 December 2020 (nil for year ended 31 December 2019). Prior to her taking up this appointment, the Nominations Committee considered the time commitment required for this new role and was supportive of her taking up that appointment.

## Annual fees of non-executive Directors

The non-executive Directors do not participate in any pension, bonus, share incentive or other share option plans. Their remuneration reflects both the time given and the contribution made by them to the Company's affairs during the year, including membership or chairmanship of the Board or its Committees. The remuneration of the non-executive Directors is determined by the Board of Directors. The non-executive Directors do not participate in any discussion or decisions relating to their own remuneration. During 2020, the executive Directors, the Chairman and the non-executive Directors voluntarily reduced their salaries and fees by 20% for a three-month period; the table below shows the fees that would have been paid had they not been reduced.

Fees	2020 £	2019 £	Percentage change
Chairman	191,000	185,000	3.2%
Non-executive Director	53,000	51,500	2.9%
Chair of Audit Committee	9,000	9,000	0%
Chair of Remuneration Committee	9,000	9,000	0%
Senior Independent Director	9,000	9,000	0%

# Remuneration Report: Annual Report on Remuneration continued

## Senior managers' emoluments

In addition to setting the remuneration of the executive Directors, the Remuneration Committee oversees the remuneration of other senior managers.

The table below shows the cumulative benefits of the two Divisional CEOs, the two Divisional CFOs and the four most senior corporate managers. The reduction in the 2020 Short-term employee benefits compared to the prior year was partly as a result of the roles of the CEO and CFO of the Aerospace Structures Division being made redundant on 30 September 2020; the 2020 figures also include the amounts incurred during the year for retaining the two roles that were made redundant.

	2020 Total £000s	2019 Total £000s
Short-term employee benefits	2,986	3,324
Post-employment benefits	89	90
Share-based payments	887	463
Total	3,962	3,877

## Performance against performance targets for annual bonus (audited information)

Bonuses are earned by reference to the financial year and paid in March following the end of the financial year. Consistent with recent years, the bonuses accruing to the executive Directors in respect of 2020 have been determined by Adjusted EPS and Free Cash Flow performance as set out in the table below.

A summary of the measures, weightings and performance achieved is provided in the table below:

	2020							2019		
	Threshold	Target	Maximum	Actual achieved	Maximum bonus achievable	Percentage of maximum achieved	Bonus payable (% of 2020 salary) <sup>(1)</sup>	Maximum bonus achievable	Percentage of maximum achieved	Bonus payable (% of 2019 salary) <sup>(1)</sup>
Free Cash Flow targets – full year	£21.0m	£23.0m	£34.0m	£46.5m	50.00%	100.00%	50.00%	35.00%	92.74%	32.46%
Adjusted EPS targets <sup>(2)</sup> – full year internal target	8.66p	9.24p	10.59p	(0.92)p	75.00%	0.00%	0.00%	90.00%	44.00%	39.60%
Totals					125.00%	40.00%	50.00%	125.00%	57.65%	72.06%

(1) When bonus is payable, this is paid two-thirds in cash and one-third in deferred shares. The deferred share element of the 2019 bonus was awarded on 9 March 2020 based on a share price of £1.398 and shall ordinarily vest on the third anniversary of the award on 9 March 2023. The deferred element of any 2020 bonus shall be awarded following the announcement of the 2020 annual results in 2021 and the details disclosed in the 2021 Remuneration Report.

(2) The bonus is calculated with regard to full-year Free Cash Flow, and internal Adjusted EPS targets on a constant currency basis.

For the 2020 Free Cash Flow target, bonus became payable at 91% of the Target and for the internal Adjusted EPS target, bonus would have become payable at 94% of Target.

## Total pension entitlements (audited information)

The 2020 single figure remuneration for pension benefits for David Squires and Bindi Foyle consisted of a cash allowance of £108,000 (2019 – £105,000) and £72,200 (2019 – £70,000) respectively, this being 20% of the respective base salaries.

The Committee conducted its triennial review of the Remuneration Policy during 2020. As part of the Policy review, it considered the prevailing rate offered to employees (currently 10% for the majority of the UK workforce) in comparison to the executive Directors to achieve alignment. Further detail may be found on page 67 of the Chair's Statement and page 73 of the Remuneration Report: Policy section.

## Payments for loss of office (audited information)

There were no payments made in the year for loss of office.

## Performance against performance conditions for LTIP vesting

The performance conditions are set out below.

### By reference to performance in the financial year (audited information)

Set out below are the performance conditions attached to the 2018 LTIP award. Neither performance condition was achieved and therefore the 2018 LTIP awards shall lapse in full.

Performance condition	Target (25% vesting)	Maximum (100% vesting)	Actual	Percentage of total award achieved
Total shareholder return percentile ranking (50% of Award)	50th	75th	4.8th	0%
Growth in adjusted earnings per share over performance period (50% of Award)	15%	30%	-106.4% <sup>(1)</sup>	0%

(1) The growth in adjusted earnings per share was calculated after adjusting for the impact of IFRS 16.

## Scheme interests awarded during the financial year (audited information)

Directors	Scheme	Basis of award	Face value £000s	Percentage vesting at threshold performance	Number of shares	Performance period end date
David Squires <sup>(1)</sup>	LTIP	Annual award	675	25%	482,832	31 December 2022
Bindi Foyle <sup>(1)</sup>	LTIP	Annual award	451	25%	322,782	31 December 2022

(1) The face value of the awards represented 125% of the executive Directors' respective 2020 base salaries.

## Current position on outstanding LTIP awards (non-audited information)

The following table shows the current position against performance targets for LTIP awards outstanding from 2019 and 2020.

Performance condition	Conditional share awards granted in 2020			Conditional share awards granted in 2019		
	Target (25% vesting)	Maximum (100% vesting)	Actual to date	Target (25% vesting)	Maximum (100% vesting)	Actual to date
Total shareholder return ranking	50th percentile	75th percentile	5th percentile	50th percentile	75th percentile	6th percentile
Growth in adjusted earnings per share over performance period				15%	30%	-105.7% <sup>(1)</sup>
Adjusted EPS performance for the final Financial Year of the performance period	13.5p	16.5p	(0.84)p <sup>(2)</sup>			

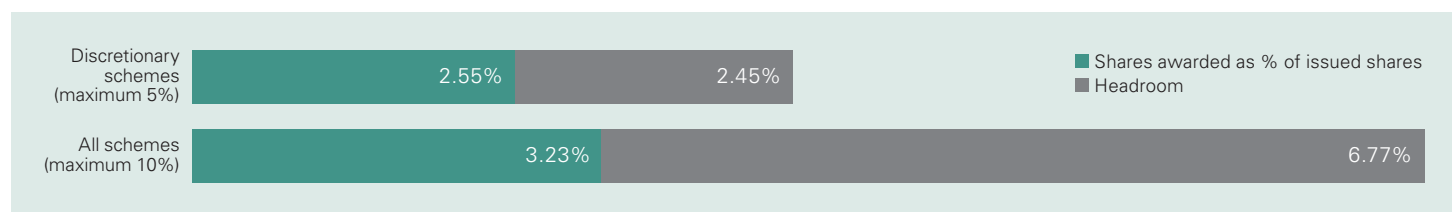
(1) Actual to date figure of -105.7% represents the change in the Adjusted EPS during the first two years of the three-year performance period for the 2019 LTIP award.

(2) Actual to date figure of (0.84)p represents the Adjusted EPS during the first year of the three-year performance period for the 2020 LTIP award.

To ensure a suitably broad peer group, the TSR comparator group applicable to LTIP awards from and including the 2018 awards adopted the FTSE 350 index, excluding sectors with limited direct relevance to Senior and those exhibiting high volatility. TSR is averaged over three months prior to the start and end of the performance period.

## Shareholder dilution

Percentage of issued shares



The Company complies with the dilution guidelines contained within The Investment Association Principles of Executive Remuneration.

At 31 December 2020, awards outstanding and shares issued in the previous 10 years under all share plans (the Senior plc 2005 Long-Term Incentive Plan (the 2005 LTIP), the Senior plc 2014 Long-Term Incentive Plan (the 2014 LTIP), the Restricted Share Award Plan and the 2006 Savings-Related Share Option Plan (the Sharesave Plan)) amounted to 3.23% of the issued ordinary share capital of the Company. At 31 December 2020, awards outstanding and shares issued in the previous 10 years under executive (discretionary) plans (the 2005 LTIP and 2014 LTIP) amounted to 2.55% of the issued ordinary share capital of the Company.

During 2020, all share awards were satisfied using market-purchased shares. The Remuneration Committee monitors the flow rates of the Company's share plans, in particular before new share awards are made, to ensure the flow rates remain within the Investment Association dilution guidelines.

## Statement of Directors' shareholding and share interests (audited information)

The Remuneration Committee encourages Directors to own shares in the Company and, in support of this policy, it expects executive Directors to retain at least 50% of the shares that vest under the LTIP and Enhanced SMIS deferred share awards, after allowing for tax liabilities, until a shareholding equivalent in value to 200% of base salary is built up. Included within David Squires' holding are 235,000 shares that he purchased.

The table below shows how each Director complies with this requirement. Shares are valued using the Company's closing share price on 31 December 2020 of 89.25p (31 December 2019 – 172.9p). No options under the Sharesave Plan were exercised by the executive Directors during the year.

	Number of shares required to be held (equivalent to 200% of basic salary at 31 December 2020)	Number of shares held (including unvested deferred shares net of tax) at 31 December 2020	Share ownership requirements met	Unvested awards, subject to performance conditions	Unvested awards, not subject to performance conditions	
				LTIP award <sup>(1)</sup>	Sharesave	Total deferred share award
Executive Directors						
David Squires	1,210,084	504,340	No – 41.7%	1,100,136	4,103	207,478
Bindi Foyle	808,964	200,156	No – 24.7%	734,986	7,352	133,577

(1) The minimum thresholds were not reached for the two performance conditions attached to David Squires' and Bindi Foyle's 2018 LTIP awards over 263,964 shares, and 176,778 shares respectively (included within their respective LTIP award figures above) and therefore these awards shall lapse in full in March 2021.

The interests of Directors have remained unchanged between the date of the review and the date of the signing of the Annual Report and Accounts.

# Remuneration Report: Annual Report on Remuneration continued

	Number of shares owned outright (including connected persons) at 1 January 2020	Shares vested during 2020 <sup>(1)</sup>	Shares retained from 2020 vested shares	Shares purchased during 2020	Number of shares owned outright (including connected persons) at 31 December 2020
<b>Executive Directors</b>					
David Squires	103,608	140,769	140,769	150,000	<b>394,377</b>
Bindi Foyle	69,338	75,068	60,023	–	<b>129,361</b>
<b>Non-executive Directors</b>					
Ian King	57,297	–	–	357,000	<b>414,297</b>
Celia Baxter	17,500	–	–	14,153	<b>31,653</b>
Susan Brennan	5,900	–	–	–	<b>5,900</b>
Giles Kerr	10,000	–	–	–	<b>10,000</b>
Rajiv Sharma	–	–	–	–	–
Mark Vernon <sup>(2)</sup>	18,200	–	–	–	–

(1) In 2020, the following gains were made by David Squires and Bindi Foyle: £196,795 and £69,843 respectively upon the vesting of their LTIP and Enhanced SMIS deferred awards. The gains were calculated by multiplying the number of shares that vested by Senior's closing mid share price on the vesting days of 6 March 2020 and 4 May 2020 of 139.8p and 58.4p respectively.

(2) Mark Vernon retired from the Board on 24 April 2020.

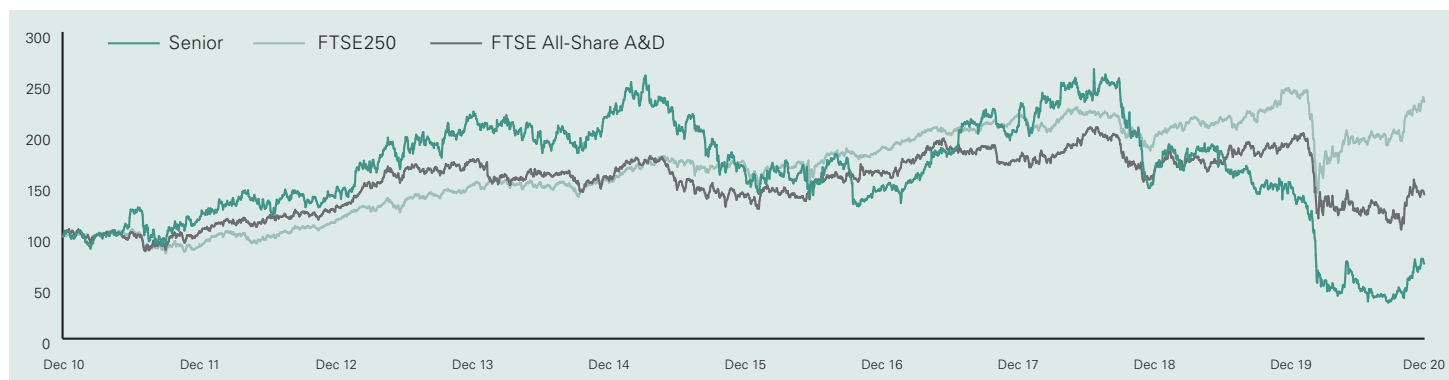
## Performance graph

### Share price performance

The closing middle market price of the shares at 31 December 2020 was 89.25p (2019 – 172.9p). During 2020, the shares traded in the range of 42.86p to 186.2p.

### Senior plc total shareholder return

The following TSR graph compares the total shareholder return of the Company's shares against the FTSE All-Share, Aerospace & Defence index, and the FTSE 250 Index over a ten-year period (where dividends are included gross of tax). This graph allows a comparison to be made against organisations facing broadly similar economic and market conditions as the Company.



## Remuneration of Group Chief Executive Officer

	2011	2012	2013	2014	2015 <sup>(1)</sup>	2016	2017	2018 <sup>(2)</sup>	2019 <sup>(4)</sup>	2020
CEO single figure of total remuneration (£000s) <sup>(3)</sup>	1,805	1,529	1,726	1,316	1,020	790	1,009	1,107	1,203	<b>917</b>
Annual variable element award rates against maximum opportunity (%)	100	92	65	54	14	31	79	75	58	<b>40</b>
Long-term incentive vesting rates against maximum opportunity (%)	100	100	100	91.8	21	0	0	0	28	<b>0</b>

(1) During 2015, Mark Rollins retired from the Board on 31 May 2015 and David Squires was appointed a Director on 1 May 2015. The CEO single figure of total remuneration includes the combined 2015 values for Mark Rollins and David Squires.

(2) The annual variable maximum opportunity increased from 105% to 125% in 2018.

(3) The prior year CEO single figure of total remuneration is re-stated to incorporate the actual value of the shares upon vesting in the year under review, whereas the figure shown in the prior year Annual Report was calculated using the average of the daily closing market value of the shares over the last three months of the prior year. In addition, the 2019 figure has been adjusted to include Dividend Equivalent values of £6,805, calculated using the average of the daily closing market value of the shares over the last three months of 2020 of 67.11p which had been previously omitted.



## Percentage change in remuneration of Directors

The table below shows how the percentage change in Directors' salary, benefits and bonus between 2019 and 2020 compares with the percentage change in the average of each of those components of pay for Senior plc employees. During 2020, the executive Directors, the Chairman and the non-executive Directors voluntarily reduced their salaries and fees by 20% for a three-month period in recognition of the disruption caused by the pandemic. The 2020 figures in the table below include the adjustment for the reduction in salaries and fees for the Directors and some Senior plc employees. Employees who joined or left in either year have been excluded to prevent distortion.

	Salary Percentage change	Taxable benefit and allowances Percentage change <sup>(2)</sup>	Bonus Percentage change
<b>Executive Directors</b>			
David Squires	-2.3%	-16.0%	-28.6
Bindi Foyle	-2.0%	-0.1%	-28.4
<b>Non-executive Directors</b>			
Ian King	-1.9%	—	—
Celia Baxter <sup>(1)</sup>	1.3%	—	—
Susan Brennan	-2.2%	—	—
Giles Kerr	-2.6%	—	—
Rajiv Sharma	-2.2%	—	—
<b>Senior plc Employees, excluding Directors</b>	-2.1%	2.6%	-30.1%

(1) Celia Baxter was appointed as Senior Independent Director in April 2019 and her fee was adjusted accordingly at that time.

(2) The decrease in David Squires' Taxable benefit and allowances figure mainly arose due to him moving away from using a company car in favour of taking a car allowance during 2020.

## CEO Pay Ratio narrative

The CEO Pay Ratio is calculated using Option B, by taking the gender pay gap data (based on Senior's largest UK employer, Senior UK Limited) and adding the data for Senior's two additional UK employing entities. For the purpose of making a valid comparison, furloughed employees and leavers were excluded. Using the same principles as the gender pay data, the best equivalents were identified, namely: the 25th, 50th and 75th percentile. The full-time equivalents pay and benefits figures for the year ending December 2020 were calculated, and then reviewed to ensure that the selected best equivalents were reasonably representative. Factors that contributed to the change in the CEO Pay Ratio from 2019 to 2020 included the Group Chief Executive Officer's temporary salary reduction during 2020, and the number of shopfloor employees who were excluded from the data due to furlough.

Year	Pay ratio			
	Method <sup>(1)</sup>	25th percentile	50th percentile	75th percentile
<b>2020</b>	<b>B</b>	<b>25 : 1</b>	<b>20 : 1</b>	<b>16 : 1</b>
2019 <sup>(2)</sup>	B	53 : 1	39 : 1	32 : 1

(1) Method B was selected as the most appropriate basis for selecting the 25th percentile, median and 75th percentile pay ratios because the Gender Pay Gap data was more readily available.

(2) The 2019 CEO pay ratios have been re-stated to reflect changes in the 2019 Single total figure of remuneration table, on page 79, as described in Note 4 to that table.

Year 2020	25th percentile	50th percentile	75th percentile
Base salary	£27,470	£34,002	£46,100
Total	£36,997	£44,888	£56,913

## Relative importance of spend on pay

The following table sets out the percentage change in profit, dividends and overall spend on pay in the financial year ended 31 December 2020 compared with the financial year ended 31 December 2019.

	2020 £m	2019 £m	Percentage change
Employee remuneration costs (excluding social security) <sup>(1)</sup>	225.6	286.0	-21.1%
Adjusted (loss)/ profit before tax	(6.2)	78.5	-107.9%
Dividends paid	—	31.2	-100%

(1) The 2019 Employee Remuneration costs include those of the following operations which were sold in 2019: Senior Flexonics Blois (February), Senior Flexonics São Paulo (September) and Senior Aerospace Absolute Manufacturing (October).

# Remuneration Report: Annual Report on Remuneration *continued*

## 2021 Remuneration (non-audited information)

An amended Remuneration Policy was approved by shareholders at the 2018 AGM. Further amendments to the Remuneration Policy to be proposed to shareholders at the AGM in April 2021 are shown on page 67.

### Salaries and fees for 2021

	2021 £	2020 £	Percentage change
<b>Executive Directors</b>			
David Squires	540,000	<b>540,000</b>	0.0%
Bindi Foyle	361,000	<b>361,000</b>	0.0%
<b>Non-executive Directors<sup>(1)</sup></b>			
Chairman	191,000	<b>191,000</b>	0.0%
Non-executive Directors	53,000	<b>53,000</b>	0.0%
Chair of Audit Committee	9,000	<b>9,000</b>	0.0%
Chair of Remuneration Committee	9,000	<b>9,000</b>	0.0%
Senior Independent Director	9,000	<b>9,000</b>	0.0%

(1) No additional fees are payable for Committee membership.

(2) During 2020, the executive Directors, the Chairman and the non-executive Directors voluntarily reduced their salaries and fees by 20% for a three-month period. The 2020 figures in the table above are stated prior to any adjustment for the reduction in salaries and fees.

### Weighting of annual bonus KPIs for 2021

The individual weightings of the KPIs for the executive Directors for the annual bonus are set out below.

	2021		2020	
	Maximum possible cash award	Enhanced SMIS – maximum share award	Maximum possible cash award	Enhanced SMIS – maximum share award
Free Cash Flow target – full year	33.33%	16.67%	<b>33.3%</b>	<b>16.67%</b>
Adjusted EPS target – full year internal target	50.00%	25.00%	<b>50.0%</b>	<b>25.0%</b>
Totals	83.3%	41.7%	<b>83.3%</b>	<b>41.7%</b>

The actual targets are currently considered commercially sensitive because of the information that this provides to the Company's competitors. Full disclosure of the 2021 targets will be disclosed in the 2021 Annual Report.

### LTIP Awards for 2021

The Company has consistently stated that its medium-term ROCE target is a minimum of 13.5% pre-tax, post IFRS 16 and that has not changed. The starting point for ROCE has been severely affected by the COVID-19 pandemic impact to Company profits and we have observed that meaningful improvements in end market dynamics are not expected until 2022, with Aerospace at least as challenging in 2021 as in 2020. The ROCE targets for 2021 have been set at a stretching level that takes account of the market conditions and the minimum medium-term target. The 2021 targets for TSR remain unchanged from previous years. The Adjusted EPS has been set in the usual fashion and will be stretching and challenging in the current circumstances. The Committee will annually review the targets to ensure that they remain challenging and stretching as the Company continues to rebuild as its strategy is implemented in recovering markets. In addition, the Committee shall review the targets (including those proposed for the 2021 LTIP awards set out below), to ensure the targets remain appropriate following completion of the disposal of Senior Aerospace Connecticut.

The thresholds for 2020 and 2021 are set out in the table below:

	2021			2020		
	Weighting (%)	Threshold (25% vesting)	Maximum (100% vesting)	Weighting (%)	Target (25% vesting)	Maximum (100% vesting)
Return on Capital Employed	33.33%	9.8%	11.0%	–	–	–
Total Shareholder Return ranking	33.33%	Median or higher	Upper quartile or higher	50%	Median or higher	Upper quartile or higher
Adjusted earnings per share	33.33%	5.67p	7.56p	50%	13.5p	16.5p

The ROCE targets have been determined following consideration of the Group's pre-tax weighted cost of capital. Absolute EPS targets, rather than percentage EPS growth targets, has been used for the 2021 LTIP awards as the Company made a loss in 2020. The TSR comparator group applicable to the 2021 LTIP awards will be the same as the comparator group applicable to the 2020 LTIP awards, namely, the FTSE 350 excluding sectors with limited direct relevance to Senior and those exhibiting high volatility.

### Approval of the Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board on 5 March 2021.

Signed on behalf of the Board

**Celia Baxter**

**Chair of the Remuneration Committee**

5 March 2021

# Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law, the Directors are required to prepare the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Directors have elected to prepare the Parent Company Financial Statements in accordance with United Kingdom Accounting Standards, 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 Group and Parent Company and of the Group's profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant, reliable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- for the Parent Company Financial Statements, state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements;
- assess the Group and Parent 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 Group or the Parent 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 Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006;
- such internal control as they determine is necessary to enable the preparation of Group and Parent Company 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 Group and to prevent and detect fraud and other irregularities; and
- the maintenance and integrity of the corporate and financial information included on the Group and Parent Company's website.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

## Responsibility statement of the Directors in respect of the Annual Report and Financial Statements

We confirm that to the best of our knowledge:

1. the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By Order of the Board

**David Squires**  
Group Chief Executive Officer  
5 March 2021

**Bindi Foyle**  
Group Finance Director  
5 March 2021

# Independent auditor's report to the members of Senior plc

## 1. Our opinion is unmodified

We have audited the Financial Statements of Senior plc ("the Company") for the year ended 31 December 2020 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, Consolidated Cash Flow Statement and the related Notes, including the accounting policies in Note 2.

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation to the extent applicable.

### 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders at the Annual General Meeting on 21 April 2017. The period of total uninterrupted engagement is for the four financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

### Overview

**Materiality:** Group Financial Statements as a whole  
£2.2m (2019: £3.2m)  
5% (2019: 5%) of normalised Group profit before tax

### Coverage

- 87% (2019: 92%) of Total losses/profit before tax
- 76% (2019: 85%) of Group revenue
- 84% (2019: 91%) of Group total assets

### Key audit matters

vs 2019

#### Recurring risks

- Provision for uncertain tax positions
- Recoverability of the Parent Company's investment in its subsidiary

#### Emerging risks

- Going concern
- Impairment of goodwill - Aerostructures CGU
- Restructuring costs excluded from adjusted profit

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<b>Going Concern including the impact of COVID-19</b> Refer to the Audit Committee Report in the Governance section on pages 60 to 65 and Note 2 (significant accounting policies)	<b>Disclosure quality:</b> The Financial Statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.  That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the Financial Statements.  Given the significant impact of the COVID-19 pandemic, the risks most likely to adversely affect the Group's and Company's available resources over the period were:	We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the directors' sensitivities over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively.  Our procedures also included:
	<ul style="list-style-type: none"> <li>The uncertainty of the impact of COVID-19, with future range of possible effects such as further waves of global infections currently unknown to performance, given the rapidly evolving nature; and</li> </ul>	<ul style="list-style-type: none"> <li><b>Sensitivity analysis:</b> We assessed the downside sensitivities to ensure that these represented severe but plausible scenarios based on our knowledge of the business, the associated risk exposure and we considered the most recent trading results to form a holistic view of the Group. We assessed those risks and challenged whether the risks applied reflected the ongoing effects from COVID-19 based on the impacts experienced by the Group during 2020.</li> </ul>



## 2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
<b>Going Concern including the impact of COVID-19</b> continued	<b>Disclosure quality</b> continued: <ul style="list-style-type: none"> <li>The ability of the group to respond and adapt to structural changes in the industry as a result of COVID-19.</li> </ul> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	<ul style="list-style-type: none"> <li><b>Historical comparison:</b> We assessed the reasonableness of the cash flow projections by considering the historical accuracy of the previous forecasts.</li> <li><b>Funding assessment:</b> We considered the Group's loan facilities, financing terms and loan covenants and compared them to the directors' forecasts and assumptions for ongoing covenant compliance and available headroom.</li> <li>We inspected the terms of the covenant relaxations obtained by the Company to understand the terms including any restrictions in the use of funds. We re-performed calculations, for 30 June 2021, 1 October 2021, 31 December 2021, and 30 June 2022 prepared to assess compliance with the key financial covenant and tested for mathematical accuracy.</li> <li>We considered the adjustments made in the EBITDA for the covenant calculations, considering the appropriateness compared to the loan agreements.</li> <li><b>Assessing transparency:</b> considering whether the going concern disclosure in Note 2 to the Financial Statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies.</li> </ul> <p><b>Our results:</b></p> <p>We found the going concern disclosure in Note 2 without any material uncertainty to be acceptable (2019: acceptable).</p>
<b>Impairment of goodwill – Aerostructures CGU</b> As set out in the Financial Review on page 45, an impairment charge of £110.5m was recorded in relation to the Aerospace Structures cash generating unit (included within the Aerospace cash generating unit as at 31 December 2020).  Refer to the Audit Committee report on pages 60 to 65.	<b>Subjective estimates:</b> COVID-19 has had a significant impact on the key industries serviced by the Group and on the company's market capitalisation. As a result, Management identified an impairment trigger in relation to goodwill and performed a full impairment review as at 30 June 2020 in relation to all the CGUs, resulting in an impairment of goodwill of £110.5m in the Aerostructures CGU.  COVID-19 has introduced unprecedented economic uncertainties and has led to increased judgement in forecasting future financial performance and valuations. The high level of uncertainty as to how the pandemic might evolve and how the end markets may respond and recover renders precise forecasting challenging. In addition, at 30 June 2020 the Group were also implementing a Group-wide restructuring plan, the benefits of which were not capable of inclusion in the estimate of value in use in accordance with the relevant accounting standard, and therefore the recoverable amount was estimated by the Group based on FVLCD. As a result, there is a higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the Group's estimate of recoverable amount.  There is a risk that the Board did not appropriately estimate the recoverable amount of goodwill and resulting impairment at the interim.	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li><b>Benchmarking assumptions:</b> We assessed the assumptions applied to determine the FVLCD by comparison with external market data regarding earnings multiples and selling costs.</li> <li><b>Sensitivity analysis:</b> We performed sensitivity analyses for the key inputs and assumptions.</li> <li><b>Assessing transparency:</b> We evaluated the adequacy of the disclosures related to the estimation uncertainty, judgements made and assumptions in relation to the estimate of the recoverable amount of the Aerostructures CGU assessing whether the sensitivity disclosures provided enough detail and proportionate information to inform a reader of the accounts. We also assessed whether the disclosures adequately explained the events and circumstances that led to the impairment charge in 2020.</li> </ul> <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p><b>Our results:</b></p> <ul style="list-style-type: none"> <li>We found the Aerostructures CGU goodwill impairment charge to be acceptable.</li> </ul>

# Independent auditor's report to the members of Senior plc **continued**

## 2. Key audit matters: our assessment of risks of material misstatement **continued**

	The risk	Our response
<b>Impairment of goodwill – Aerostructures CGU</b> continued	<p><b>Subjective estimates</b> continued: The effect of these matters is that, we determined that the impairment of goodwill recognised for the Aerostructures CGU has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount.</p> <p><b>Disclosure quality:</b> There is a risk that the disclosures presented are not sufficient to explain the key assumptions that the Group made when estimating the recoverable amount at 30 June 2020. The Financial Statements (Note 13) disclose the sensitivity estimated by the Group.</p> <p>In addition, there is a risk that the disclosures do not adequately explain the events and circumstances that led to the impairment charge recorded in 2020.</p>	<p><b>Our results</b> continued:</p> <ul style="list-style-type: none"> <li>We found the Group's disclosures to be acceptable (2019 finding: acceptable) in their description of the assumptions and estimates made by the Group, the sensitivity of the estimate of the recoverable amount of goodwill at 30 June 2020 to changes in those assumptions and estimates and the events that led to the impairment of the Aerostructures CGU.</li> </ul>
<p><b>Restructuring costs excluded from adjusted profit</b> The group has presented pre tax restructuring costs of £39.0m for the year ended 31 December 2020 (2019: pre tax restructuring costs of £12.1m)</p> <p>Refer to page 64 (Audit Committee Report), page 108 (accounting policy) and page 109 (financial disclosures).</p>	<p><b>Presentation appropriateness:</b> The Group presents separately adjusted measures including operating profit and profit before tax as a Note to the consolidated income statement and in Note 9. The Company's financial headlines and commentary refers to adjusted measures as well as those derived on an adopted IFRS basis. The reasoning behind this presentation is set out in Notes to the Financial Statements.</p> <p>Items excluded from adjusted profit are not defined by IFRSs and therefore a policy decision is required by the Directors to identify such items and to maintain the comparability of results with previous years in accordance with the Group's accounting policy, and there is a risk of management bias. Failure to disclose clearly the nature and impact of items excluded from adjusted profit may distort the reader's view of the financial result in the year.</p> <p>COVID-19 has introduced unparalleled economic uncertainties with corresponding impacts on the Group's performance in 2020 and as a result there have been property, plant and equipment impairments and inventory write-downs. In response the Board has accelerated certain aspects of the planned restructuring activities which has primarily included headcount reductions.</p> <p>There is a risk that restructuring charges excluded from the adjusted measures are inappropriate and not in accordance with the accounting policy approved by the Board.</p> <p>The key covenants, relevant for the Company's compliance with the terms of the debt and loans, are based on EBITDA adjusted for items excluded from reported profits including restructuring charges. This introduces a risk of management override and bias to ensure compliance is achieved.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li><b>Assessing principles:</b> We have assessed the Group's accounting policies and principles for recognising elements of income and expenditure as adjustments to GAAP measures reported. We have assessed against the applicable guidelines including the FRC publications on the presentation of alternative performance measures. This included the publications issued by the FRC during 2020 in response to COVID-19 with guidance provided on how listed entities should use the narrative to explain the effects of the pandemic on the Group's activities and performance in 2020</li> <li><b>Assessing application:</b> We have challenged the Directors over the inclusion of costs and expenses within the restructuring categorisation against the Group's policy, with reference to our expectations based on our knowledge of the business and the activities to which the charges relate;</li> <li><b>Test of detail:</b> We assessed, on a sample basis, the evidence supporting items presented as adjusted restructuring charges, considering their nature;</li> <li><b>Assessing consistency:</b> We assessed the consistency of the items adjusted year on year and in accordance with the Group's accounting policies; and</li> <li><b>Assessing transparency:</b> We assessed the Group's disclosures for restructuring costs in the narrative sections of the annual report in light of the ESMA guidance on the reporting of Alternative Performance Measures. We also assessed that amounts classified as restructuring are described within the Financial Statements with reference to either their nature or function as appropriate.</li> </ul> <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p>

## 2. Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
<b>Restructuring costs excluded from adjusted profit</b> continued	<b>Disclosure quality:</b> The disclosures need to include relevant and appropriate explanation of the items adjusted to ensure these are transparent and understandable and can be reconciled easily back to equivalent reported GAAP measures. There is a risk that the information provided is unclear and does not provide enough detail on the accounting policy approved by the Board, and in the case of restructuring does not set out the boundaries applied to determine which costs should be excluded from the reported measures.	<b>Our results:</b> <ul style="list-style-type: none"> <li>We found the presentation of restructuring costs to be acceptable (2019 result: acceptable).</li> </ul>
<b>Provision for uncertain tax positions</b> The Group recorded a provision for uncertain tax position totalling £19.5m as at 31 December 2020 (2019: £22.5m).  Refer to the Audit Committee Report in the Governance section on pages 60 to 65, Note 2 (significant accounting policies) and Note 21 (tax balance sheet).	<b>Subjective estimates:</b> The Group operates in a number of different tax jurisdictions and judgement is required to determine tax provisions across the Group, principally in the US.  Determination of provisions for tax uncertainties is subject to judgement in assessing the probable outflow of taxes that will be borne by the entity relating to matters where the relevant tax authority's final assessment of the tax treatment is uncertain.  The tax risk provisions held in connection with transfer pricing, including inter-company royalty charges, is a key risk due to its size and the subjective nature of the arm's length basis to which the pricing should adhere to.  The effect of these matters is that, as part of our risk assessment, we determined that the provision for uncertain tax positions has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole. The Financial Statements (Note 21) disclose the range estimated by the Group.	Our procedures included: <ul style="list-style-type: none"> <li><b>Our tax expertise:</b> We have used our own tax specialists to assess the Group's tax positions, the Company's correspondence with the relevant tax authorities, and to analyse and challenge the assumptions used to determine provisions for tax uncertainties. This is based on our knowledge and experiences of the application of the tax legislation, and our understanding of the production activities at the sites where royalty charges are applied. We challenged Management on the adequacy of the Group's provision for transfer pricing risks particularly arising in the US.</li> <li><b>Assessing transparency:</b> We assessed the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.</li> </ul> We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. <b>Our results:</b> <ul style="list-style-type: none"> <li>We found the level of provisions for tax uncertainties to be acceptable. (2019 result – Acceptable.)</li> </ul>
<b>Recoverability of the Parent Company's investment in its subsidiary</b> The Parent Company recorded an investment carrying value of £259.9m as at 31 December 2020 (2019: £259.9m).  Refer to Note 37 (accounting policies) and Note 39 (financial disclosures) and Parent Company Balance Sheet.	<b>Low risk, high value:</b> The carrying amount of the Parent Company's investment in its subsidiary represents 63% of its total assets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to its materiality in the context of the Parent Company Financial Statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.	Our procedures included: <ul style="list-style-type: none"> <li><b>Tests of detail:</b> We compared the carrying amount of the investment with the relevant subsidiary's draft statutory balance sheet to identify whether its net assets, being an approximation of its minimum recoverable amount, was in excess of its carrying amount and assessed whether the subsidiary has historically been profit-making; and</li> <li><b>Assessing subsidiary audits:</b> We assessed the work performed by the subsidiary audit teams on all of those subsidiaries and considered the results of that work, on those subsidiaries' profits and net assets.</li> </ul> We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. <b>Our results:</b> <ul style="list-style-type: none"> <li>We found the company's conclusion that there is no impairment of its investment in its subsidiary to be acceptable. (2019 result – acceptable.)</li> </ul>

We continue to perform procedures over the carrying value of work-in-progress and finished goods. However, following a reassessment of the risk due to continued low levels of write-downs of work-in-progress and finished goods, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

# Independent auditor's report to the members of Senior plc *continued*

## 3. Our application of materiality and an overview of the scope of our audit

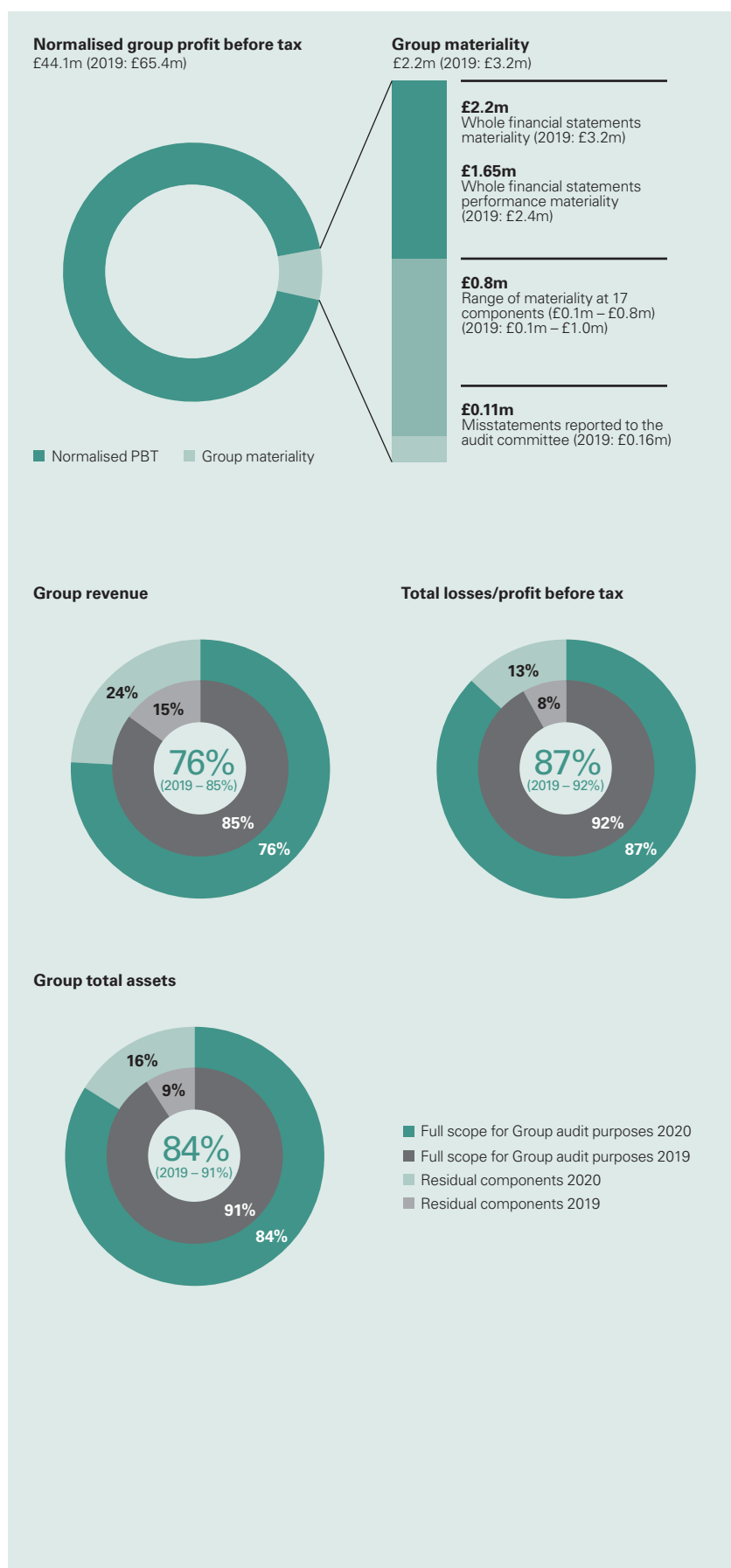
Materiality for the Group Financial Statements as a whole was set at £2.2m (2019: £3.2m), determined with reference to a benchmark of normalised Group profit before tax (PBT) of £44.1m (2019: £65.4m), of which it represents 5% (2019: 5%).

We normalised PBT by adding back adjustments that do not represent the normal, continuing operations of the Group and additionally in 2020 by averaging over 5 years. In 2020 the items we adjusted for were impairment and write-off charges against goodwill of £134.3m, disposal activities of £4.6m and restructuring of £39.0m (Note 9). In 2019 the items we adjusted for were loss on disposal of £22.0m, restructuring of £12.1m and class action legal claim of £2.6m (Note 9).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the Financial Statements as a whole.

Performance materiality was set at 75% (2019: 75%) of materiality for the Financial Statements as a whole, which equates to £1.65m (2019: £2.4m) for the group and £1.5m, (2019: £2.175m) for the Parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

Materiality for the Parent Company Financial Statements as a whole was set at £2.0m (2019: £2.9m), by reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to total Company assets and represents 0.5% of the Company's total assets (2019: 0.7%).





### 3. Our application of materiality and an overview of the scope of our audit *continued*

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £110,000 (2019: £162,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 31 (2019: 31) reporting components (excluding the Parent Company), we subjected 17 (2019: 22) to full scope audits for group purposes.

The components within the scope of our work, including the Parent Company, accounted for the percentages illustrated on the previous page.

The remaining 24% (2019: 15%) of total group revenue, 13% (2019: 8%) of total profits and losses that made up Group profit before tax and 16% (2019: 9%) of total group assets is represented by 14 (2019: 9) of reporting components, none of which individually represented more than 5% (2019: 5%) of any of total group revenue, total profits and losses that made up Group profit before tax or total group assets. For these components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.1m to £0.8m (2019: £0.1m to £1.0m) (excluding the component materiality for Parent Company which was set at £2.0m (2019: £2.9m), having regard to the mix of size and risk profile of the Group across the components. The work on 10 of the 17 components (2019: 13 of the 22 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team. The group team, with the assistance of the component auditors where appropriate, performed procedures on the items excluded from normalised Group profit before tax.

Telephone conference meetings and virtual site visits were held with component auditors throughout the audit. At these virtual meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

### 4. Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and 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 their 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").

An explanation of how we evaluated Management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in Note 2 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties

that may cast significant doubt over the Group and Company's use of that basis for the going concern period; and

- the related statement under the Listing Rules set out on page 46 is materially consistent with the Financial Statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

### 5. Fraud and breaches of laws and regulations – ability to detect

#### Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for Management and Directors including the long-term incentive plan for Management remuneration
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and market consensus, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition. In particular the risk that revenue is recorded in the wrong period and the risk that Group and component Management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as impairment, provisions for uncertain tax provisions and pension assumptions.

We also identified a fraud risk related to the presentation of restructuring costs in response to possible pressures to meet profit targets and ensure covenant compliance.

Further detail in respect of the presentation of restructuring costs items is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance Management, those posted and approved by the same user, and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

# Independent auditor's report to the members of Senior plc *continued*

## 5. Fraud and breaches of laws and regulations – ability to detect *continued*

### Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Financial Statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the Financial Statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the Financial Statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension scheme legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Financial Statements, for instance through the imposition of fines or litigation or the loss of some of the Group's subsidiaries' license to operate. We identified the following areas as those most likely to have such an effect: health and safety, environmental laws and regulations, anti-bribery and corruption, employment law and export laws and regulations, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other Management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## 6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

### Strategic report and directors' report

Based solely on our work on the other information:

- 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.

### Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the Viability Statement, and the Financial Statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement on page 46 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- The Risks and uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on page 46 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the Financial Statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our Financial Statements audit. 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 anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

## 6. We have nothing to report on the other information in the Annual Report *continued*

### Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the Financial Statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the Financial Statements and our audit knowledge:

- the directors' statement that they consider that the annual report and Financial Statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the Financial Statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

## 7. We have nothing to report on the other 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited 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.

## 8. Respective responsibilities

### Directors' responsibilities

As explained more fully in their statement set out on page 85, the directors are responsible for: the preparation of the Financial Statements including 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 Group and Parent 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 Group or the Parent 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](http://www.frc.org.uk/auditorsresponsibilities).

## 9. 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  
15 Canada Square, London, E14 5GL  
5 March 2021

# Consolidated Income Statement

For the year ended 31 December 2020

	Notes	Year ended 2020 £m	Year ended 2019 £m
Revenue	3	<b>733.6</b>	1,110.7
Trading (loss)/profit		<b>(177.5)</b>	61.2
Share of joint venture profit	15	<b>0.2</b>	0.4
Operating (loss)/profit <sup>(1)</sup>	5	<b>(177.3)</b>	61.6
Investment income	7	<b>1.1</b>	0.9
Finance costs	8	<b>(11.0)</b>	(11.8)
Disposal activities	28	<b>(4.6)</b>	(22.0)
(Loss)/profit before tax <sup>(2)</sup>		<b>(191.8)</b>	28.7
Tax credit	10	<b>33.3</b>	0.5
<b>(Loss)/profit for the period</b>		<b>(158.5)</b>	29.2
Attributable to:			
Equity holders of the parent		<b>(158.5)</b>	29.2
(Loss)/earnings per share			
Basic <sup>(3)</sup>	12	<b>(38.20)p</b>	7.04p
Diluted <sup>(4)</sup>	12	<b>(38.20)p</b>	7.01p
<sup>(1)</sup> Adjusted operating profit	9	<b>3.7</b>	89.4
<sup>(2)</sup> Adjusted (loss)/profit before tax	9	<b>(6.2)</b>	78.5
<sup>(3)</sup> Adjusted (loss)/earnings per share	12	<b>(0.84)p</b>	16.17p
<sup>(4)</sup> Adjusted and diluted (loss)/earnings per share	12	<b>(0.84)p</b>	16.10p



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Notes	Year ended 2020 £m	Year ended 2019 £m
(Loss)/profit for the period		<b>(158.5)</b>	29.2
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Gains on foreign exchange contracts – cash flow hedges during the period		<b>2.0</b>	7.2
Reclassification adjustments for losses/(profits) included in profit		<b>0.6</b>	(1.0)
Gains on foreign exchange contracts – cash flow hedges	28	<b>2.6</b>	6.2
Foreign exchange loss/(gain) recycled to the Income Statement on restructuring (business closures) and disposal activities	28	<b>0.5</b>	(3.0)
Exchange differences on translation of overseas operations	28	<b>(3.6)</b>	(11.5)
Tax relating to items that may be reclassified	10	<b>(0.5)</b>	(1.2)
		<b>(1.0)</b>	(9.5)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension schemes	34	<b>(11.4)</b>	11.1
Tax relating to items that will not be reclassified	10	<b>1.6</b>	(2.1)
		<b>(9.8)</b>	9.0
Other comprehensive (expense)/income for the period, net of tax		<b>(10.8)</b>	(0.5)
<b>Total comprehensive (expense)/income for the period</b>		<b>(169.3)</b>	28.7
Attributable to:			
Equity holders of the parent		<b>(169.3)</b>	28.7

# Consolidated Balance Sheet

As at 31 December 2020

	Notes	Year ended 2020 £m	Year ended 2019 £m
<b>Non-current assets</b>			
Goodwill	13	165.0	297.1
Other intangible assets	14	4.8	12.9
Investment in joint venture	15	3.6	3.3
Property, plant and equipment	16	330.5	369.3
Deferred tax assets	21	4.7	1.7
Retirement benefits	34	46.5	48.9
Trade and other receivables	18	0.1	0.5
<b>Total non-current assets</b>		<b>555.2</b>	<b>733.7</b>
<b>Current assets</b>			
Inventories	17	147.6	169.3
Current tax receivables	21	3.0	3.5
Trade and other receivables	18	85.3	133.6
Cash and bank balances	32c	23.6	15.8
<b>Total current assets</b>		<b>259.5</b>	<b>322.2</b>
<b>Total assets</b>		<b>814.7</b>	<b>1,055.9</b>
<b>Current liabilities</b>			
Trade and other payables	23	126.1	157.3
Current tax liabilities	21	19.8	26.6
Lease liabilities	22	0.5	0.2
Bank overdrafts and loans	19	0.4	15.7
Provisions	24	23.5	19.9
<b>Total current liabilities</b>		<b>170.3</b>	<b>219.7</b>
<b>Non-current liabilities</b>			
Bank and other loans	19	152.6	146.0
Retirement benefits	34	10.9	7.8
Deferred tax liabilities	21	5.5	32.8
Lease liabilities	22	76.0	83.5
Provisions	24	2.3	1.6
Others		3.8	4.9
<b>Total non-current liabilities</b>		<b>251.1</b>	<b>276.6</b>
<b>Total liabilities</b>		<b>421.4</b>	<b>496.3</b>
<b>Net assets</b>		<b>393.3</b>	<b>559.6</b>
<b>Equity</b>			
Issued share capital	25	41.9	41.9
Share premium account	26	14.8	14.8
Equity reserve	27	5.1	5.5
Hedging and translation reserve	28	37.9	38.9
Retained earnings	29	305.1	472.5
Own shares	30	(11.5)	(14.0)
<b>Equity attributable to equity holders of the parent</b>		<b>393.3</b>	<b>559.6</b>
<b>Total equity</b>		<b>393.3</b>	<b>559.6</b>

The Financial Statements of Senior plc (registered number 282772) were approved by the Board of Directors and authorised for issue on 5 March 2021. They were signed on its behalf by:

**David Squires**  
Director

**Bindi Foyle**  
Director

# Consolidated Statement of Changes In Equity

For the year ended 31 December 2020

All equity is attributable to equity holders of the parent								
Notes	Issued share capital £m	Share premium account £m	Equity reserve £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
<b>Balance at 1 January 2019</b>	41.9	14.8	5.7	(46.7)	95.1	469.0	(8.0)	571.8
Profit for the year 2019	–	–	–	–	–	29.2	–	29.2
Gains on foreign exchange contracts – cash flow hedges	28	–	–	6.2	–	–	–	6.2
Foreign exchange loss/(gain) recycled to the Income Statement on disposal activities	28	–	–	1.5	(4.5)	–	–	(3.0)
Exchange differences on translation of overseas operations	28	–	–	–	(11.5)	–	–	(11.5)
Actuarial gains on defined benefit pension schemes	34	–	–	–	–	11.1	–	11.1
Tax relating to components of other comprehensive income	10	–	–	(1.2)	–	(2.1)	–	(3.3)
<b>Total comprehensive income for the period</b>	–	–	–	6.5	(16.0)	38.2	–	28.7
IFRIC 23 opening balance adjustment	–	–	–	–	–	(4.8)	–	(4.8)
Share-based payment charge	33	–	1.8	–	–	–	–	1.8
Tax relating to share-based payments	–	–	–	–	–	(0.4)	–	(0.4)
Purchase of shares held by employee benefit trust	30	–	–	–	–	–	(6.3)	(6.3)
Use of shares held by employee benefit trust	30	–	–	–	–	(0.3)	0.3	–
Transfer to retained earnings	29	–	(2.0)	–	–	2.0	–	–
Dividends paid	11	–	–	–	–	(31.2)	–	(31.2)
<b>Balance at 31 December 2019</b>	41.9	14.8	5.5	(40.2)	79.1	472.5	(14.0)	559.6
Loss for the year 2020	–	–	–	–	–	(158.5)	–	(158.5)
Gains on foreign exchange contracts – cash flow hedges	28	–	–	2.6	–	–	–	2.6
Foreign exchange loss/(gain) recycled to the Income Statement on restructuring (business closures)	28	–	–	0.9	(0.4)	–	–	0.5
Exchange differences on translation of overseas operations	28	–	–	–	(3.6)	–	–	(3.6)
Actuarial losses on defined benefit pension schemes	34	–	–	–	–	(11.4)	–	(11.4)
Tax relating to components of other comprehensive income	10	–	–	(0.5)	–	1.6	–	1.1
<b>Total comprehensive income/(expense) for the period</b>	–	–	–	3.0	(4.0)	(168.3)	–	(169.3)
Share-based payment charge	33	–	3.0	–	–	–	–	3.0
Tax relating to share-based payments	–	–	–	–	–	–	–	–
Purchase of shares held by employee benefit trust	30	–	–	–	–	–	–	–
Use of shares held by employee benefit trust	30	–	–	–	–	(2.5)	2.5	–
Transfer to retained earnings	29	–	(3.4)	–	–	3.4	–	–
Dividends paid	11	–	–	–	–	–	–	–
<b>Balance at 31 December 2020</b>	41.9	14.8	5.1	(37.2)	75.1	305.1	(11.5)	393.3

# Consolidated Cash Flow Statement

For the year ended 31 December 2020

	Notes	Year ended 2020 £m	Year ended 2019 £m
<b>Net cash from operating activities</b>	32a	<b>48.9</b>	115.9
<b>Investing activities</b>			
Interest received		<b>0.2</b>	0.2
Proceeds on disposal of property, plant and equipment		<b>0.5</b>	0.7
Purchases of property, plant and equipment	16	<b>(25.2)</b>	(63.0)
Purchases of intangible assets	14	<b>(1.6)</b>	(1.8)
Proceeds on disposal activities net of cash balances	31	<b>0.4</b>	(4.8)
<b>Net cash used in investing activities</b>		<b>(25.7)</b>	(68.7)
<b>Financing activities</b>			
Dividends paid	11	–	(31.2)
New loans		<b>135.6</b>	62.4
Repayment of borrowings		<b>(142.8)</b>	(65.6)
Repayment of lease liabilities		<b>(7.9)</b>	(7.8)
Purchase of shares held by employee benefit trust		–	(6.3)
<b>Net cash used in financing activities</b>		<b>(15.1)</b>	(48.5)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>8.1</b>	(1.3)
<b>Cash and cash equivalents at beginning of period</b>		<b>15.1</b>	17.0
Effect of foreign exchange rate changes		–	(0.6)
<b>Cash and cash equivalents at end of period</b>	32c	<b>23.2</b>	15.1



# Notes to the Consolidated Financial Statements

## 1. General information

Senior plc is a Company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the inside back cover. The nature of the Group's operations and its principal activities are set out in Note 3 and on pages 1 to 46.

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These Financial Statements are presented in Pounds Sterling, which is the Company's functional and the Group's presentation currency.

## 2. Significant accounting policies

### Basis of accounting

These Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. They have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and retirement benefit costs measured in accordance with IAS 19.

### Going concern

In determining the appropriate basis of preparation of the Financial Statements for the year ended 31 December 2020, the Directors are required to consider whether the Group and Parent Company can continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of these Financial Statements (the "going concern period").

The Board has applied a robust process to assess the resilience of the forecast out-turns. This assessment included applying severe but plausible downside risks as set out in the Viability Statement on page 46. To address these risks the Board has considered mitigating factors that could be employed that would address the impact and provide options to the Group and Parent Company.

The assessment has considered the Group's existing debt levels, committed funding and available liquidity (see Viability Statement on page 46). The Group's committed facilities are subject to compliance with covenant requirements including a requirement for the ratio of net debt to EBITDA to be less than 3.0x or 3.5x. In addition, all borrowing facilities contain the requirement for EBITDA interest cover (the number of times interest is covered by the Group's EBITDA) to be in excess of 3.5x (see Note 20 for further details).

To provide financial flexibility and to respond to the impact of COVID-19, which impacted the end markets the Group serves, in 2020 the Board agreed appropriate covenant relaxations (see Note 20). These were in relation to the December 2020, June 2021 and December 2021 measurement dates, as well as an additional September 2021 testing period (measured on 1 October 2021).

Under a severe but plausible scenario, and with mitigations applied, there is sufficient liquidity and sufficient headroom to ensure compliance with all covenants throughout the going concern period.

Based on the above robust assessment the Board has concluded that the Group and Company will continue to have adequate financial resources to realise their assets and discharge their liabilities as they all due over the going concern period. Accordingly, the Directors have formed the judgment that it is appropriate to prepare the Financial Statements on the going concern basis.

### Changes in accounting policies

At the date of authorisation of these Financial Statements, there are no relevant and material new standards, amendments to standards or interpretations which are effective for the year ended 31 December 2020.

### Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of Senior plc and the entities controlled by it (its subsidiaries) made up to 31 December 2020. Control is achieved when Senior plc has the power to govern the financial and operating policies of an invested entity so as to obtain benefits from its activities.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred for each acquisition is the aggregate of the fair values (at the date of exchange) of assets transferred, liabilities incurred or assumed, and equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The results of joint ventures are accounted for using the equity accounting method.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Goodwill

Goodwill arising on consolidation, which was acquired in a business combination, is measured as the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill is recognised as an asset and allocated, at acquisition, to the group of cash-generating units (CGU groups) that are expected to benefit from that business combination. If the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree is less than the fair value of the net assets acquired (i.e. bargain purchase), the difference is credited to the Consolidated Income Statement in the period of acquisition.

CGU groups to which goodwill has been allocated are tested for impairment at least annually and reviewed for indicators of impairment at the Balance sheet date. If impairment indicators exist, the individual assets within the CGUs, and the individual CGUs excluding goodwill, are tested for impairment before the CGU group is tested for impairment. Any impairment is recognised immediately through the Consolidated Income Statement and is not subsequently reversed. The determination of the recoverable amount of the CGU group is disclosed in the Notes to the Financial Statements (Note 13). If the recoverable amount of the CGU group is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU group and then to the other assets of the CGU group pro rata on the basis of the carrying amount of each asset in the CGU group.

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

Goodwill acquired in a business combination prior to the date of transition to IFRS has been retained at the previous UK GAAP amount subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

# Notes to the Consolidated Financial Statements continued

## 2. Significant accounting policies continued

### Revenue recognition

The Group 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.

### Interest

Interest receivable/payable is credited/charged to the Consolidated Income Statement using the effective interest method.

### Leasing

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The assessment of control includes whether the Group has a right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use and the right to direct the use of the asset.

As a lessee, the Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjustment for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle or restore the underlying asset, less any lease incentives received.

Lease payments comprise fixed payments and variable lease payments based on an index or rate. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease term includes optional extensions or terminations which are reasonably certain to be exercised by the Group. These optional terms are reassessed periodically. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property, plant and equipment. Periodically the right-of-use asset is reduced for impairment, if necessary, as well as re-measurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method, which is initially equal to the present value of lease payments that are not paid at the commencement date, discounted using an incremental borrowing rate determined on a lease portfolio basis. The lease liability is re-measured either as a modification or reassessment. Modification occurs where there is a change in terms, such as rental payments, which did not form part of the original terms of the contract. In this case, the lease liability is re-measured using the revised terms and a revised incremental borrowing rate at the modification date. Reassessment occurs where there are changes within the scope of the original terms of the contract, such as rental payments changes with

reference to an index. For reassessment changes, the lease liability is re-measured in the same way as for a modification, except for the incremental borrowing rate, which is not changed from the original commencement date of the contract.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases which have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, several indicators are assessed, such as the present value of the lease payments amounting to at least substantially all of the fair value of the asset. When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. The Group assesses the classification of the sub-lease with reference to the right-of-use asset arising from the head lease. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

### Foreign currencies

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Gains and losses arising on retranslation are included in profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity, subject to meeting the requirements under IAS 21.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward exchange contracts (see section below on derivative financial instruments and hedging for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange rate differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate on the relevant Balance Sheet date.

The exchange rates for the major currencies applied in the translation of results were as follows:

	Average rates 2020	Average rates 2019	Year-end rates 2020	Year-end rates 2019
US Dollar	1.29	1.28	1.37	1.33

### Government grants

Government grants received for items of a revenue nature are recognised as income over the period necessary to match them with the related costs, which are deducted in reporting the related expense and presented net of the costs to which they relate. The Group recognises a COVID-19 grant when it has reasonable assurance that it will comply with the relevant conditions and the grant will be received. If the conditions are met, then the Group recognises income in the profit or loss on a systematic basis and in line with its recognition of the expenses that the grants are intended to compensate.

Government grants relating to investment in property, plant and equipment are deducted from the initial carrying value of the related capital asset.

## 2. Significant accounting policies continued

### Retirement benefit costs

Payments to defined contribution retirement plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit plans are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement plan.

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Method, with full actuarial valuations being carried out on a triennial basis, and updated at each Balance Sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Consolidated Income Statement and are presented in the Statement of Comprehensive Income.

Past service cost is recognised as an expense at the earlier of a plan amendment, curtailment, or restructuring.

The retirement benefit obligation recognised in the Consolidated Balance Sheet represents the present value of the defined benefit obligation, and as reduced by the fair value of scheme assets.

### Taxation

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the Balance Sheet date.

Provisions for uncertain tax positions are included within current tax liabilities on the Consolidated Balance Sheet representing Management's best estimate of the likely cash outflow related to the uncertainty. There are transactions and activities that the Group engages in where the ultimate tax determination is uncertain and a provision may be made against the tax benefit. For example, the Group seeks to price transactions between Group companies on an arms length basis and in compliance with OECD transfer pricing principles and the laws of the relevant jurisdictions. The application of OECD principles and local tax laws require interpretation, and accordingly involves the application of judgement and is open to challenge by the relevant tax authorities. This gives rise to a level of uncertainty. Provisions for uncertain tax positions are established in accordance with IFRIC 23 based on an assessment of the range of likely tax outcomes in open years and reflecting the strength of technical arguments. Amounts are provided for individual tax uncertainties based on Management's assessment of whether the most likely amount or an expected amount based on a probability weighted methodology is the more appropriate predictor of amounts that the company is ultimately expected to settle. When making this assessment, the Group utilises specialist in-house tax knowledge and experience and takes into consideration specialist tax advice from third party advisers on specific items.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the Balance Sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, including for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available for their utilisation before their expiry. Amounts will be recognised first to the extent that taxable temporary differences exist and it is considered probable that they will reverse and give rise to future taxable profits against which losses or other assets may be utilised before their expiry. Assets will then be recognised to the extent that forecasts or other evidence support the availability of future profits against which assets may be realised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of goodwill (other than in a business combination) of other assets and liabilities in a transaction that affects neither the Group's taxable profit nor its accounting profit.

The carrying value of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the Balance Sheet date. Deferred tax is charged or credited in the Consolidated Income Statement, except when it relates to items charged or credited to Other Comprehensive Income or directly to Equity, in which case the deferred tax is also dealt with in Other Comprehensive Income or Equity.

### Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the Balance Sheet at their historical cost, or at modified historical cost, being a revaluation undertaken in 1988 which has been taken as the effective cost on transition to IFRS. Land and buildings were revalued to fair value at the date of revaluation. The Group does not intend to conduct annual revaluations.

Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to write off the cost of an asset on a straight-line basis over the estimated useful life of the asset, and is charged from the time an asset becomes available for its intended use. Annual rates are as follows:

Freehold land	Nil
Freehold buildings	2%
Right-of-use land and buildings	on the same basis as owned assets or, where shorter, over the lease term
Leasehold building improvements	on the same basis as owned assets or, where shorter, over the lease term
Plant and equipment	5%–33%
Right-of-use plant and equipment	on the same basis as owned assets or, where shorter, over the lease term

The Group primarily leases land and buildings for manufacturing use. The lease term, including options to extend which are reasonably certain, typically range from two to fifteen years. The Group also leases plant and equipment, including office equipment, vehicles and manufacturing equipment, with lease terms typically ranging from one to four years.

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 Consolidated Income Statement.

### Internally generated intangible assets – development expenditure

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

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



# Notes to the Consolidated Financial Statements continued

## 2. Significant accounting policies continued

### Internally generated intangible assets – development expenditure continued

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

### 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 straight-line basis.

### Impairment of tangible and intangible assets excluding goodwill

At each Balance Sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of the fair value less the costs to sell and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and an appropriate allocation of production overheads. Cost is calculated using the first-in, first-out method. 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.

### Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Financial instruments are classified as cash and cash equivalents, bank overdrafts and loans, lease liabilities, trade receivables, trade payables, deferred consideration receivable, other receivables and other payables, as appropriate.

Non-derivative financial assets are categorised as “Financial assets at amortised cost” and non-derivative financial liabilities are categorised as “Financial liabilities at amortised cost”. Derivative financial assets and liabilities that are not designated and effective as hedging instruments are categorised as “financial assets at fair value through profit or loss” and “financial liabilities at fair value through profit or loss”, respectively. The classification depends on the nature and purpose of the financial assets and liabilities and is determined at the time of initial recognition.

### Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by loss allowance. The Group 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 Consolidated Income Statement.

Trade receivables in default are considered uncollectible and are written off against the loss allowance. The Group 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 Group in full. Subsequent recoveries of amounts previously written off are credited against the loss allowance.

Trade receivables are derecognised when reverse factored, without recourse, through schemes with financial institution counterparties who assume the risk of non-payment by the customer. Derecognition occurs when cash is received from the financial institution (less reverse factoring discount). For further details, see Strategic Report and the financial instrument credit risk section in the notes to the Consolidated Financial Statements.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

### Non-derivative financial liabilities

Non-derivative financial liabilities are stated at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised financial liability and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs.

### Equity instruments

Equity instruments issued by the Company are recorded at the value of the proceeds received, net of direct transaction costs.

### Derivative financial instruments and hedging

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange contracts and, on occasion, interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group's Treasury Policies as approved by the Board of Directors, which provides written principles on the use of derivatives. The Group does not use derivative financial instruments for speculative purposes.

Certain derivative instruments do not qualify for hedge accounting. These are categorised as “fair value through profit or loss” and are stated at fair value, with any resultant gain or loss recognised in the Income Statement.



## 2. Significant accounting policies continued

The Group designates certain hedging instruments in respect of foreign currency risk as cash flow hedges. At the inception of the hedge relationship, the Group 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 Group 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 Group'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 Consolidated Income Statement. 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 Income Statement 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 Consolidated Income Statement. Gains or losses from remeasuring the derivative are also recognised in the Consolidated Income Statement. If the hedge is effective, these entries will offset in the Consolidated Income Statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Income Statement 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 Consolidated Income Statement for the period.

Gains and losses accumulated in Equity are recognised in the Consolidated Income Statement on disposal of the overseas business.

### Assets and disposal groups held for sale

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. Where a group of assets and their directly associated liabilities are to be disposed of in a single transaction, such disposal groups are also classified as held for sale. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition, and Management must be committed to and have initiated a plan to sell the asset or disposal group which, when initiated, was expected to result in a completed sale within 12 months. Assets that are classified as held for sale are not depreciated. Assets or disposal groups that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the Balance Sheet date, taking into account the risks and uncertainties (such as timing or amount) surrounding the obligation. They are not discounted to present value if the effect is not material.

Provisions for restructuring are recognised when the Group has a detailed formal plan for the restructuring and the plan has been communicated to the affected parties. Provisions for the expected cost for warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products.

### Share-based payments

The Group applies the requirements of IFRS 2 Share-based payments.

The Group issues equity-settled share-based payments to certain employees. The fair value (excluding the effect of non-market-related conditions), 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-related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans, and a binomial model for the share awards under the 2005 Long-Term Incentive Plan.

The liability in respect of equity-settled amounts is included in Equity.

### Critical accounting judgements

IAS 1 requires disclosure of the judgements Management makes when applying its significant accounting policies and that have the most significant effect on amounts that are recognised in the Group's Financial Statements. In the course of preparing the Financial Statements, no significant critical judgements have been made in the process of applying the Group's accounting policies, other than leases and those involving estimations, which are dealt with separately below. Management makes other judgements in the normal course of conducting business, such as those in relation to legal claims and contractual matters (see Note 24 for further details).

### Leases

Where a lease includes the option for an extension to the lease term, Management makes a judgement as to whether they are reasonably certain the option will be taken. This will take into account the length of time remaining before the option is exercisable, current and forecasted plans for utilising the asset and the level and type of planned future capital investment. As at 31 December 2020, these extension options have an approximate average remaining lease term of seven years. These judgements are reassessed at each reporting period, which could result in a recalculation of the lease liability and a material adjustment to the associated balances.

### Key sources of estimation and uncertainty

When applying the Group's accounting policies, Management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the Balance Sheet date and the amounts of revenue and expenses recognised during the period. Such assumptions are based upon factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other external sources. The key sources of estimation and uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and beyond include:

#### Income taxes

In determining the Group provisions for income tax and deferred tax, it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made. The carrying amount of net current tax liability and deferred tax liability at 31 December 2020 was £16.8m (2019 – £23.1m) and £0.8m (2019 – £31.1m), respectively. Further details on these estimates are set out in Notes 10 and 21.

# Notes to the Consolidated Financial Statements continued

## 2. Significant accounting policies continued

### Retirement benefits

Management makes assumptions and estimates, for the next financial year and beyond, which affect the value of the carrying amount of the UK Plan retirement benefit obligation at 31 December 2020. Management follows actuarial advice from a third party when determining estimation uncertainty on the valuation of the UK gross defined benefit obligation, the significant assumptions being discount rate, inflation and life expectancy (see Note 34). The carrying amount of the UK Plan's retirement benefits at 31 December 2020 was a surplus of £46.5m (2019 – surplus of £48.9m), being the present value of the defined benefit obligations of £317.7m (2019 – £285.8m) and fair value of plan assets of £364.2m (2019 – £334.7m). Further details and sensitivities from changes in estimates are set out in Note 34g.

### Goodwill Impairment assessment

The determination of the fair value of the assets and liabilities is based on Management's judgment and assessment of external factors and benchmarks. At each reporting date (June and December) the Group considers if there are any events that trigger the need for a formal impairment assessment. If identified, this requires an estimation of the higher of value in use or fair value less cost of disposal of the CGU groups to which goodwill is allocated. COVID-19 has introduced unprecedented economic uncertainties and has been considered given the level of judgment and estimation involved in assessing future cash flows.

At 30 June 2020, an impairment triggering event was identified and the Aerostructures CGU group was impaired by £110.5m. As a result, the recoverable amount of the Aerostructures CGU group was considered to be a key estimate at 30 June 2020 (see Note 13 for further details). At year-end, this is no longer considered a key estimate.

### Other estimates

The Board has considered the estimation applied to inventory and concluded that there is not a significant risk of a material adjustment arising over the next financial year. Management assesses the carrying value of inventory to ensure that it is held at the lower of cost and net realisable value. Where necessary, Management makes an estimate to write down inventory to its net realisable value. The Group held a net inventory balance at the year-end of £147.6m (2019 – £169.3m). 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. In 2020, £9.3m (2019 – £3.4m) of inventory impairment reflects certain specific programmes, where in-year write downs were necessary to reflect unforeseen challenges in some of our Aerospace and Flexonics markets as a result of the COVID-19 pandemic, and business closures. This included programmes, where in response to COVID-19, end customers significantly reduced future demand and/or cancelled programmes. This led to programme specific impairments where there were surplus holdings of raw materials or WIP with no alternate use. Management does not anticipate further material adjustments to inventory to arise over the next financial year, subject to further unforeseen changes in market conditions.

The Board approved a restructuring plan that covered 2019 and 2020. In response to COVID-19, certain aspects of the plan were accelerated in 2020, including headcount reductions and asset write downs. At 31 December 2020, a provision of £8.9m (2019 – £2.9m) is recorded relating to committed restructuring plans that have been communicated to those effected and where the cash outflow will occur in 2021. The restructuring charges recorded in 2020 include asset impairments and, as noted above, write down of inventory values where demand on specific programmes has ceased or significantly decreased, and where there is no alternate use. Management does not anticipate further material adjustments to the restructuring provision recorded at 31 December 2020 over the next financial year as the commitments are settled, subject to unforeseen changes in market conditions.

The Board determines whether goodwill is impaired on an annual basis (measured at September each year) or more frequently if required. This requires an estimation of the higher of value in use or fair value less cost of disposal of the CGU groups to which goodwill is allocated.

Assumptions made as part of this estimation include the achievability of the long-term business plans and the macroeconomic and related modelling assumptions underlying the valuation process for each CGU group. The Board does not consider there to be a significant risk of material adjustment arising over the next financial year. Further details, including sensitivities, are set out in Note 13.

## 3. Revenue

Total revenue is disaggregated by market sectors as follows:

	Year ended 2020 £m	Year ended 2019 £m
Civil Aerospace	304.2	618.0
Defence	158.5	149.7
Other	63.5	67.7
Aerospace	526.2	835.4
Land Vehicles	89.2	123.4
Power & Energy	119.1	152.4
Flexonics	208.3	275.8
Eliminations	(0.9)	(0.5)
Total revenue	733.6	1,110.7

Other Aerospace comprises space and non-military helicopters and other markets, principally including semiconductor, medical, and industrial applications.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

## 4. Segment information

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2 and the sales between segments are carried out at arm's length. Adjusted operating profit, as described in Note 9, is the key measure reported to the Group's Executive Committee for the purpose of resource allocation and assessment of segment performance. Investment income, finance costs and tax are not allocated to segments, as this type of activity is driven by the central tax and treasury functions.

Segment assets include directly attributable computer software assets, property, plant and equipment (including right-of-use assets), working capital assets, goodwill and intangible assets from acquisitions. Cash, deferred and current tax and other financial assets (except for working capital) are not allocated to segments for the purposes of reporting financial performance to the Executive Committee.

#### 4. Segment information continued

Segment liabilities include directly attributable working capital liabilities and lease liabilities. Debt, retirement benefits, deferred and current tax and other financial liabilities (except for working capital) are not allocated to segments for the purposes of reporting financial performance to the Executive Committee.

Central costs, assets and liabilities are corporate items not allocated to segments, which is consistent with the format used by the chief operating decision-maker.

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

	Notes	Aerospace Year ended 2020 £m	Flexonics Year ended 2020 £m	Eliminations/ central costs Year ended 2020 £m	Total Year ended 2020 £m	Aerospace Year ended 2019 £m	Flexonics Year ended 2019 £m	Eliminations/ central costs Year ended 2019 £m	Total Year ended 2019 £m
External revenue		525.4	208.2	–	733.6	835.2	275.5	–	1,110.7
Inter-segment revenue		0.8	0.1	(0.9)	–	0.2	0.3	(0.5)	–
Total revenue		526.2	208.3	(0.9)	733.6	835.4	275.8	(0.5)	1,110.7
Adjusted trading profit		5.9	11.0	(13.4)	3.5	76.4	26.1	(13.5)	89.0
Share of joint venture profit		–	0.2	–	0.2	–	0.4	–	0.4
Adjusted operating profit		5.9	11.2	(13.4)	3.7	76.4	26.5	(13.5)	89.4
Amortisation of intangible assets from acquisitions		(6.3)	(1.4)	–	(7.7)	(7.1)	(6.0)	–	(13.1)
Goodwill impairment and write-off	9	(112.1)	(22.2)	–	(134.3)	–	–	–	–
Restructuring	9	(32.5)	(6.5)	–	(39.0)	(5.6)	(6.5)	–	(12.1)
US class action lawsuits	9	–	–	–	–	–	–	(2.6)	(2.6)
Operating (loss)/profit		(145.0)	(18.9)	(13.4)	(177.3)	63.7	14.0	(16.1)	61.6
Investment income					1.1				0.9
Finance costs					(11.0)				(11.8)
Disposal activities	9				(4.6)				(22.0)
(Loss)/profit before tax					(191.8)				28.7
Tax					33.3				0.5
(Loss)/profit after tax					(158.5)				29.2

Trading profit and adjusted trading profit is operating loss/profit and adjusted operating profit respectively before share of joint venture profit. See Note 9 for the derivation of adjusted operating profit.

Segment information for assets, liabilities, additions to non-current assets and depreciation and amortisation is presented below:

	Year ended 2020 £m	Year ended 2019 £m
<b>Assets</b>		
Aerospace	563.3	764.3
Flexonics	170.4	215.3
Segment assets for reportable segments	733.7	979.6
Unallocated		
Central	2.9	5.7
Cash	23.6	15.8
Deferred and current tax	7.7	5.2
Retirement benefits	46.5	48.9
Others	0.3	0.7
Total assets per Consolidated Balance Sheet	814.7	1,055.9

	Year ended 2020 £m	Year ended 2019 £m
<b>Liabilities</b>		
Aerospace	153.9	185.8
Flexonics	55.7	56.1
Segment liabilities for reportable segments	209.6	241.9
Unallocated		
Central	14.1	16.2
Debt	153.0	161.7
Deferred and current tax	25.3	59.4
Retirement benefits	10.9	7.8
Others	8.5	9.3
Total liabilities per Consolidated Balance Sheet	421.4	496.3

# Notes to the Consolidated Financial Statements continued

## 4. Segment information continued

	<b>Additions to non-current assets Year ended 2020 £m</b>	Additions to non-current assets Year ended 2019 £m	<b>Depreciation and amortisation Year ended 2020 £m</b>	Depreciation and amortisation Year ended 2019 £m
Aerospace	<b>20.8</b>	52.0	<b>45.9</b>	46.6
Flexonics	<b>8.7</b>	16.4	<b>15.1</b>	20.5
Sub total	<b>29.5</b>	68.4	<b>61.0</b>	67.1
Central	<b>0.2</b>	0.3	<b>0.6</b>	0.6
Total	<b>29.7</b>	68.7	<b>61.6</b>	67.7

The Group's revenues from its major products is presented below:

	<b>Year ended 2020 £m</b>	Year ended 2019 £m
Aerospace – Structures	<b>234.4</b>	463.7
Aerospace – Fluid Systems	<b>291.0</b>	371.5
Aerospace total	<b>525.4</b>	835.2
Land vehicles	<b>89.2</b>	123.4
Power & Energy	<b>119.0</b>	152.1
Flexonics total	<b>208.2</b>	275.5
<b>Group total</b>	<b>733.6</b>	1,110.7

No individual customer accounted for more than 10% of external revenue in 2020 (2019 – £126.5m revenue arose from the Group's largest customer).

### Geographical information

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

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods. The carrying values of segment non-current assets are analysed by the geographical area in which the assets are located.

	<b>Sales revenue Year ended 2020 £m</b>	Sales revenue Year ended 2019 £m	<b>Segment non-current assets Year ended 2020 £m</b>	Segment non-current assets Year ended 2019 £m
USA	<b>367.4</b>	557.8	<b>239.7</b>	350.9
UK	<b>121.8</b>	168.6	<b>159.3</b>	179.7
Rest of the World	<b>244.4</b>	384.3	<b>151.5</b>	201.4
Sub total	<b>733.6</b>	1,110.7	<b>550.5</b>	732.0
Unallocated amounts	–	–	<b>4.7</b>	1.7
Total	<b>733.6</b>	1,110.7	<b>555.2</b>	733.7

The unallocated amounts on non-current assets relate to deferred tax assets.



## 5. Operating loss

Operating loss/profit can be analysed as follows:

	Year ended 2020 £m	Year ended 2019 £m
Revenue	<b>733.6</b>	1,110.7
Cost of sales	<b>(628.3)</b>	(892.6)
Gross profit	<b>105.3</b>	218.1
Distribution costs	<b>(4.6)</b>	(9.0)
Administrative expenses	<b>(278.3)</b>	(147.9)
Profit on sale of fixed assets	<b>0.1</b>	–
Share of joint venture profit	<b>0.2</b>	0.4
Operating (loss)/profit	<b>(177.3)</b>	61.6

Operating loss/profit for the period has been arrived at after charging:

	Year ended 2020 £m	Year ended 2019 £m
Net foreign exchange losses	<b>3.1</b>	2.6
Research and design costs	<b>18.7</b>	28.1
Depreciation of property, plant and equipment	<b>52.1</b>	52.5
Amortisation of intangible assets included in administration expenses	<b>9.5</b>	15.2
Cost of inventories recognised as expense	<b>628.3</b>	892.6
Provision for loss allowance against receivables	<b>0.7</b>	0.8
Restructuring: provision for impairment of property, plant and equipment and inventories	<b>17.3</b>	6.3
Restructuring: staff and other costs	<b>21.2</b>	5.8
COVID-19 grant (income)	<b>(9.0)</b>	–

Staff costs are disclosed in Note 6. The majority of research and design costs incurred during the year have been expensed in line with Note 2 Group accounting policies. In 2020, government assistance schemes in response to the COVID-19 pandemic have benefitted the Group through £9.0m grant income, to compensate for furloughing of employees, and £9.0m of deferral of indirect and corporate tax payments, of which £6.0m is due for payment in 2021.

The analysis of the Auditor's remuneration is as follows:

	Year ended 2020 £m	Year ended 2019 £m
Fees payable to the Company's Auditor and their associates for the audit of the Company's annual accounts	<b>0.2</b>	0.2
Fees payable to the Company's Auditor and their associates for other services to the Group		
– The audit of the Company's subsidiaries	<b>1.3</b>	1.1
Total audit fees	<b>1.5</b>	1.3

Fees payable to Company's Auditor and their associates for non-audit services to the Company are not required to be disclosed because the Consolidated Financial Statements are required to disclose such fees on a consolidated basis.

The Group paid £0.09m (2019 – £0.05m) to the Company's Auditor for audit related services. There were no other advisory services provided to the Group during 2020 and 2019.

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity were safeguarded are set out in the Audit Committee Report on pages 60 to 65. No services were provided pursuant to contingent fee arrangements.

# Notes to the Consolidated Financial Statements continued

## 6. Staff costs

The average monthly number of employees (including Directors) was:

	Year ended 2020 Number	Year ended 2019 Number
Production	5,713	6,986
Distribution	72	77
Sales	285	315
Administration	564	647
Total	6,634	8,025

The actual number of employees at 31 December 2020 was 5,880 (2019 – 7,605).

	Notes	Year ended 2020 £m	Year ended 2019 £m
Their aggregate remuneration comprised:			
Wages and salaries		225.6	286.0
Social security costs		25.3	31.4
Termination benefits		19.1	4.4
Other pension costs – defined contribution	34a	9.2	12.4
Other pension costs – defined benefit	34e	0.9	0.8
Share based payments	33	3.0	1.8
Aggregate remuneration		283.1	336.8

The Group also incurred medical and other employee benefit expenses during the year of £25.0m (2019 – £28.1m) and received £9.0m (2019 – £nil) COVID-19 grant income related to government assistance schemes to compensate for furloughing of employees.

## 7. Investment income

	Year ended 2020 £m	Year ended 2019 £m
Interest on bank deposits	0.2	0.2
Net finance income of retirement benefits (Note 34e)	0.9	0.7
Total income	1.1	0.9

## 8. Finance costs

	Year ended 2020 £m	Year ended 2019 £m
Interest on bank overdrafts and loans	1.9	1.2
Interest on other loans and other finance costs	6.1	7.1
Interest on lease liabilities	3.0	3.5
Total finance costs	11.0	11.8

## 9. Adjusted operating profit and adjusted loss/profit before tax

The presentation of adjusted operating profit and adjusted loss/profit before tax measures, derived in accordance with the table below, have been included to identify the performance of the Group prior to the impact of amortisation of intangible assets from acquisitions, goodwill impairment and write-off, restructuring, the costs associated with the US class action lawsuits and disposal activities. The Board has adopted a policy to separately disclose those items, where significant in size, that it considers are outside the results for the particular year under review and against which the Board measures and assesses the performance of the business.

COVID-19 has introduced unprecedented challenges and economic disruption. This has directly impacted the business performance of both the Aerospace and Flexonics Divisions. The Board has not changed the policy for adjusted measures to present the COVID-19 financial impact, but instead, have described the impact within the narrative sections of the Strategic Report.

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

The amortisation charge relates to prior years' acquisitions. It is charged on a straight-line basis and reflects a non-cash item for the reported year. Goodwill impairment relates to the Aerostructures group of cash generating units (CGU group), reflecting the significant impact of the COVID-19 pandemic on the civil aerospace sector, where there has been a significant reduction in the short-term demand for new aircraft on existing programmes. Goodwill write-offs relate to operating business closures. The Group implemented a restructuring programme in 2019 which was expanded further in 2020 in response to the impact of COVID-19 on some of the Group's end markets. The US class action lawsuits relate to historic legal matters. None of these charges, including the disposal activities, are reflective of in-year performance. They are therefore excluded by the Board and Executive Committee when measuring the performance of the businesses.

## 9. Adjusted operating profit and adjusted loss/profit before tax continued

	Notes	Year ended 2020 £m	Year ended 2019 £m
Operating (loss)/profit		<b>(177.3)</b>	61.6
Amortisation of intangible assets from acquisitions		<b>7.7</b>	13.1
Goodwill impairment and write-off	13	<b>134.3</b>	–
Restructuring		<b>39.0</b>	12.1
US class action lawsuits		<b>–</b>	2.6
Adjusted operating profit		<b>3.7</b>	89.4
(Loss)/profit before tax		<b>(191.8)</b>	28.7
Adjustments to loss/profit before tax as above		<b>181.0</b>	27.8
Disposal activities	31	<b>4.6</b>	22.0
Adjusted (loss)/profit before tax		<b>(6.2)</b>	78.5

### Goodwill impairment and write-off

During the first half of 2020, an impairment loss of £110.5m was recognised in relation to the goodwill allocated to the Aerostructures CGU group (now within Aerospace CGU group – see Note 13 for details). This reflected the significant impact of COVID-19 on the short to medium-term outlook for Aerostructures, given the end market, which is focused on the civil aerospace sector. In the second half of 2020, write-offs of £1.6m and £22.2m were recognised in respect of the closures of Senior Aerospace Bosman and Senior Flexonics Upeca.

### Restructuring

The Group continues to focus on taking actions to conserve cash to manage through the unprecedented crisis that the pandemic introduced in 2020, including curtailing capital expenditure, tightly managing working capital and implementing further cost cutting actions. At 31 December 2020, 7% of the Group's employees were on furlough (2019 – nil). The restructuring activities, which commenced in the second half of 2019, have been further adapted to the changing end market conditions in some of the Flexonics and Aerospace markets and to further manage the business through the pandemic. In addition, in response to the lowering of future orders and build rates, the Group has continued to review inventory levels and any exposures to programmes that have been reduced, cancelled or where the Group will no longer participate.

The restructuring, which involves business closures, headcount reductions and other efficiency improvements, has resulted in a charge of £39.0m for the year ended 31 December 2020 (2019 – £12.1m) in the Consolidated Income Statement, of which £5.9m relates to the closure of Senior Aerospace Bosman (£4.5m headcount reductions and other net charges, £1.1m property plant and equipment impairment, £0.3m inventory impairment) and £4.6m relates to the closure of Senior Flexonics Upeca in Malaysia (£1.0m headcount reduction, £1.6m property plant and equipment impairment, £0.3m software impairment, £0.5m inventory impairment, £1.2m consultancy and other costs). This is presented as an adjusted item given the size and nature of the costs incurred.

The remaining £28.5m charge comprises £13.5m (2019 – £4.4m) headcount reductions and £1.5m (2019 – £1.4m) consultancy and other costs. For certain specific programmes, and in conjunction with the focus on restructuring, Management has also identified further inventory and property, plant and equipment that have been impaired in 2020 with a total charge, of £8.5m and £5.0m respectively (2019 £3.4m and £2.9m). These relate to programmes where there are no alternative uses for the inventory or assets and is in part due to the impact COVID-19 has had on the Group's end markets, with customers choosing to cancel and/or significantly reduce future build rates on existing programmes. Senior has responded by further extending and broadening the scope of the restructuring plans, and with provisions recorded to cover the risks arising. Total cash outflow related to restructuring activities in the year ended 31 December 2020 is £15.2m (2019 – £2.9m); see Note 32. At 31 December 2020, a restructuring provision of £8.9m (2019 – £2.9m) is held on the Consolidated Balance Sheet in current liabilities, which is expected to be utilised in 2021.

### US class action lawsuits

As previously reported, in February 2020 the Company agreed settlement and related costs as co-defendant in a putative class action lawsuit and a related lawsuit alleging property damage filed against Ametek, Inc, in the USA, resulting in a £2.6m charge to the Consolidated Income Statement in 2019. The charge was reported as an adjusted item in 2019 given its nature and materiality and the fact that it is related to prior years and not reflective of 2019 performance. At 31 December 2020, the carrying amount is a provision of £2.4m (2019 – £2.5m), after a £0.1m favourable exchange effect. Court approval of the settlements has been further delayed due to the COVID-19 pandemic and a final court approval date is expected in the first half of 2021.

### Disposal activities

In the year ended 31 December 2020, costs associated with the potential divestments, primarily related to the Aerostructures business, were £4.6m (2019 – loss on disposal was £22.0m); see Note 31.

## Notes to the Consolidated Financial Statements continued

## 10. Taxation

	Year ended 2020 £m	Year ended 2019 £m
Current tax:		
Current year	3.1	11.1
Adjustments in respect of prior periods	(6.0)	(4.1)
	(2.9)	7.0
Deferred tax (Note 21):		
Current year	(31.3)	(5.4)
Adjustments in respect of prior periods	0.9	(2.1)
	(30.4)	(7.5)
Total tax credit	(33.3)	(0.5)

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantially enacted on 6 September 2016 and UK deferred tax assets at 31 December 2019 had been calculated based on that rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantially enacted on 17 March 2020. A future increase in rate from 19% to 25% (effective 1 April 2023) was announced on 3 March 2021 and is not substantially enacted at the Balance Sheet date. Deferred tax assets and liabilities are measured at the rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the Balance Sheet date. The impact of the tax rate change to 25% on deferred tax assets and liabilities held at the Balance Sheet date would be to increase the net liability by £1.0m. UK Corporation Tax is calculated at an effective rate of 19.0% (2019 – 19.0%) of the estimated assessable profit for the year. Included within the total tax charge is £nil (2019 – £nil) in respect of current year UK Corporation Tax. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The total charge for the year can be reconciled to the loss/profit before tax per the Consolidated Income Statement as follows:

	Year ended 2020 £m	Year ended 2020 %	Year ended 2019 £m	Year ended 2019 %
(Loss)/profit before tax	(191.8)		28.7	
Expected tax (credit)/charge at the UK standard corporation tax rate 19%	(36.4)		5.5	
Non-tax deductible goodwill impairments and write-offs	a 12.7		–	
Effect of different statutory rates in overseas jurisdictions	b (10.9)		(0.5)	
Tax incentives and credits	c –		(2.3)	
Tax losses unrecognised	d 3.0		0.5	
Deferred tax impact of unrecognised timing differences	e –		(3.6)	
Impact of share options	f 0.4		0.2	
Effect of difference in treatment of financing activities between jurisdictions	g (0.3)		(0.7)	
Non-tax deductible expenses and other permanent differences	h 2.7		3.0	
Non-tax deductible loss on disposal of businesses	i –		3.5	
Effect of changes in UK tax rate on deferred tax items	j 0.4		–	
Withholding taxes	k 0.2		0.1	
Adjustments in respect of prior periods – current tax items	l (6.0)		(4.1)	
Adjustments in respect of prior periods – deferred tax items	m 0.9		(2.1)	
Tax credit and effective tax rate for the year	(33.3)	(17.4%)	(0.5)	(1.7%)

a) Goodwill impairments and write-offs on which no tax relief is available or deferred tax liability was held.

b) Mainly attributable to a higher rate of tax in the US.

c) A reduction in rate by R&D credits of £1.2m (2019 - £1.2m) has been offset by a permanent difference arising from losses in the year on projects that benefit from tax incentives.

d) Tax losses not recognised in 2020 mainly relate to Senior Aerospace Bosman and Senior Flexonics Upeca which will close in 2021.

e) The 2019 item related to the establishment of a deferred tax asset for restricted interest expense deductions previously unrecognised.

f) Net impact of non-tax deductible share based payment charges and deferred tax asset recognition.

g) The decrease year on year reflects a decrease in internal financing activities.

h) Includes non-tax deductible expenditure as well as the current year impact of uncertain tax positions, £2.2m charge in 2020 and £3.0m in 2019.

i) No businesses were disposed of in 2020.

j) Relates to the retranslation of UK deferred tax assets and liabilities following the substantial enactment of the 19% tax rate during the year.

k) Arises from irrecoverable withholding taxes.

l) Includes a £5.4m credit (2019 – £1.2m) in respect of uncertain tax positions of which £1.7m arose from tax law changes in the US Coronavirus Aid, Relief and Economic Security (CARES) Act. A further credit of £1.1m has also been recognised as a result of measures introduced by the US CARES Act that have allowed a carry back of losses against profits of previous periods. Other prior year items largely arise from the true up of tax accruals following the submission of local tax filings which in many cases have an equal and opposite prior year item in deferred tax.

m) In 2020 this includes a charge of £7.1m following retrospective tax law changes enacted by the US CARES Act. A credit of £3.4m in Switzerland has also been recognised as part of a transitional tax adjustment sought and agreed with authorities during the year, which we were required to recognise in our 2019 tax return at the time of filing in 2020. Other timing differences arise from the true up of accruals following the submission of local tax filings which in many cases have an equal and opposite prior year item in current tax.



## 10. Taxation continued

In addition to the amount charged to the Consolidated Income Statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	Year ended 2020 £m	Year ended 2019 £m
Deferred tax:		
Items that will not be reclassified subsequently to profit and loss		
Tax on actuarial items	1.6	(2.1)
Items that may be reclassified subsequently to profit or loss		
Tax on foreign exchange contracts – cash flow hedges	(0.5)	(1.2)
Total tax credit/(charge) recognised directly in other comprehensive income	1.1	(3.3)

In addition to the amount charged to the Consolidated Income Statement and Other Comprehensive Income, the following amounts relating to tax have been recognised directly in equity:

	Year ended 2020 £m	Year ended 2019 £m
Deferred tax:		
Excess tax deductions related to share-based payments in exercised options	–	(0.4)
Total tax charge recognised directly in equity	–	(0.4)

Deferred tax (Note 21)	1.1	(3.7)
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## 11. Dividends

	Year ended 2020 £m	Year ended 2019 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2019 of £nil (2018 – 5.23p) per share	–	21.7
Interim dividend for the year ended 31 December 2020 of £nil (2019 – 2.28p) per share	–	9.5
	–	31.2
Proposed final dividend for the year ended 31 December 2020 of £nil (2019 – £nil) per share	–	–

## 12. Loss/earnings per share

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

	Year ended 2020 Million	Year ended 2019 Million
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss/earnings per share	414.9	415.0
Effect of dilutive potential ordinary shares:		
Share options	–	1.8
Weighted average number of ordinary shares for the purposes of diluted loss/earnings per share	414.9	416.8

# Notes to the Consolidated Financial Statements continued

## 12. Loss/earnings per share continued

	Notes	Year ended 2020		Year ended 2019	
		Loss £m	EPS pence	Earnings £m	EPS pence
Loss/earnings and loss/earnings per share					
(Loss)/profit for the period		<b>(158.5)</b>	<b>(38.20)</b>	29.2	7.04
Adjust:					
Amortisation of intangible assets from acquisitions net of tax of £2.0m (2019 – £2.9m)		<b>5.7</b>	<b>1.38</b>	10.2	2.45
Goodwill Impairment and write-off net of tax of £21.7m (2019 – £nil)	9	<b>112.6</b>	<b>27.14</b>	–	–
Restructuring net of tax of £6.5m (2019 – £3.0m)	9	<b>32.5</b>	<b>7.83</b>	9.1	2.20
US class action lawsuits net of tax of £nil (2019 – £0.7m)	9	–	–	1.9	0.46
Disposal activities net of tax of £0.4m (2019 – £1.7m)	31	<b>4.2</b>	<b>1.01</b>	20.3	4.89
Non-cash deferred tax credit of £nil (2019 – £3.6m)	10	–	–	(3.6)	(0.87)
Adjusted (loss)/earnings after tax		<b>(3.5)</b>	<b>(0.84)</b>	67.1	16.17
(Loss)/earnings per share					
– basic			<b>(38.20)p</b>		7.04p
– diluted			<b>(38.20)p</b>		7.01p
– adjusted			<b>(0.84)p</b>		16.17p
– adjusted and diluted			<b>(0.84)p</b>		16.10p

The effect of dilutive shares on the loss/earnings for the purposes of diluted loss/earnings per share is £nil (2019 – £nil). The denominators used for all basic, diluted and adjusted loss/earnings per share are as detailed in the table above.

The presentation of adjusted loss/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, goodwill impairment and write-off, restructuring, the costs associated with the US class action lawsuits, disposal activities and non-cash deferred tax credit. The Board has adopted a policy to separately disclose those items, where significant in size, that it considers are outside the loss/earnings for the particular year under review and against which the Board measures and assesses the performance of the business. See Note 9 for further details.

## 13. Goodwill

	Year ended 2020 £m	Year ended 2019* £m
<b>Cost</b>		
At 1 January	<b>343.9</b>	361.5
Write-off and disposal activities	<b>(23.8)</b>	(8.1)
Exchange differences	<b>2.8</b>	(9.5)
At 31 December	<b>322.9</b>	343.9
<b>Accumulated impairment losses</b>		
At 1 January	<b>46.8</b>	48.6
Impairment	<b>110.5</b>	–
Exchange differences	<b>0.6</b>	(1.8)
At 31 December	<b>157.9</b>	46.8
<b>Carrying amount at 31 December</b>	<b>165.0</b>	297.1

\* 2019 Goodwill cost and accumulated impairment losses has reduced by £9.4m to re-present previous disposals.

CGU groups reflect the way Management exercises oversight and monitors the Group's performance. The lowest level at which goodwill is monitored was previously across three CGU groups, being Aerospace Structures, Aerospace Fluid Systems and Flexonics.

As part of the restructuring plans in the second half of 2020, Aerospace Structures and Aerospace Fluid Systems sub-divisions were combined into a single Aerospace division.

The goodwill relating to the two sub-division CGU groups was combined into the Aerospace CGU group, reflecting the lowest level at which Management exercises oversight and monitors the Group's performance. The table below highlights the carrying amount of goodwill allocated to the Aerospace and Flexonics CGU groups, both of which are considered significant in comparison with the total carrying amount of goodwill.

	Year ended 2020 £m	Year ended 2019 £m
Aerospace	<b>113.3</b>	222.3
Flexonics	<b>51.7</b>	74.8
Total	<b>165.0</b>	297.1

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

### 13. Goodwill continued

#### Impairment assessment trigger – 30 June 2020

As previously reported, the COVID-19 pandemic has had a direct impact on the Group's end markets and therefore the Board concluded that there was a triggering event during the first half of 2020. Accordingly, goodwill was assessed for impairment at the reporting date of 30 June 2020. Such triggers were not present at 31 December 2019. Management determined that due to the ongoing Group-wide restructuring plan, it was necessary to apply the fair value less cost of disposal (FVLCD) methodology to assess impairment, as this generated the higher recoverable amount. This is because accounting standards do not permit the inclusion of benefits arising from uncommitted restructuring within a value in use calculation. In determining fair value, the key assumptions related to:

- The forecast revenue and EBITDA over the next eighteen months;
- The EBITDA multiple that reflect current market conditions; and
- The estimated costs of disposal.

EBITDA is defined for the purposes of this valuation methodology as adjusted operating profit (see Note 9) before depreciation and amortisation only. The assessment by the Board determined that the recoverable amount of the Fluids Systems CGU group and the Flexonics CGU group exceeded their carrying value (£74.3m and £77.8m respectively) by approximately £454m and £117m respectively, with no impairment required.

The impact on the Aerostructures CGU group end market was more severe due to the dependencies related to commercial aircraft. In response to the pandemic, the major customers in the civil aerospace sector were adversely impacted and as a result have reacted by significantly lowering forward build rates across all major commercial aircraft programmes. This has had a significant impact on the forecast revenue and EBITDA of Aerostructures. Major customers publish forward build rates on the major aircraft programmes and Management used this external data together with internal assessments to assess the medium-term outlook. The key sensitivity was the EBITDA multiple to apply, where Management reviewed the forward market multiples and historical internal implied multiples in the last three years, which ranged from 10 times to 17 times.

Given the uncertainties associated with the COVID-19 pandemic during the assessment, the Board applied appropriate caution in selecting the multiple to apply, noting that a further reduction in the multiple by 5% would have resulted in an additional impairment of £15.6m. As a result of this rigorous assessment, the Board concluded that for the Aerostructures CGU group the FVLCD fell below the carrying value (£155.8m) by £110.5m, and this impairment was recorded in the half year ended 30 June 2020.

#### Annual impairment assessment – 30 September 2020

Following the combination of Aerospace Structures and Aerospace Fluid Systems goodwill into the larger Aerospace CGU group, the annual goodwill impairment assessment was performed across two CGU groups, being Aerospace and Flexonics. The timing of the annual assessment as at 30 September 2020 coincided with the Board's review of the most recent financial strategy. Since the impairment test at 30 June 2020, the restructuring plans had advanced and were all virtually committed. Accordingly the future benefits were relevant for assessment and Management determined that it was appropriate to apply value in use methodology to assess impairment, as this generated the higher recoverable amount. The key assumptions on which the value in use calculations were based relate to business performance over the next five years, long-term growth rates beyond 2025 and the discount rates applied. The discount rates were pre-tax measure based on the rate of 10-year government bonds issued in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the CGU group. The key estimates were the level of revenue and operating margins anticipated and the proportion of operating profit converted into cash flow in each year. The forecast compound annual growth rate in revenue from 2019 to 2025 were in the range from -1% to 4% (2019 – 2019 to 2024 was 2% to 4%), reflecting lower revenues and profits in 2020 compared to 2019 and some market recovery post COVID-19 pandemic.

Forecasts used in the cash flow were based on the most recent financial strategy, as approved by Management for the next five years to 2025. These estimates up to 2025, where appropriate, take account of the current economic environment as set out in the Strategic Report on pages 1 to 46.

Cash flows after 2025 have been extrapolated based on estimated long-term growth rates into perpetuity, which has been determined by the lower of the long-term market growth rates and the historical forecast compound annual growth in revenue to 2025. For Aerospace, the long-term market growth rate is 3.0% per annum (2019 – 3.1%), which does not exceed the long-term average growth rate forecast for the aerospace market as included in market outlooks from Boeing and Airbus. For Flexonics, the long-term market growth rate is 1.5% per annum (2019 – 1.6%), which is based on the world long-term forecast GDP growth for advanced economies.

The pre-tax discount rates applied to discount the pre-tax cash flows for Aerospace and Flexonics are 10.5% and 12.1% respectively (2019 – 10.0% and 11.1%; these discount rates include CGU group specific risk adjustments) which are the measurements used by Management in assessing investment appraisals specific to each CGU group.

Sensitivities reflecting reasonable possible changes have also been considered for each CGU group in relation to the value in use calculations: the long-term growth rate assumption was reduced to 1 percentage point and the discount rate was increased by a 1 percentage point. This did not result in the carrying amount of the CGU groups exceeding their recoverable amount.

Further to the 30 September 2020 annual impairment test, the Board considered whether there were any further triggering events as at the 31 December 2020 reporting date. The Board concluded that the market factors considered as at 30 September were largely unchanged and remained relevant for the year end reporting date, with no new triggers identified for impairment.

# Notes to the Consolidated Financial Statements continued

## 14. Other intangible assets

	Intangible assets from acquisitions Year ended 2020 £m	Computer software and others Year ended 2020 £m	Total Year ended 2020 £m	Intangible assets from acquisitions Year ended 2019 £m	Computer software and others Year ended 2019 £m	Total Year ended 2019 £m
<b>Cost</b>						
At 1 January	131.0	21.8	152.8	134.7	21.4	156.1
Additions	–	1.6	1.6	–	1.8	1.8
Disposals	–	(0.1)	(0.1)	–	(0.2)	(0.2)
Restructuring impairment and disposal	(7.9)	–	(7.9)	(0.4)	(0.6)	(1.0)
Exchange differences	(2.1)	(0.3)	(2.4)	(3.3)	(0.6)	(3.9)
At 31 December	121.0	23.0	144.0	131.0	21.8	152.8
<b>Amortisation</b>						
At 1 January	123.5	16.4	139.9	113.8	15.6	129.4
Charge for the year	7.7	1.8	9.5	13.1	2.1	15.2
Disposals	–	(0.1)	(0.1)	–	(0.2)	(0.2)
Restructuring impairment and disposal	(7.9)	0.3	(7.6)	(0.4)	(0.6)	(1.0)
Exchange differences	(2.3)	(0.2)	(2.5)	(3.0)	(0.5)	(3.5)
At 31 December	121.0	18.2	139.2	123.5	16.4	139.9
<b>Carrying amount at 31 December</b>	–	4.8	4.8	7.5	5.4	12.9

As at 31 December 2020, the carrying amount of intangible assets from acquisitions consists of £nil for customer relationships (2019 – £4.4m), £nil for customer contracts (2019 – £1.9m) and £nil for trade names (2019 – £1.2m).

## 15. Investment in joint venture

The Group has a 49% interest in Senior Flexonics Technologies (Wuhan) Limited, a jointly controlled entity incorporated in China, which was set up in 2012. Senior Flexonics Technologies (Wuhan) Limited is a precision manufacturer of automotive components.

The results of the joint venture are accounted for using equity accounting.

The Group's investment of £3.6m represents the Group's share of the joint venture's net assets as at 31 December 2020 (2019 – £3.3m). The following amounts represent the aggregate amounts relating to the revenue and expenses and assets and liabilities of Senior Flexonics Technologies (Wuhan) Limited for the years ended 31 December 2020 and December 2019.

	2020 £m	2019 £m
Revenue	5.7	7.6
Expenses	(5.2)	(6.8)
Profit	0.5	0.8
Total assets	9.3	9.3
Total liabilities	(1.9)	(2.5)
Net assets	7.4	6.8
Group's share of profit	0.2	0.4
Group's share of net assets	3.6	3.3



## 16. Property, plant and equipment

	Freehold land and buildings Year ended 2020 £m	Leasehold building improve- ments Year ended 2020 £m	Plant and equipment Year ended 2020 £m	Right- of-use Land and Buildings Year ended 2020 £m	Right- of-use Plant and equipment Year ended 2020 £m	Total Year ended 2020 £m	Freehold land and buildings Year ended 2019 £m	Leasehold building improve- ments Year ended 2019 £m	Plant and equipment Year ended 2019 £m	Right- of-use Land and Buildings Year ended 2019 £m	Right- of-use Plant and equipment Year ended 2019 £m	Total Year ended 2019 £m
<b>Cost or valuation</b>												
At 1 January	112.3	4.2	531.8	86.6	5.6	740.5	110.1	4.3	528.9	–	–	643.3
Reclassification	–	–	–	–	–	–	–	–	(0.6)	–	0.6	–
IFRS 16 Opening adjustment	–	–	–	–	–	–	–	–	–	93.3	3.2	96.5
Additions	0.8	0.2	24.2	1.4	1.5	28.1	9.3	0.4	53.3	2.0	1.9	66.9
Lease Modifications	–	–	–	(0.2)	(0.8)	(1.0)	–	–	–	(1.8)	(0.1)	(1.9)
Exchange differences	(1.3)	(0.1)	(12.6)	(1.7)	(0.1)	(15.8)	(3.5)	(0.1)	(15.6)	(2.3)	0.2	(21.3)
Disposed on disposal activities	–	–	–	–	–	–	(3.5)	(0.4)	(28.4)	(4.6)	(0.2)	(37.1)
Disposals	(0.1)	(0.1)	(5.6)	–	–	(5.8)	(0.1)	–	(4.9)	–	–	(5.0)
Restructuring impairment and disposal	–	–	(1.1)	–	–	(1.1)	–	–	(0.9)	–	–	(0.9)
At 31 December	111.7	4.2	536.7	86.1	6.2	744.9	112.3	4.2	531.8	86.6	5.6	740.5
<b>Accumulated depreciation and impairment</b>												
At 1 January	32.4	3.2	325.7	8.3	1.6	371.2	33.3	3.2	321.2	–	–	357.7
Reclassification	–	–	–	–	–	–	–	–	(0.4)	–	0.4	–
Charge for the year	3.0	0.2	38.7	8.7	1.5	52.1	2.3	0.4	39.6	9.0	1.2	52.5
Exchange differences	(0.2)	(0.1)	(9.1)	(0.5)	(0.2)	(10.1)	(1.2)	–	(10.0)	(0.3)	–	(11.5)
Eliminated on disposal activities	–	–	–	–	–	–	(1.9)	(0.4)	(22.5)	(0.4)	–	(25.2)
Eliminated on disposals	(0.1)	(0.1)	(5.2)	–	–	(5.4)	(0.1)	–	(4.2)	–	–	(4.3)
Restructuring impairment and disposal	0.7	–	5.5	0.3	0.1	6.6	–	–	2.0	–	–	2.0
At 31 December	35.8	3.2	355.6	16.8	3.0	414.4	32.4	3.2	325.7	8.3	1.6	371.2
<b>Carrying amount at 31 December</b>	<b>75.9</b>	<b>1.0</b>	<b>181.1</b>	<b>69.3</b>	<b>3.2</b>	<b>330.5</b>	<b>79.9</b>	<b>1.0</b>	<b>206.1</b>	<b>78.3</b>	<b>4.0</b>	<b>369.3</b>

In conjunction with the focus on restructuring described in Note 9, £7.7m (2019 – £3.4m) of property, plant and equipment has been impaired in 2020, of which £5.6m relates to Aerospace and £2.1m relates to Flexonics. The recoverable amount of the assets was determined based on value in use for assets with confirmed orders, or fair value less costs to sell, where assets are to be disposed.

At 31 December 2020, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.9m (2019 – £4.7m).

# Notes to the Consolidated Financial Statements continued

## 17. Inventories

	Year ended 2020 £m	Year ended 2019 £m
Raw materials	51.1	58.7
Work-in-progress	58.6	74.1
Finished goods	37.9	36.5
Total	147.6	169.3

Inventory write-downs recognised as an expense in 2020 were £17.3m (2019 – £9.3m), of which £9.3m (2019 – £3.4m) relates to restructuring (see Note 9). There was no material reversal of any write-down to net realisable value during this year or the prior year.

## 18. Trade and other receivables

Trade and other receivables at 31 December comprise the following:

	Year ended 2020 £m	Year ended 2019 £m
Non-current assets		
Other receivables	0.1	0.5
	0.1	0.5
Current assets		
Trade receivables	71.5	118.4
Value added tax	1.6	2.4
Foreign exchange contracts	2.9	2.9
Prepayments	8.8	8.5
Other receivables	0.5	1.4
	85.3	133.6
Total trade and other receivables	85.4	134.1

Other receivables includes £0.3m (2019 – £0.7m) of deferred consideration, £0.3m (2019 – £0.3m) as a current asset and £nil (2019 – £0.4m) as a non-current asset.

## 18. Trade and other receivables continued

### Credit risk

The Group's principal financial assets are bank balances and cash and trade receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Consolidated Balance Sheet are net of loss allowances. There are no other credit or impairment losses for other classes of financial assets.

Further disclosures on credit risk are included in Note 20.

The average credit period taken on sales of goods is 52 days (2019 – 51 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1.6m (2019 – £1.5m). In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. At 31 December 2020, the carrying amount of the receivable from the Group's most significant customer was £8.3m (2019 – £8.5m from the same customer). The Group has no other significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. Accordingly, the Directors believe that there is no further credit provision risk in excess of the loss allowance.

### Expected credit loss

	Year ended 2020 £m	Year ended 2019 £m
Movements in loss allowance:		
At 1 January	1.5	1.5
Provision for impairment	0.7	0.8
Disposal activities	–	(0.1)
Amounts written off as uncollectible	(0.2)	–
Amounts recovered	(0.3)	(0.6)
Exchange differences	(0.1)	(0.1)
At 31 December	1.6	1.5
Ageing analysis of past due, net of loss allowance:		
Up to 30 days past due	8.9	12.8
31 to 60 days past due	1.4	3.9
61 to 90 days past due	0.7	1.3
91 to 180 days past due	0.4	2.2
Total past due, net of loss allowance	11.4	20.2
Not past due	60.1	98.2
Total current trade receivables	71.5	118.4

There are no items past due in any other class of financial assets except for trade receivables.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Group does not hold any collateral as security.

# Notes to the Consolidated Financial Statements continued

## 19. Bank overdrafts and loans

	Year ended 2020 £m	Year ended 2019 £m
Bank overdrafts	0.4	0.7
Bank loans	20.9	13.0
Other loans	131.7	148.0
	<b>153.0</b>	<b>161.7</b>

The borrowings are repayable as follows:

On demand or within one year	0.4	15.7
In the second year	15.4	6.8
In the third to fifth years inclusive	90.6	21.2
After five years	46.6	118.0
	<b>153.0</b>	<b>161.7</b>
Less: amount due for settlement within 12 months (shown under current liabilities)	(0.4)	(15.7)
Amount due for settlement after 12 months	<b>152.6</b>	<b>146.0</b>

### Analysis of borrowings by currency

31 December 2020

	Total £m	Pound Sterling £m	Euros £m	US Dollars £m
Bank overdrafts	0.4	–	0.4	–
Bank loans	20.9	3.7	1.8	15.4
Other loans	131.7	26.9	24.9	79.9
	<b>153.0</b>	<b>30.6</b>	<b>27.1</b>	<b>95.3</b>

31 December 2019

	Total £m	Pound Sterling £m	Euros £m	US Dollars £m
Bank overdrafts	0.7	3.0	(1.8)	(0.5)
Bank loans	13.0	6.2	–	6.8
Other loans	148.0	26.9	23.6	97.5
	<b>161.7</b>	<b>36.1</b>	<b>21.8</b>	<b>103.8</b>

The weighted average interest rates paid were as follows:

	Year ended 2020 %	Year ended 2019 %
Bank loans and overdrafts	1.66	2.44
Other loans	3.08	3.49

Bank loans and overdrafts of £21.3m (2019 – £13.7m) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Group to fair value interest rate risk. No interest rate swaps were taken out in 2019 or 2020.



## 19. Bank overdrafts and loans continued

The Directors estimate the fair value of the Group's borrowings to be as follows:

	Year ended 2020 £m	Year ended 2019 £m
Bank loans and overdrafts	21.3	13.7
Other loans	131.9	154.9
	<b>153.2</b>	<b>168.6</b>

The fair value of Other loans has been determined by applying a make-whole calculation using the prevailing treasury bill yields plus the applicable credit spread for the Group (level 2 of the fair value hierarchy as defined in Note 20).

The other principal features of the Group's borrowings are as follows:

Bank overdrafts are repayable on demand. The effective interest rates on bank overdrafts are determined based on appropriate LIBOR rates plus applicable margin.

The Group's main loans are unsecured guaranteed loan notes in the US private placement market and revolving credit facilities.

- a) Loan notes of \$20m, 2020 £nil (2019 – £15.0m), taken out in October 2008, carried interest at the rate of 6.94% and were repaid in October 2020.
- b) Loan notes of €28m, 2020 £25.0m (2019 – £23.7m) were taken out in January 2017, carry interest at the rate of 1.51% and mature on 1 February 2027.
- c) Loan notes of \$20m, 2020 £14.6m (2019 – £15.0m) were taken out in October 2015 and are due for repayment in October 2022. The loan notes carry interest at the rate of 3.42% per annum.
- d) Loan notes of \$60m, 2020 £43.8m (2019 – £45.2m) were taken out in October 2015 and are due for repayment in October 2025. The loan notes carry interest at the rate of 3.75% per annum.
- e) Loan notes of £27m were drawn down in January 2018, carry interest at a rate of 2.35% and are due for repayment in January 2025.
- f) Loan notes of \$30m, 2020 £21.9m (2019 – £22.6m) were taken out in September 2018, carry interest at the rate of 4.18% and are due for repayment in September 2028.

Transaction costs of £0.6m, directly attributable to the GBP notes (£0.1m), the Euro notes (£0.1m) and the US Dollar notes (£0.4m), have been deducted from their carrying value.

The Group also has two revolving credit facilities.

A committed multi-currency revolving credit facility in the UK of £120m (2019 – £120m) which matures in February 2024. At 31 December 2020, £20.9m was outstanding under the £120m facility, comprising £4.5m, \$20m (£14.6m) and €2.0m (£1.8m). At 31 December 2019, £7.0m was drawn under the £120m facility.

A committed \$50m single bank (£36.5m) loans and letter of credit facility was amended in July 2020 and matures in June 2022. There were \$1.1m (£0.8m) loans drawn under the facility on 31 December 2020 and \$9.1m (£6.8m) loans drawn on 31 December 2019 and there were letters of outstanding credit of \$3.1m (£2.3m) (2019 – £1.1m).

Transaction costs of £0.8m have been deducted from the revolving credit facility carrying value.

As at 31 December 2020, the Group had available £132.5m (2019 – £142.7m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The weighted average maturity of the Group's committed facilities at 31 December is 3.8 years (2019 – 4.4 years).

## 20. Financial instruments

### Capital risk management

The Group manages its capital structure to safeguard its ability to continue as a going concern whilst maximising the return to stakeholders through the optimisation of the balance between debt and equity. In considering the appropriate level of net debt, the Group pays close attention to its level as compared to the cash generation potential of the Group, measured by EBITDA (defined in the Notes to the Financial Headlines). The Group also monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is derived in Note 32c. Lease liabilities are excluded from net debt in calculating the gearing ratio. Total capital is the equity shown in the Consolidated Balance Sheet.

The Group's strategy in respect of gearing is to target a long-term gearing ratio within the range of 30% to 60%. The gearing ratio for the Group at the end of 2020 was 33% (2019 – 26%).

All of the Group's external borrowing facilities at 31 December 2020 have a requirement for the ratio of net debt to EBITDA to be less than 3.0x (US Private Placements and US RCF) or 3.5x (UK RCF). The adoption of IFRS 16 does not impact the Group's lending covenants as these are currently based on frozen GAAP, hence figures quoted below exclude the impact of IFRS 16 on net debt, interest and EBITDA. As required by the covenant definition, net debt is restated using 12-month average exchange rates (consistent with EBITDA definition).

The Group has two existing covenants ("Existing Covenants") for committed borrowing facilities, which are tested at June and December; the Group's net debt to EBITDA must not exceed 3.0x and interest cover, the ratio of EBITDA to interest must be higher than 3.5x. The Group's lenders, both banks and US private placement investors, have been supportive and we agreed covenant relaxations ("New Covenants") in relation to the June 2020, December 2020, June 2021 and December 2021 testing periods and agreed an additional September 2021 testing period (measured on 1 October 2021) to provide financial flexibility for the Group through this unprecedented period.

# Notes to the Consolidated Financial Statements continued

## 20. Financial instruments continued

For the testing period ended 31 December 2020, the New Covenants required the Group's net debt to EBITDA must not exceed 6.0x, interest cover must be higher than 2.0x and liquidity headroom must be higher than £40.0m. Liquidity headroom is defined as total committed facilities, less net debt before lease liabilities. At 31 December 2020, the Group's net debt to EBITDA was 2.8x (31 December 2019 – 1.1x) and interest cover was 6.1x (31 December 2019 – 16.9x), both within the Existing Covenants and comfortably within the New Covenants limits. The Group's liquidity headroom at £157.1m was also comfortably within covenant limits.

### Financial risk management

The Group's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall treasury risk management programme focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Group's Treasury Committee on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

### Foreign exchange risk management

The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on the operations' trading activities in foreign currencies. Where commented on below, the sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and left unchanged throughout the reporting period, with all other variables held constant (such as interest rates). The sensitivity assumptions are based on analysis reviewed by the Group's Treasury Committee.

### Translation risk

The Group derived 86% of its revenue from businesses outside the United Kingdom, with 65% relating to operations in North America. Fluctuations in the value of the US Dollar and other currencies in relation to Pound Sterling have had, and may continue to have, a significant impact on the results of the Group's operations when reported in Pound Sterling. The Group decided not to hedge this translation risk. In addition, the majority of assets are denominated in foreign currency, particularly in US Dollars. In order to provide a hedge against volatility in the value of these assets compared to the Group's loss/earnings, and hence provide a natural hedge against the Group's principal lending covenant (the ratio of net debt to EBITDA), the Group aims to borrow in foreign currencies in similar proportions to its generation of foreign currency EBITDA, where practical and economic. A 10% appreciation (or depreciation) of all other currencies against the Pound Sterling would have increased (or decreased) 2020 Group adjusted operating profit by £1.9m (£2.0m of which would have been due to the US Dollar movement) and would have increased (or decreased) equity by £26.9m (£14.7m of which would have been due to the US Dollar movement).

### Transaction risk

The Group has a number of transaction-related foreign currency exposures, particularly between the US Dollar and the Pound Sterling, Thai Baht and Malaysian Ringgit. The Group seeks to hedge between 0% to 100% of transaction-related exposures mainly on a rolling 15 to 18-month forward basis, but in some cases for periods of up to 60 months and applies hedge accounting where the forwards can be designated in a qualifying cash flow hedge relationship. Based on the net of the annual sales and purchase-related exposures, all transaction-related foreign currency exposures to Group profit after hedging in existence at 31 December 2020 are immaterial. The impact on equity is determined by the unrecognised portion of open forward contracts at the year-end. A 10% appreciation (or depreciation) of the US Dollar against the Pound Sterling, Thai Baht and the Malaysian Ringgit would have decreased (or increased) equity by £7.6m, £0.9m and £1.8m, respectively.

### Interest rate risk management

The Group has a policy of maintaining approximately 60% of its borrowing costs at fixed interest rates. The Group generally borrows long-term in fixed rates but at times may borrow at floating rates and swap into fixed depending on credit market conditions. Occasionally a portion of fixed debt interest is swapped into floating rates. The combination of maintaining an acceptable balance of fixed and floating rate debt, and the Group's policy of borrowing in foreign currency in proportion to its generation of foreign currency earnings, provides an effective hedge against the impact of interest rate and foreign currency volatility on total interest costs. As at year end 2020, the percentage of debt at fixed interest was 90% (2019 – 91%), excluding IFRS 16 lease liabilities from debt.

The following sensitivity analysis of the Group's exposure to interest rate risk in 2020 has been retrospectively determined based on the exposure to applicable interest rates on financial assets and liabilities held throughout the financial year, with all other variables held constant (such as foreign exchange rates). The sensitivity assumptions are based on analysis reviewed by the Group's Treasury Committee. If variable interest rates had been 0.5% lower (or higher), the Group's profit before tax would have increased (or decreased) by £0.3m. Any fixed interest debt is held to maturity and not fair value adjusted through the Consolidated Income Statement. An increase (or decrease) of 0.5% in the market interest rate for the fixed rate debt held up to maturity would have decreased (or increased) the fair value of the Group's borrowings by £3.0m. The Group's sensitivity to interest rates has remained broadly consistent with prior period due to the high proportion of fixed debt.

## 20. Financial instruments continued

### Credit risk management

The Group's credit risk is primarily attributable to its trade receivables. The credit quality of customers is assessed taking into account their financial position, past experience and other factors. Further details on determining the recoverability of trade receivables is provided in Note 18. The Group is guarantor under five leases in the UK, three of which arose on the disposal of a former Group-owned subsidiary. Credit risk on liquid funds and derivative financial instruments is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The carrying amount of financial assets recorded in the Financial Statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

The Group participates in some non-recourse reverse factoring schemes which are arranged by customers. These are a form of non-recourse factoring that are common practice within the aerospace sector and with large customers in the Flexonics Division. In a reverse factoring scheme, a financial counterparty commits to pay supplier invoices ahead of due date in exchange for a discount interest charge. It is a funding solution initiated by the customer to provide the supplier with a low-cost financing arrangement. The Group participates in reverse factoring schemes as a way of reducing credit risk. The trade receivables reverse factored at 31 December 2020 were £17.6m (2019 – £30.9m). The net impact of reverse factoring on 2020 was a cash outflow in working capital of £13.3m (2019 – £13.0m inflow) and the discount interest presented within other finance costs is a charge of £0.2m in 2020 (2019 – £0.5m).

### Liquidity risk management

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and revolving credit facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash flow forecasts are produced monthly, together with appropriate capacity planning and scenario analysis, to ensure that bank covenant and liquidity targets will be met. The Directors also regularly assess the balance of capital and debt funding of the Group, as part of a process to satisfy the Group's long-term strategic funding requirements.

As noted in the Financial Review on pages 42 to 46, the Group is currently in a well-funded position, with supportive lenders and has significant headroom under its committed borrowing facilities.

	Year ended 2020 £m	Year ended 2019 £m
Carrying value of financial assets:		
Cash and cash equivalents	23.6	15.8
Trade receivables	71.5	118.4
Other receivables	0.6	1.9
Financial assets at amortised cost	95.7	136.1
Foreign exchange contracts – cash flow hedges	2.7	2.9
Foreign exchange contracts – held for trading	0.2	–
Total financial assets	98.6	139.0
Carrying value of financial liabilities:		
Bank overdrafts and loans	153.0	161.7
Lease liabilities	76.5	83.7
Trade payables	57.8	86.2
Other payables	49.1	54.2
Financial liabilities at amortised cost	336.4	385.8
Foreign exchange contracts – cash flow hedges	1.9	5.0
Foreign exchange contracts – held for trading	0.5	–
Total financial liabilities	338.8	390.8
Undiscounted contractual maturity of financial liabilities at amortised cost:		
Amounts payable:		
On demand or within one year	121.1	171.8
In the second to fifth years inclusive	125.8	78.0
After five years	144.8	199.4
	391.7	449.2
Less: future finance charges	(55.3)	(63.4)
Financial liabilities at amortised cost	336.4	385.8

The carrying amount is a reasonable approximation of fair value for the financial assets and liabilities, excluding leases, noted above except for bank overdrafts and loans, disclosure of which are included within Note 19.

An ageing analysis of trade receivables is disclosed within Note 18.

# Notes to the Consolidated Financial Statements continued

## 20. Financial instruments continued

### Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to hedge the exchange risk arising on the operation's trading activities in foreign currencies in accordance with the Group's accounting policy as set out in Note 2. At the Balance Sheet date, total notional amounts and fair values of outstanding forward foreign exchange contracts that the Group have committed are given below:

	Year ended 2020 £m	Year ended 2019 £m
Notional amounts:		
Foreign exchange contracts – cash flow hedges	<b>118.8</b>	180.5
Foreign exchange contracts – held for trading	<b>9.4</b>	–
Total	<b>128.2</b>	180.5
Less: amounts maturing within 12 months	<b>(75.0)</b>	(103.8)
Amounts maturing after 12 months	<b>53.2</b>	76.7
Contractual maturity:		
Cash flow hedges balances due within one year:		
Outflow	<b>64.6</b>	104.6
Inflow	<b>(66.2)</b>	(104.3)
Cash flow hedges balances due between one and two years:		
Outflow	<b>28.1</b>	31.7
Inflow	<b>(27.3)</b>	(31.0)
Cash flow hedges balances due between two and five years:		
Outflow	<b>25.7</b>	48.0
Inflow	<b>(25.9)</b>	(45.7)
Held for trading balances due within one year:		
Outflow	<b>9.4</b>	–
Inflow	<b>(9.1)</b>	–
Fair values:		
Foreign exchange contracts – cash flow hedges	<b>0.8</b>	(2.1)
Foreign exchange contracts – held for trading	<b>(0.3)</b>	–
Total asset/(liability)	<b>0.5</b>	(2.1)

These fair values are based on market values of equivalent instruments at the Balance Sheet date, comprising £2.9m (2019 – £2.9m) assets included in trade and other receivables and £2.4m (2019 – £5.0m) liabilities included in trade and other payables. The fair value of currency derivatives that are designated and effective as cash flow hedges amounting to £0.8m gain (2019 – £1.8m loss) has been deferred in equity.



## 20. Financial instruments continued

### Fair values

The following table presents an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1–3 based on the degree to which the fair value is observable:

Level 1	those fair values derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2	those fair values derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3	those fair values derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There has not been any transfer of assets or liabilities between levels. There are no non-recurring fair value measurements. Level 2 fair values are derived from future cash flows, of open forward contracts at 31 December, translated by the difference between contractual rates and observable forward exchange rates.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
31 December 2020				
<b>Assets</b>				
Foreign exchange contracts – cash flow hedges	–	2.7	–	2.7
Foreign exchange contracts – held for trading	–	0.2	–	0.2
Total assets	–	2.9	–	2.9
<b>Liabilities</b>				
Foreign exchange contracts – cash flow hedges	–	1.9	–	1.9
Foreign exchange contracts – held for trading	–	0.5	–	0.5
Total liabilities	–	2.4	–	2.4
31 December 2019				
<b>Assets</b>				
Foreign exchange contracts – cash flow hedges	–	2.9	–	2.9
Total assets	–	2.9	–	2.9
<b>Liabilities</b>				
Foreign exchange contracts – cash flow hedges	–	5.0	–	5.0
Total liabilities	–	5.0	–	5.0

An amount of £nil (2019 – £1.0m profit) has been transferred to the Consolidated Income Statement, and is included within operating loss (2019 – profit). There was no ineffectiveness to be recorded from foreign exchange cash flow hedges.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Ineffectiveness is recognised on a cash flow hedge where the cumulative change in the designated component value of the hedging instrument exceeds on an absolute basis the change in value of the hedged item attributable to the hedged risk. In hedges of the above foreign exchange contracts this may arise if the timing of the transaction changes from what was originally estimated.

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 60 months. Amounts deferred in equity are recognised in the Consolidated Income Statement in the same period in which the hedged items affect profit or loss, which is generally within 12 months from the Balance Sheet date.

In 2020 some cash flow hedging relationships were discontinued because forecast foreign currency transactions were no longer highly probable and no longer expected to occur. Previously accumulated gains or losses on the forward contracts were immediately reclassified to the income statement. These forward contracts, and the forward contracts entered to unwind the position, that remain at 31 December 2020 are presented in the balance sheet as held for trading assets or liabilities.

# Notes to the Consolidated Financial Statements continued

## 21. Tax balance sheet

### Current tax

The current tax receivable of £3.0m (2019 – £3.5m) includes excess tax paid to tax authorities that is expected to be recovered within 12 months by way of offset against future tax liabilities or refund.

The majority of the Group's taxable profits arise in countries, including the US, where the estimated tax liabilities are paid in on-account instalments during the year to which they relate and are largely paid at the Balance Sheet date. The current tax liability of £19.8m (2019 – £26.6m) represents £0.3m (2019 – £4.1m) tax due on profits of the current and prior years as well as £19.5m (2019 – £22.5m) provisions for tax uncertainties that represent amounts expected to be paid but by their nature, there is uncertainty over timing and eventual settlement.

The Group recognises provisions for tax items which are considered to have a range of possible tax outcomes and separately accounts for interest that may be due thereon. The range of reasonably possible outcomes considered by the Board could increase those tax liabilities by £8.0m (2019 – £9.2m). These uncertainties exist due to a number of factors including differing interpretations of local tax laws and the determination of appropriate arm's length pricing in accordance with OECD transfer pricing principles on internal transactions and financing arrangements. In calculating the carrying amount of provisions, Management estimates the tax which could become payable as a result of differing interpretations and decisions by tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. In accordance with IFRIC 23, individual provisions are established based on an assessment of whether it is the most likely individual outcome, or the expected outcome on a probability basis that is likely to best reflect the resolution of the uncertainty.

### Deferred tax liabilities and assets

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation £m	Unrealised FX gains £m	Goodwill and intangible amortisation £m	Retirement benefits £m	R&D tax credits £m	Tax losses £m	Other temporary differences £m	Total £m
At 1 January 2019	16.8	(1.2)	28.7	2.4	–	–	(10.5)	36.2
Charge/(credit) to Consolidated Income Statement	3.9	–	(2.0)	2.0	(2.0)	(0.2)	(9.2)	(7.5)
Charge to other comprehensive income	–	1.2	–	2.1	–	–	0.4	3.7
Balances acquired/disposed	(0.4)	(0.4)	–	0.6	–	–	–	(0.2)
Exchange differences	(0.9)	–	(1.1)	0.1	0.1	–	0.7	(1.1)
At 1 January 2020	<b>19.4</b>	<b>(0.4)</b>	<b>25.6</b>	<b>7.2</b>	<b>(1.9)</b>	<b>(0.2)</b>	<b>(18.6)</b>	<b>31.1</b>
(Credit)/charge to Consolidated Income Statement	<b>(2.3)</b>	<b>0.5</b>	<b>(18.5)</b>	<b>0.5</b>	<b>(4.4)</b>	<b>(3.2)</b>	<b>(3.0)</b>	<b>(30.4)</b>
Charge/(credit) to other comprehensive income	–	<b>0.5</b>	–	<b>(1.6)</b>	–	–	–	<b>(1.1)</b>
Balances acquired/disposed	–	–	–	–	–	–	–	–
Exchange differences	<b>(0.4)</b>	<b>0.1</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	–	<b>0.5</b>	<b>1.2</b>
<b>Liability/(asset) at 31 December 2020</b>	<b>16.7</b>	<b>0.7</b>	<b>7.5</b>	<b>6.4</b>	<b>(6.0)</b>	<b>(3.4)</b>	<b>(21.1)</b>	<b>0.8</b>

The net movement of £18.5m in the year in respect of Goodwill and intangible amortisation includes a £21.7m credit associated with the impairment of goodwill in respect of historical acquisitions against which a deferred tax liability was recorded.

Other temporary differences include assets in the US of £16.1m (2019 – £10.6m) in respect of inventory provisions, accruals and other expenses where tax relief is only available when items are realised or paid. Also included are assets held in respect of IFRS 16 of £1.1m (2019 – £0.4m), share based compensation £0.3m (2019 – £0.5m) and interest expense in the US where tax relief is subject to a cap linked to annual profits of £nil (2019 – £6.9m). The decrease in asset in respect of interest expense arose from measures enacted by the US Coronavirus, Aid, Relief and Economic Security (CARES) Act.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances, after offset:

	Year ended 2020 £m	Year ended 2019 £m
Deferred tax liabilities	<b>5.5</b>	32.8
Deferred tax assets	<b>(4.7)</b>	(1.7)
	<b>0.8</b>	31.1

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, including those arising from the reversal of other taxable temporary differences, against which the assets can be utilised. At the Balance sheet date the Group has recognised deferred tax assets in respect of losses of £3.4m (2019 – £0.2m), including £2.4m (2019 – £nil) recognised against deferred tax liabilities and £1.0m (2019 – £0.2m) recognised based on anticipated profits in the Group's five year forecast to 2025 as approved by the Board. Due to uncertainty as to the availability of future profits against which tax losses may be utilised, £25.8m (2019 – £16.2m) of losses have not been recognised. Included in unrecognised tax losses are losses of £9.6m (2019 – £4.0m) that will expire over a period of one to nine years. Other losses may be carried forward indefinitely.

At the Balance Sheet date, a deferred tax liability of £0.1m (2019 – £0.1m) has been recognised in respect of the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries expected to reverse in the foreseeable future. No temporary difference has been recognised in respect of £38.7m (2019 – £48.6m) of undistributed earnings, which may be subject to a withholding tax, as the Group is in a position to control the timing of the reversal of the temporary differences and it is not probable that such differences will reverse in the foreseeable future. At the Balance Sheet date, the Group had £5.0m (2019 – £5.0m) of surplus Advanced Corporation Tax ('ACT'), previously written off, for which no deferred tax asset has been recognised as it is unlikely to be recovered in the foreseeable future due to the UK earnings profile. The Group also has £18.0m (2019 – £18.0m) of unused capital losses.

## 22. Lease liabilities

When measuring lease liabilities, the Group discounts lease payments using incremental borrowing rates, determined on a lease portfolio basis.

	Year ended 2020 £m	Year ended 2019 £m
Undiscounted contractual maturity of lease liabilities:		
Amounts payable:		
On demand or within one year	10.3	10.6
In the second to fifth years inclusive	30.9	34.1
After five years	67.3	74.4
	108.5	119.1
Less: future finance charges	(32.0)	(35.4)
Lease liabilities	76.5	83.7

	Year ended 2020 £m	Year ended 2019 £m
Amounts recognised in the Consolidated Income Statement:		
Interest on lease liabilities	3.0	3.5
Income from sub-leasing right-of-use assets	(0.1)	(0.1)
Expenses relating to short-term leases	0.1	0.4
Expenses relating to low value leases	—	—
	3.0	3.8

	Year ended 2020 £m	Year ended 2019 £m
Amounts recognised in the Consolidated Cash Flow Statement:		
Cash outflow for leases	10.9	11.3

## 23. Trade and other payables

Trade and other payables at 31 December comprise the following:

	Year ended 2020 £m	Year ended 2019 £m
Current liabilities		
Trade payables	57.8	86.2
Social security and PAYE	7.9	3.7
Value added tax	2.4	1.1
Foreign exchange contracts	2.4	5.0
Accrued expenses	55.6	61.3
Total trade and other payables	126.1	157.3

The Directors consider that the carrying amount of trade payables approximates to their fair value.

The average credit period taken for trade purchases is 55 days (2019 – 55 days).

## Notes to the Consolidated Financial Statements continued

## 24. Provisions

	Warranty £m	Restructuring £m	Legal claims and contractual matters £m	Total £m
At 1 January 2019	5.5	–	6.0	11.5
Additional provision in the year	2.2	4.2	11.8	18.2
Utilisation of provision	(0.7)	(1.3)	(3.3)	(5.3)
Release of unused amounts	(0.7)	–	(1.4)	(2.1)
Exchange differences	(0.3)	–	(0.5)	(0.8)
At 1 January 2020	<b>6.0</b>	<b>2.9</b>	<b>12.6</b>	<b>21.5</b>
Additional provision in the year	<b>1.9</b>	<b>21.2</b>	<b>3.1</b>	<b>26.2</b>
Utilisation of provision	<b>(1.1)</b>	<b>(15.2)</b>	<b>(5.5)</b>	<b>(21.8)</b>
Release of unused amounts	<b>(0.1)</b>	–	–	<b>(0.1)</b>
Exchange differences	<b>(0.1)</b>	–	<b>0.1</b>	–
<b>At 31 December 2020</b>	<b>6.6</b>	<b>8.9</b>	<b>10.3</b>	<b>25.8</b>
Included in current liabilities	<b>4.4</b>	<b>8.9</b>	<b>10.2</b>	<b>23.5</b>

**Warranty**

Provisions for warranty costs are based on an assessment of future claims with reference to past experience. £4.4m of costs are expected to settle within the next 12 months.

**Restructuring**

The Group continued to implement further restructuring in 2020, discussed in further detail in Note 9. The amount recorded is expected to be fully utilised in 2021.

**Legal claims and contractual matters**

This includes £2.4m (2019 – £2.5m) for costs associated with class action lawsuits claiming that Ametek had polluted the groundwater during its tenure as owners of the site where Senior Aerospace Ketema is currently located. The liability was settled via the Courts in the prior year, however the COVID-19 pandemic has delayed the cash settlement, with £0.1m paid in 2020 and the remaining settlement payments scheduled for the first half of 2021. The remaining provision of £7.9m (2019 – £6.4m) relates to contractual matters that have arisen in the ordinary course of business, the settlement of which are subject to ongoing discussions. During the year ended 31 December 2020, £3.8m was paid relating to the wage and hour class action lawsuit in the US, comprising £3.7m provision at 1 January 2020 and £0.1m of exchange differences. Management exercises judgement to determine the best estimate of the most likely outcome, having considered each provision separately and the possible range of outcomes. Amounts are recorded for known issues based on past experience of similar items and other known factors and circumstances. As with any judgement there is a high degree of inherent uncertainty, particularly with legal proceedings and claims, and the actual amounts of the settlement could differ from the amount provided.

## 25. Share capital

	Year ended 2020 £m	Year ended 2019 £m
Issued and fully paid:		
419.4 million ordinary shares of 10p each	<b>41.9</b>	41.9

No shares were issued during 2020 and 2019.

The Company has one class of ordinary shares which carry no right to fixed income.

## 26. Share premium account

	Year ended 2020 £m	Year ended 2019 £m
Balance at 1 January	<b>14.8</b>	14.8
Movement in year	–	–
Balance at 31 December	<b>14.8</b>	14.8



## 27. Equity reserve

	Year ended 2020 £m	Year ended 2019 £m
Balance at 1 January	5.5	5.7
Transfer to retained earnings reserve	(3.4)	(2.0)
Movement in year	3.0	1.8
Balance at 31 December	5.1	5.5

The transfer to retained earnings reserve is in respect of equity-settled share-based payments that vested during the year.

The movement in the year of £3.0m (2019 – £1.8m) is in respect of the share-based payment charge for the year.

## 28. Hedging and translation reserves

	Hedging reserve Year ended 2020 £m	Translation reserve Year ended 2020 £m	Total Year ended 2020 £m	Hedging reserve Year ended 2019 £m	Translation reserve Year ended 2019 £m	Total Year ended 2019 £m
Balance at 1 January	(40.2)	79.1	38.9	(46.7)	95.1	48.4
Exchange differences on translation of overseas operations	–	(3.6)	(3.6)	–	(11.5)	(11.5)
Foreign exchange losses/(gains) recycled to the Income Statement on restructuring (business closures) and disposal activities	0.9	(0.4)	0.5	1.5	(4.5)	(3.0)
Change in fair value of hedging derivatives	2.6	–	2.6	6.2	–	6.2
Tax on foreign exchange contracts- cash flow hedges	(0.5)	–	(0.5)	(1.2)	–	(1.2)
Balance at 31 December	(37.2)	75.1	37.9	(40.2)	79.1	38.9

### Hedging Reserve

At 31 December 2020, the hedging reserve comprises net investment hedging losses of £37.8m (2019 – £38.7m), foreign exchange contracts – cash flow hedge gains of £0.8m (2019 – £1.8m losses) and related tax losses of £0.2m (2019 – £0.3m gains).

Movement in fair value of foreign exchange contracts – cash flow hedges:

	Derivatives at fair value through Hedging Reserve Year ended 2020 £m	Derivatives at fair value through Income Statement Year ended 2020 £m	Total Year ended 2020 £m	Derivatives at fair value through Hedging Reserve Year ended 2019 £m	Derivatives at fair value through Income Statement Year ended 2019 £m	Total Year ended 2019 £m
Balance at 1 January	(1.8)	(0.3)	(2.1)	(8.0)	(1.3)	(9.3)
Fair value movement recognised in Hedging reserve	2.0	–	2.0	7.2	–	7.2
Fair value movement recognised in Income Statement	–	0.6	0.6	–	–	–
Fair value movement recognised in Hedging reserve and Income Statement	0.6	(0.6)	–	(1.0)	1.0	–
Balance at 31 December	0.8	(0.3)	0.5	(1.8)	(0.3)	(2.1)

The Group uses foreign currency forward contracts to manage its foreign currency risk associated with its highly probable forecast transactions. These contracts are designated as cash flow hedge relationships. To the extent these hedges are effective, the change in fair value of the hedging instrument is recognised in the hedging reserve. The sum of the fair value of foreign exchange contracts deferred in the hedging reserve and recognised in the Income Statement is presented as foreign exchange contracts – cash flow hedges. See Note 20 for further details.

### Costs of Hedging

The group designates the forward component of foreign currency forward contracts as hedging instruments in cash flow hedge relationships.

## 29. Retained earnings

	Year ended 2020 £m	Year ended 2019 £m
Balance at 1 January	472.5	469.0
IFRIC 23 opening balance adjustment	–	(4.8)
Dividends paid	–	(31.2)
(Loss)/profit for the year	(158.5)	29.2
Pension actuarial (loss)/gain	(11.4)	11.1
Transfer from equity reserve	3.4	2.0
Transfer from own share reserve	(2.5)	(0.3)
Tax on deductible temporary differences	1.6	(2.5)
Balance at 31 December	305.1	472.5

# Notes to the Consolidated Financial Statements continued

## 30. Own shares

	Year ended 2020 £m	Year ended 2019 £m
Balance at 1 January	(14.0)	(8.0)
Transfer to retained earnings reserve	2.5	0.3
Purchase of new shares	–	(6.3)
Balance at 31 December	(11.5)	(14.0)

The own shares reserve represents the cost of shares purchased in the market and held by the Senior plc Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 33).

At 31 December 2020, the number of own shares held by the Senior Plc Employee Benefit Trust is 4,336,043 (2019 – 5,271,848).

## 31. Disposal activities

In the year ended 31 December 2020, employee related and external professional costs associated with the potential divestments, primarily related to the Aerostructures business, were £4.6m and the Group received £0.4m deferred consideration relating to the disposal of its Aerospace business Senior Aerospace Absolute Manufacturing ("Absolute").

In February 2019, the Group sold its Flexonics operating company in France, Senior Flexonics Blois SAS ("Blois") that focused on the European passenger vehicles end market. In September 2019, the Group disposed its Flexonics operating company in Brazil, Senior Flexonics Brasil Ltda ("São Paulo"), serving the local automotive and power & energy markets. In October 2019, the Group sold Absolute based in Washington State, USA that focused on small build-to-print precision machined components. These transactions fit with the Prune to Grow strategy and enable 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 year ended 31 December 2019, the external revenue of these disposed businesses was £16.1m and their adjusted operating loss was £2.4m. A charge of £22.0m arose on disposal after taking into account £0.9m of professional fees incurred in connection with disposal activities and the fair value of net assets disposed after costs (£27.7m including £8.1m of goodwill, £11.9m of property, plant and equipment, £5.4m of inventories, £7.7m of cash balances and £4.5m of lease liabilities), offset by cash considerations of £2.9m, deferred consideration of £0.7m and previously recorded foreign exchange gain that has been recycled to the Income Statement of £3.0m.

## 32. Notes to the consolidated cash flow statement

### A) Reconciliation of operating loss to net cash from operating activities

	Year ended 2020 £m	Year ended 2019 £m
Operating (loss)/profit	(177.3)	61.6
Adjustments for:		
Depreciation of property, plant and equipment	52.1	52.5
Amortisation of intangible assets	9.5	15.2
Profit on sale of fixed assets	(0.1)	–
Share-based payment charges	3.0	1.8
Pension payments in excess of service cost	(5.0)	(8.7)
Costs on disposal activities	(4.6)	(3.4)
Share of joint venture	(0.2)	(0.4)
Decrease/(increase) in inventories	19.6	(1.9)
Decrease in receivables	48.1	24.5
Decrease in payables and provisions	(20.1)	(12.9)
Goodwill impairment and write-off	134.3	–
Restructuring impairment of property, plant and equipment and software	8.0	2.9
US class action lawsuits	(3.9)	2.6
Working capital and provisions currency movements	(0.2)	(1.4)
Cash generated by operations	63.2	132.4
Income taxes paid	(3.5)	(5.3)
Interest paid	(10.8)	(11.2)
Net cash from operating activities	48.9	115.9

### 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, restructuring, disposal activities, financing and transactions with shareholders. It is used as a performance measure by the Board and Executive Committee and is derived as follows:

	Notes	Year ended 2020 £m	Year ended 2019 £m
Net cash from operating activities		48.9	115.9
Costs on disposal activities	9	4.6	3.4
Restructuring cash paid	24	15.2	2.9
US class action lawsuits	24	3.9	–
Interest received		0.2	0.2
Proceeds on disposal of property, plant and equipment		0.5	0.7
Purchases of property, plant and equipment		(25.2)	(63.0)
Purchase of intangible assets		(1.6)	(1.8)
Free cash flow		46.5	58.3

### C) Analysis of net debt

	Notes	At 1 January 2020 £m	Net cash flow £m	Non cash £m	Exchange movement £m	Other lease movements £m	At 31 December 2020 £m
Cash and bank balances		15.8	7.9	–	(0.1)	–	23.6
Overdrafts		(0.7)	0.2	–	0.1	–	(0.4)
Cash and cash equivalents		15.1	8.1	–	–	–	23.2
Debt due within one year		(15.0)	15.7	–	(0.7)	–	–
Debt due after one year		(146.0)	(8.5)	–	1.9	–	(152.6)
Lease liabilities	22	(83.7)	7.9	–	1.2	(1.9)	(76.5)
Liabilities arising from financing activities		(244.7)	15.1	–	2.4	(1.9)	(229.1)
Total		(229.6)	23.2	–	2.4	(1.9)	(205.9)

Other lease movements include lease additions and modifications of £1.9m.

# Notes to the Consolidated Financial Statements continued

## 32. Notes to the consolidated cash flow statement continued

### C) Analysis of net debt continued

	Notes	At 1 January 2019 £m	Net cash flow £m	Non cash £m	Exchange movement £m	Other lease movements £m	At 31 December 2019 £m
Cash and bank balances		17.2	(0.8)	–	(0.6)	–	15.8
Overdrafts		(0.2)	(0.5)	–	–	–	(0.7)
Cash and cash equivalents		17.0	(1.3)	–	(0.6)	–	15.1
Debt due within one year		(2.5)	2.5	(15.6)	0.6	–	(15.0)
Debt due after one year		(167.3)	0.7	15.6	5.0	–	(146.0)
Lease liabilities	22	(96.3)	7.8	–	2.3	2.5	(83.7)
Liabilities arising from financing activities		(266.1)	11.0	–	7.9	2.5	(244.7)
Total		(249.1)	9.7	–	7.3	2.5	(229.6)

Other lease movements include lease additions and modifications of £2.0m and leases disposed on disposal activities of £4.5m.

	Year ended 2020 £m	Year ended 2019 £m
Cash and cash equivalents comprise:		
Cash and bank balances	23.6	15.8
Overdrafts	(0.4)	(0.7)
Total	23.2	15.1

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

### D) Analysis of working capital and provisions

Working capital comprises the following:

	Year ended 2020 £m	Year ended 2019 £m
Inventories	147.6	169.3
Trade and other receivables	85.3	133.6
Trade and other payables	(126.1)	(157.3)
Working capital, including derivatives	106.8	145.6
Items excluded:		
Foreign exchange contracts	(0.5)	2.1
Deferred consideration relating to disposals – current	(0.3)	(0.3)
Total	106.0	147.4

Working capital and provisions movement, net of restructuring items, a non-statutory cash flow item, is derived as follows:

	Year ended 2020 £m	Year ended 2019 £m
Decrease/(Increase) in inventories	19.6	(1.9)
Decrease in receivables	48.1	24.5
Decrease in payables and provisions	(20.1)	(12.9)
Working capital and provisions movement, excluding currency effects	47.6	9.7
Items excluded:		
Increase in restructuring related inventory impairment	(9.3)	(3.4)
Increase in restructuring provision	(6.0)	(2.9)
Total	32.3	3.4



### 33. Share-based payments

The Group recognised total expenses of £3.0m (2019 – £1.7m) related to share-based payments, of which £3.0m (2019 – £1.8m) related to equity-settled share-based payments, and £nil (2019 – £0.1m credit) related to social security costs on share-based payments. As at 31 December 2020, the Group had a liability of £0.1m (2019 – £0.1m) arising from share-based payments relating to social security costs.

#### A) 2005 Long-Term Incentive Plan

##### Equity-settled Long-Term Incentive Plans

On 9 March 2020, 3,576,238 shares were awarded under the 2005 Long-Term Incentive Plan. Awards under this plan have a three-year vesting period, subject to earnings per share (EPS) and total shareholder return (TSR) performance conditions being met. Half the awards have an attaching performance target for EPS growth over the three-year performance period of at least 4% per annum above RPI. The other half of the awards begin to vest if the Group's TSR falls in the top half of a comparator group at the end of the three-year performance period. Vesting levels increase with higher performance. The awards are settled by delivering shares to the participants.

The estimated fair value for the awards granted in the year, excluding for the Executive Directors, with EPS conditions is 139.80p, which is the share price at the date of grant. The estimated fair value for the awards granted in the year, excluding for the Executive Directors, with TSR conditions is 53.60p per share reflecting an adjustment of 62% to the fair value of the awards with EPS conditions due to the stringent TSR condition. The respective fair values for awards made to the Executive Directors is 128.60p and 49.30p reflecting the two year retention period.

These fair values were calculated by applying a binomial option pricing model. This model incorporates a technique called "bootstrapping", which models the impact of the TSR condition. The model inputs at the date of grant were the share price (139.80p for the main award), expected volatility of 26% per annum, and the performance conditions as noted above. Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years.

The following share awards were outstanding as at 31 December 2020 and 2019:

	Year ended 2020 Number of shares	Year ended 2019 Number of shares
Outstanding at 1 January	6,370,205	5,732,305
Granted	3,576,238	2,437,086
Exercised	(663,104)	–
Forfeited	(2,193,772)	(1,799,186)
Outstanding at 31 December	7,089,567	6,370,205

#### B) Enhanced SMIS Deferred Share Award

On 9 March 2020, 794,715 shares were awarded under the Enhanced SMIS Deferred Share Award. Shares earned under this 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.

The estimated fair value for the awards granted in the year is 139.80p per share, which is the share price at the date of grant.

The following share awards were outstanding as at 31 December 2020 and 2019:

	Year ended 2020 Number of shares	Year ended 2019 Number of Shares
Outstanding at 1 January	1,187,669	771,170
Granted	794,715	610,291
Exercised	(247,701)	(140,949)
Forfeited	–	(52,843)
Outstanding at 31 December	1,734,683	1,187,669

# Notes to the Consolidated Financial Statements continued

## 33. Share-based payments continued

### C) Savings-Related Share Option Plan

The Company operates a Savings-Related Share Option Plan for eligible employees across the Group. There are no performance criteria for this arrangement 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 8 May 2019.

The following options were outstanding as at 31 December 2020 and 2019:

	Year ended 2020		Year ended 2019	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding at 1 January	4,390,225	215.95p	3,642,782	218.60p
Granted	–	–	2,764,050	219.30p
Exercised	–	–	(12,902)	220.96p
Forfeited	(1,880,038)	212.34p	(1,869,647)	218.45p
Expired	(566,066)	222.00p	(134,058)	321.70p
Outstanding at 31 December	1,944,121	217.67p	4,390,225	215.95p
Exercisable at 31 December	261,180	207.20p	566,066	222.00p

No shares were exercised in 2020. 12,902 shares were exercised in 2019. The weighted average share price at the date of exercise for share options exercised during 2019 was 224.41p. The options outstanding at 31 December 2020 had exercise prices of 219.30p and 207.20p per share, and a weighted average remaining contractual life of 1.7 years. The options outstanding at 31 December 2019 had exercise prices of 219.30p, 207.20p and 222.00p per share, and a weighted average remaining contractual life of 2.0 years.

### D) Restricted share awards

On 9 March 2020, 100,000 shares were awarded under this plan. On 11 September 2020, a further 1,973,538 shares were awarded under this plan. Shares granted under this 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.

The estimated fair value for the awards granted in the year is 139.80p per share for the awards granted on 9 March 2020 and 49.90p per share for the awards granted on 11 September 2020, which are the share prices at the dates of grant.

The following share awards were outstanding as at 31 December 2020 and 2019:

	Year ended 2020 Number of shares	Year ended 2019 Number of Shares
Outstanding at 1 January	170,000	100,000
Granted	2,073,538	70,000
Exercised	(25,000)	–
Forfeited	(10,000)	–
Outstanding at 31 December	2,208,538	170,000

## 34. Retirement benefit schemes

The Group operates a number of pension plans in the UK, North America and Europe. These include both defined contribution arrangements and defined benefit arrangements. The Senior plc Pension Plan (“the UK Plan”), which is a funded scheme in the UK and closed to future accrual at the end of 6 April 2014, has the largest pension obligation in the Group and Company. This plan provides benefits based on final pensionable emoluments for the employees of the Group and Company. The latest full actuarial valuation was carried out as at 5 April 2019 and, for the purposes of accounting under IAS19, this valuation has been rolled forward to 31 December 2020.

In addition, the Group operates two defined benefit plans in the US, one of which was closed to future accrual from October 2009. The second plan was closed to future participants from September 2013, and the Executive section was also closed to future accruals from December 2013. Separate disclosure is made for the funded UK and US defined benefit arrangements. In both the UK and US, the assets of funded plans are held in separate trustee administered funds managed by independent financial institutions and have pension costs assessed by consulting actuaries using the Projected Unit Method. The Trustees are required to act in the best interests of the plans’ beneficiaries.

### 34. Retirement benefit schemes continued

The Group also has a small number of unfunded post-retirement plans, including a closed healthcare scheme in the US. Separate disclosure is provided for these arrangements.

Further details on the arrangement of the UK Plan are given below.

The Trustee of the UK Plan is Senior Trustee Limited. The appointment of the Directors to the Board is determined by the Articles of Association of Senior Trustee Limited. There are six Trustee Directors in total and in accordance with statutory requirements under the Pensions Act 2004 at least two must be a Member Nominated Director. Currently, there are two Member Nominated Directors and four Directors who have been nominated by the Company, of which the Chairman and one other Director are viewed as independent.

The UK Plan exposes the Company to a number of risks. In particular:

- Uncertainty in benefit payments – the value of the obligations will ultimately depend on the amount of benefits paid out. This in turn will depend on the level of inflation and how long individuals live.
- Volatility in asset values – the value of the assets held to meet future benefit payments is volatile due to changes in stock markets and interest rates.
- Uncertainty in cash funding – movements in the value of the UK Plan's obligations or assets may result in the Company being required to provide higher levels of cash funding.

The investment strategy for the UK Plan is decided by the Trustee in consultation with Senior plc. The primary investment objective is for the plan to be able to meet benefit payments as they fall due. The UK Plan's average duration is around 15 years and benefits are expected to be paid for the next 60 to 70 years. These cash flow payments are expected to reach a peak around 2029, and gradually decline thereafter as the membership matures. In setting this strategy, the Trustee considers a wide range of asset classes, the risk and rewards of a number of possible asset allocation options, the sustainability of each asset class within each strategy, and the need for appropriate diversification between different asset classes. The primary investment objective is implemented by setting strategic asset allocations using a "linear de-risking" approach. Under this approach, the scheme's current asset strategy of 77% invested in low-risk matching assets, such as 'liability driven investments' (LDI) and bonds, and 23% in higher-risk return seeking assets, such as equities, is expected to be linearly moved into 100% matching assets over the period from April 2021 to April 2036. The LDI allocation helps to mitigate investment risk for the UK Plan by minimising the fluctuations in the UK Plan's funding levels arising from changes in the value of the liabilities. This is achieved through hedging movements in the funding liabilities caused by changes in interest rates and inflation expectations. The Trustee continues to review its investment strategy and has also implemented a switching mechanism to secure any outperformances of equities relative to bonds, by selling equities to buy bonds.

While the UK Plan was in a deficit position of £10.2m as at 5 April 2019 when measured on the Trustee's funding basis, the UK Plan is in a surplus position of £46.5m as at 31 December 2020 (2019 – £48.9m surplus, 2018 – £30.9m surplus) when measured on an IAS 19 basis. The difference between the triennial funding and annual IAS 19 valuation relates to the assumptions used. For example, the funding discount rate is based on the UK Plan's stated investment strategy, as opposed to the yields available on corporate bonds for the IAS 19 discount rate.

The IAS 19 surplus position on the UK Plan is recognised as an asset in the Consolidated and Company Balance Sheet, with no requirement to recognise an additional liability on the UK Plan, on the grounds that the Company has an unconditional right to a refund, assuming the gradual settlement of Plan liabilities over time until all members have left. In considering this, the Company has taken into account that the Trustees do not have unilateral powers to wind up the Plan or modify benefits.

Cash contributions to the UK Plan are set by agreement between the Company and the Trustee of the UK Plan. These are set in accordance with legislation and take account of the intention to further reduce the risk associated with the UK Plan's investment strategy, as set out above. The contributions were last reviewed as at 5 April 2019 and were based on a forecast deficit at that time, as part of the 2019 triennial funding valuation. The Company has agreed with the Trustee of the UK Plan to make scheduled deficit reduction contributions over the three year period from April 2019 to March 2022. Annual cash funding contributions of £5.5m are expected over this period, subject to review and amendment as appropriate, at the next funding valuation in 2022. The estimated contributions expected to be paid during 2021 in the US funded plans is £1.8m.

The Group is ultimately responsible for making up any shortfall in the UK Plan over a period agreed with the Trustees. To the extent that actual experience is different from that assumed, the funding position will be better or worse than anticipated. As such, the contributions required by the Group could vary in the future.

#### a) Defined contribution schemes

The Group has a number of different defined contribution and government-sponsored arrangements in place in the countries in which it operates. None of these are individually material to the Group and the aggregate cost of such schemes for the period was £9.2m (2019 – £12.4m).

#### b) Defined benefit schemes

The amount included in the Consolidated Balance Sheet arising from the Group's obligations in respect of its defined benefit plans is set out below.

	31 December 2020				31 December 2019			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Present value of defined benefit obligations	(317.7)	(58.8)	(6.2)	(382.7)	(285.8)	(54.6)	(6.9)	(347.3)
Fair value of plan assets	364.2	54.1	–	418.3	334.7	52.6	1.1	388.4
Plan surplus/(deficit) per Consolidated Balance Sheet	46.5	(4.7)	(6.2)	35.6	48.9	(2.0)	(5.8)	41.1

# Notes to the Consolidated Financial Statements continued

## 34. Retirement benefit schemes continued

### c) Movements in the present value of defined benefit obligations were as follows:

	31 December 2020				31 December 2019			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	285.8	54.6	6.9	347.3	278.7	52.5	8.0	339.2
Current service cost	–	0.4	0.5	0.9	–	0.3	0.5	0.8
Past service cost	0.2	–	–	0.2	–	–	–	–
Interest cost	5.7	1.8	0.1	7.6	7.6	2.1	0.1	9.8
Experience on benefit obligations	(1.2)	1.1	–	(0.1)	(1.3)	(1.1)	–	(2.4)
Actuarial losses/(gains) – financial	35.4	6.0	–	41.4	26.5	5.7	0.3	32.5
Actuarial losses/(gains) – demographic	3.8	(0.4)	–	3.4	(12.5)	(0.5)	–	(13.0)
Benefits paid	(12.0)	(2.7)	(1.6)	(16.3)	(13.2)	(2.3)	–	(15.5)
Disposal activities	–	–	–	–	–	–	(1.7)	(1.7)
Exchange differences	–	(2.0)	0.3	(1.7)	–	(2.1)	(0.3)	(2.4)
At 31 December	317.7	58.8	6.2	382.7	285.8	54.6	6.9	347.3

The UK plan past service cost of £0.2m recognised in the Consolidated Income Statement in the year ended 31 December 2020 relates to estimated cash equivalent transfer values for Guaranteed Minimum Pension equalisation payments, following a High Court ruling on 20 November 2020.

### d) Movements in the fair value of plan assets were as follows:

	31 December 2020				31 December 2019			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
At 1 January	334.7	52.6	1.1	388.4	309.6	47.3	0.8	357.7
Interest on plan assets	6.8	1.7	–	8.5	8.6	1.9	–	10.5
Actual return on plan assets less interest	29.6	3.7	–	33.3	22.8	5.4	–	28.2
Contributions from employer	5.6	0.6	–	6.2	7.3	2.4	0.3	10.0
Benefits paid	(12.0)	(2.7)	(1.1)	(15.8)	(13.2)	(2.3)	–	(15.5)
Running costs	(0.5)	(0.1)	–	(0.6)	(0.4)	(0.1)	–	(0.5)
Exchange differences	–	(1.7)	–	(1.7)	–	(2.0)	–	(2.0)
At 31 December	364.2	54.1	–	418.3	334.7	52.6	1.1	388.4

### e) Amounts recognised in the Consolidated Income Statement in respect of these defined benefit schemes are as follows:

	31 December 2020				31 December 2019			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Current service cost included within operating loss/profit	–	0.4	0.5	0.9	–	0.3	0.5	0.8
Running costs	0.5	0.1	–	0.6	0.4	0.1	–	0.5
Past service cost	0.2	–	–	0.2	–	–	–	–
Charge/(income) included within operating loss/profit	0.7	0.5	0.5	1.7	0.4	0.4	0.5	1.3
Included within finance (income)/costs	(1.1)	0.1	0.1	(0.9)	(1.0)	0.2	0.1	(0.7)
Amount recognised in the Income Statement	(0.4)	0.6	0.6	0.8	(0.6)	0.6	0.6	0.6



### 34. Retirement benefit schemes continued

#### f) Amounts recognised in other comprehensive income are as follows:

	31 December 2020				31 December 2019			
	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m	UK plans funded £m	US plans funded £m	Unfunded plans £m	Total £m
Net actuarial gain/(losses) in the year due to:								
– Change in financial assumptions	(35.4)	(6.0)	–	(41.4)	(26.5)	(5.7)	(0.3)	(32.5)
– Change in demographic assumptions	(3.8)	0.4	–	(3.4)	12.5	0.5	–	13.0
– Experience adjustments on benefit obligations	1.2	(1.1)	–	0.1	1.3	1.1	–	2.4
Actual return on plan assets less interest on benefit obligations	29.6	3.7	–	33.3	22.8	5.4	–	28.2
(Losses)/gains recognised in other comprehensive income	(8.4)	(3.0)	–	(11.4)	10.1	1.3	(0.3)	11.1

Actuarial losses of £11.4m (2019 – gains of £11.1m) have been recognised in the Statement of Comprehensive Income. The cumulative amount of actuarial losses recognised in the Statement of Comprehensive Income as at 31 December 2020 is £42.7m (2019 – £31.3m).

#### g) Assets and assumptions in funded plans

	UK plans funded		US plans funded	
	2020 £m	2019 £m	2020 £m	2019 £m
Fair value of plan assets				
Equities	32.9	29.4	–	–
Bonds	127.5	120.5	54.1	52.6
Gilts	156.7	137.6	–	–
Diversified growth fund	41.2	41.1	–	–
Cash and net current assets	5.9	6.1	–	–
Total	364.2	334.7	54.1	52.6
Actual return on plan assets	36.4	31.4	5.4	7.3

The UK Plan's assets are invested in pooled funds, which are invested exclusively within instruments with quoted market prices in an active market, with the exception of the Plan's holdings in insurance annuity policies, valued at £5.5m (2019 – £5.0m). The value of the invested assets has been measured at bid value and the value of the scheme benefits covered by the insurance annuity policies has been set equal to the value of the corresponding obligations.

The Plan's equities are split between UK and overseas companies, with a larger allocation to the overseas market. The UK equities are passively invested in line with the FTSE All-Share Index and the overseas equities are passively invested in line with the FTSE World ex-UK GBP Hedged Index. Therefore, the Plan is exposed to a typical breakdown of industries within those equity indices. The Plan's corporate bond allocation is split between an actively managed mandate and a "buy and maintain" mandate, which seeks to hold a high quality portfolio while minimising portfolio turnover. Both mandates are predominantly invested in investment grade UK corporate bonds and are exposed to a fairly typical range of UK businesses. The majority of the Plan's gilts are passively invested in a range of UK fixed-interest and index-linked government bonds, with the remainder actively invested in a range of swap instruments linked to movements in government bond prices. The risks associated with the Plan's bond and gilt investments are largely offset by corresponding risks present within the pricing of the Plan's benefit obligations. The diversified growth fund is an investment in Pyrford's absolute return fund. This fund is composed of positions in a range of assets, including bonds and equities. These positions vary over time according to Pyrford's views. The fund looks to generate equity-like returns, with reduced volatility, whilst also providing diversification benefits to the Plan's other investments.

# Notes to the Consolidated Financial Statements continued

## 34. Retirement benefit schemes continued

### g) Assets and assumptions in funded plans continued

The UK Plan does not invest directly in property occupied by the Company or in financial securities issued by the Company.

	UK plans funded		US plans funded	
	2020	2019	2020	2019
Major assumptions (per annum %)				
Inflation	<b>3.00%</b>	3.00%	<b>N/A</b>	N/A
Increase in salaries	<b>N/A</b>	N/A	<b>N/A</b>	N/A
Increase in pensions	<b>2.90%</b>	2.90%	<b>0.00%</b>	0.00%
Increase in deferred pensions	<b>3.00%</b>	3.00%	<b>0.00%</b>	0.00%
Rate used to discount plan liabilities	<b>1.20%</b>	2.00%	<b>2.51%</b>	3.30%
Life expectancy of a male aged 65 at the year-end	<b>20.8</b>	20.6	<b>19.5</b>	19.7
Life expectancy of a male aged 65, 20 years after the year-end	<b>22.2</b>	22.0	<b>21.1</b>	21.3

Benefits under the US funded plans are not linked to inflation. The UK plan retirement benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Estimation is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. The assumption for estimating future Retail Prices Index (RPI) inflation is based on the difference in yields on fixed-interest and index-linked gilts. Demographic assumptions are set broadly in line with the most recent actuarial valuation of the UK plan. The mortality assumption is 95% of standard mortality tables with an allowance for future improvements in line with the CMI 2019 enhanced projections, with a long-term annual rate of improvement of 1.25% for males and for females. For the UK Plan, the estimated impact on the plan surplus at 31 December 2020 for changes in assumptions is as follows:

	Decrease in plan surplus £m
0.5% decrease in the discount rate	26.0
One-year increase in life expectancy	16.0
0.5% increase in inflation	16.0

These sensitivities have been calculated to show the movement in the surplus, including allowance for an increase to the value of insured annuity assets, but assuming no other changes in assets as at 31 December 2020. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Plan.

### h) Other post-retirement liabilities

This balance comprises an unfunded German pension plan of £3.7m (2019 – £3.6m), unfunded closed pension and post-retirement healthcare plans in the US of £0.3m (2019 – £0.4m), a provision for post-retirement payments in France of £1.5m (2019 – £1.3m) and £0.7m for post-retirement payments in Thailand (2019 – £0.5m). The closed pension and post-retirement healthcare plans in the US have been valued on a Projected Unit Method using a discount rate of 2.5% (2019 – 3.3%). No participants were eligible for medical benefits under the healthcare plan in 2020. The German plan has been subject to formal actuarial valuation on a Projected Unit Method with the following assumptions: discount rate 1.0%, salary growth 0.0% and pension increase 1.5% (2019 – 1.2%, 0.0% and 1.8%). In France, the provision arises from a legal obligation to make payments to retirees in the first two years post-retirement. Hence, it is not subject to discounting to the same extent as the other longer-term post-retirement liabilities. The Thailand plan has been subject to a formal actuarial valuation on a Projected Unit Method with the following assumptions: discount rate 2.2%, inflation rate 2.8% and salary growth 6.0% (2019 – 3.4%, 2.8% and 6.0%).

## 35. 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. Where the Board has assessed there to be a more likely than not outflow of economic benefits, provision has been made for the best estimate as at 31 December 2020 (see Note 24). For all other matters, the Board has concluded that it is not more likely than not that there will be an economic outflow of benefits. While the eventual outcome of these matters cannot always be precisely measured, the Directors do not expect any of these arrangements, legal actions or claims, which are considered remote likelihood and after allowing for provisions already made where appropriate, to result in significant loss to the Group.

## 36. Subsequent events

On 5 March 2021, the Group announced an agreement to sell its stand alone, build-to-print helicopter structures operating business, Senior Aerospace Connecticut, based in the USA. Considered and effective capital deployment is a strategic priority for the Group and, in line with this, the Group continually reviews the overall portfolio of its businesses and evaluates their strategic fit. The decision to sell Senior Aerospace Connecticut was based on its primary focus on build-to-print parts for the rotary sector. Net proceeds from the sale will be used to further strengthen Senior's balance sheet and provide greater flexibility for the Group to operate within its capital deployment framework. For the financial year ended 31 December 2020, Senior Aerospace Connecticut's external revenue was £36.2m and its adjusted operating profit was £5.1m.

The transaction is expected to close in the first half of 2021. The net cash proceeds, after working capital adjustments and disposal costs, are expected to be £48m before tax. The gain on disposal before tax is estimated to be in the range of £23m to £26m, after taking into account the net cash proceeds, the fair value of net assets disposed, including allocated goodwill, and previously recorded foreign exchange gains that will be recycled to the Consolidated Income Statement. The net cash proceeds after working capital adjustments and disposal costs, and the gain on disposal before tax are subject to change from these estimates, due to the actual US Dollar exchange rate at the closing date, customary completion adjustments, and the actual disposal costs incurred. The gain on disposal will be presented separately as an adjusting item in the Consolidated Income Statement for the year ending 31 December 2021.

# Company balance sheet

As at 31 December 2020

	Notes	Year ended 2020 £m	Year ended 2019 £m
<b>Non-current assets</b>			
Investment in subsidiaries	39	<b>259.9</b>	259.9
Property, plant and equipment	40	<b>1.5</b>	1.7
Other intangible assets	38	<b>0.1</b>	0.2
Other receivables	41	<b>27.2</b>	25.6
Retirement benefits	51	<b>46.5</b>	48.9
Total non-current assets		<b>335.2</b>	336.3
<b>Current assets</b>			
Other receivables	41	<b>78.6</b>	86.8
Cash and bank balances	48	<b>0.7</b>	1.4
Current tax receivables	50	<b>–</b>	0.8
Total current assets		<b>79.3</b>	89.0
<b>Total assets</b>		<b>414.5</b>	425.3
<b>Current liabilities</b>			
Trade and other payables	43	<b>91.8</b>	79.6
Bank overdrafts and loans	42	<b>–</b>	15.0
Total current liabilities		<b>91.8</b>	94.6
<b>Non-current liabilities</b>			
Bank and other loans	42	<b>128.3</b>	116.7
Lease liabilities	49	<b>1.4</b>	1.6
Deferred tax liabilities	50	<b>6.9</b>	8.0
Total non-current liabilities		<b>136.6</b>	126.3
<b>Total liabilities</b>		<b>228.4</b>	220.9
<b>Net assets</b>		<b>186.1</b>	204.4
<b>Equity</b>			
Issued share capital	44	<b>41.9</b>	41.9
Share premium account		<b>14.8</b>	14.8
Equity reserve		<b>5.1</b>	5.5
Hedging and translation reserve	45	<b>–</b>	(0.3)
Retained earnings	46	<b>135.8</b>	156.5
Own shares	47	<b>(11.5)</b>	(14.0)
<b>Total equity</b>		<b>186.1</b>	204.4

The Loss for the Company for the year ended 31 December 2020 was £13.7m (2019 – £86.6m Profit).

The Financial Statements of Senior plc (registered number 282772) were approved by the Board of Directors and authorised for issue on 5 March 2021. They were signed on its behalf by:

**David Squires**  
Director

**Bindi Foyle**  
Director

# Company statement of changes in equity

For the year ended 31 December 2020

All equity is attributable to equity holders of the Company

	Notes	Issued share capital £m	Share premium account £m	Equity reserve £m	Hedging and translation reserve £m	Retained earnings £m	Own shares £m	Total equity £m
<b>Balance at 1 January 2019</b>		41.9	14.8	5.7	(0.3)	91.1	(8.0)	145.2
Profit for the year 2019		–	–	–	–	86.6	–	86.6
Actuarial gains on defined benefit pension schemes		–	–	–	–	10.1	–	10.1
Tax relating to components of other comprehensive income		–	–	–	–	(1.7)	–	(1.7)
<b>Total comprehensive income for the period</b>		–	–	–	–	95.0	–	95.0
Share-based payment charge		–	–	1.8	–	–	–	1.8
Tax relating to share-based payments		–	–	–	–	(0.1)	–	(0.1)
Purchase of shares held by employee benefit trust	47	–	–	–	–	–	(6.3)	(6.3)
Use of shares held by employee benefit trust	47	–	–	–	–	(0.3)	0.3	–
Transfer to retained earnings	46	–	–	(2.0)	–	2.0	–	–
Dividends paid	11	–	–	–	–	(31.2)	–	(31.2)
<b>Balance at 31 December 2019</b>		41.9	14.8	5.5	(0.3)	156.5	(14.0)	204.4
Loss for the year 2020		–	–	–	–	<b>(13.7)</b>	–	<b>(13.7)</b>
Actuarial losses on defined benefit pension schemes		–	–	–	–	<b>(8.4)</b>	–	<b>(8.4)</b>
Exchange differences recycled to income statement		–	–	–	<b>0.3</b>	–	–	<b>0.3</b>
Tax relating to components of other comprehensive income		–	–	–	–	<b>0.5</b>	–	<b>0.5</b>
<b>Total comprehensive income/ (expense) for the period</b>		–	–	–	<b>0.3</b>	<b>(21.6)</b>	–	<b>(21.3)</b>
Share-based payment charge		–	–	<b>3.0</b>	–	–	–	<b>3.0</b>
Tax relating to share-based payments		–	–	–	–	–	–	–
Purchase of shares held by employee benefit trust	47	–	–	–	–	–	–	–
Use of shares held by employee benefit trust	47	–	–	–	–	<b>(2.5)</b>	<b>2.5</b>	–
Transfer to retained earnings	46	–	–	<b>(3.4)</b>	–	<b>3.4</b>	–	–
Dividends paid	11	–	–	–	–	–	–	–
<b>Balance at 31 December 2020</b>		<b>41.9</b>	<b>14.8</b>	<b>5.1</b>	<b>–</b>	<b>135.8</b>	<b>(11.5)</b>	<b>186.1</b>



# Notes to the Company Financial Statements

## 37. Accounting policies

### Basis of accounting (Company only)

The Company is incorporated in England and Wales under the Companies Act. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has adopted FRS 101 (Financial Reporting Standard 101) Reduced Disclosure Framework as issued by the Financial Reporting Council.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and as permitted by FRS 101, has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, fair value measurements, capital management, presentation of a cash flow statement and disclosure of related party transactions.

The Financial Statements have been prepared on the historical cost basis. They have also been prepared on the going concern basis, as set out in the basis of preparation, Note 2 to the Consolidated Financial Statements. The principal accounting policies adopted are the same as those set out in Note 2 to the Consolidated Financial Statements, except in respect of investments in subsidiaries, which are stated at cost less, where appropriate, provisions for impairment. The carrying values of investments in subsidiaries are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

## 38. Other intangible assets

	Year ended 2020 Computer software £m	Year ended 2019 Computer software £m
<b>Cost</b>		
At 1 January	0.9	0.9
Additions	0.1	–
At 31 December	1.0	0.9
<b>Amortisation</b>		
At 1 January	0.7	0.6
Charge for the year	0.2	0.1
At 31 December	0.9	0.7
Carrying amount at 31 December	0.1	0.2

## 39. Investments in subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given on pages 146 to 147.

	Year ended 2020 £m	Year ended 2019 £m
At 1 January and 31 December	259.9	259.9

# Notes to the Company Financial Statements continued

## 40. Property, plant and equipment

	Year ended 2020 Plant and equipment £m	Year ended 2019 Plant and equipment £m
<b>Cost</b>		
At 1 January	2.4	0.7
IFRS 16 Opening adjustment	–	1.7
Additions	–	0.1
Disposals	–	(0.1)
At 31 December	2.4	2.4
<b>Accumulated depreciation</b>		
At 1 January	0.7	0.5
Charge for the year	0.2	0.3
Eliminated on Disposals	–	(0.1)
At 31 December	0.9	0.7
<b>Carrying amount at 31 December</b>	<b>1.5</b>	<b>1.7</b>

The carrying amount includes £1.3m of right-of-use assets (2019 – £1.5m).

## 41. Other receivables

Other receivables comprise the following:

	Year ended 2020 £m	Year ended 2019 £m
Other receivables: amounts due more than one year		
Due from subsidiaries	27.2	25.6
	<b>27.2</b>	<b>25.6</b>
Other receivables: amounts due within one year		
Value added tax	0.1	0.2
Prepayments and accrued income	0.6	1.1
Due from subsidiaries	77.9	85.5
	<b>78.6</b>	<b>86.8</b>
<b>Total other receivables</b>	<b>105.8</b>	<b>112.4</b>

The Directors consider that the carrying amount of other receivables approximates to their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Company does not hold any collateral as security.

The carrying amounts due from subsidiaries approximates to their fair value. There are no past due receivable balances and expected credit losses are immaterial (2019 – immaterial).

As at 31 December 2020, Other receivables due in more than one year consist of £2.2m (2019 – £1.9m) due in accordance with the vesting periods of share-based payments and £25.0m (2019 – £23.7m) of loans to subsidiaries at market rates of interest.

## 42. Bank overdrafts and loans

	Year ended 2020 £m	Year ended 2019 £m
Bank overdrafts	–	–
Bank loans	18.3	6.2
Other loans	110.0	125.5
Total	128.3	131.7

The borrowings are repayable as follows:

On demand or within one year	–	15.0
In the second year	14.6	–
In the third to fifth years inclusive	88.8	21.2
After five years	24.9	95.5
	128.3	131.7
Less: amount due for settlement within 12 months (shown under current liabilities)	–	(15.0)
Amount due for settlement after 12 months	128.3	116.7

### Analysis of borrowings by currency

31 December 2020

	Pound Sterling £m	Euros £m	US Dollars £m	Total £m
Bank overdrafts	–	–	–	–
Bank loans	3.7	–	14.6	18.3
Other loans	26.9	24.9	58.2	110.0
	30.6	24.9	72.8	128.3

31 December 2019

	Pound Sterling £m	Euros £m	US Dollars £m	Total £m
Bank overdrafts	–	–	–	–
Bank loans	6.2	–	–	6.2
Other loans	26.9	23.6	75.0	125.5
	33.1	23.6	75.0	131.7

The weighted average interest rates paid were as follows:

	Year ended 2020 %	Year ended 2019 %
Bank loans and overdrafts	1.57	1.46
Other loans	2.86	3.37

Bank loans and overdrafts of £18.3m (2019 – £6.2m) are arranged at floating rates, thus exposing the Company to cash flow interest rate risk. Other borrowings are mainly arranged at fixed interest rates and expose the Company to fair value interest rate risk. No interest rate swaps were taken out in 2019 or 2020.

The Directors estimate the fair value of the Company's borrowings to be as follows:

	Year ended 2020 £m	Year ended 2019 £m
Bank loans and overdrafts	18.3	6.2
Other loans	109.4	130.5
	127.7	136.7

# Notes to the Company Financial Statements continued

## 43. Trade and other payables

Trade and other payables comprise the following:

	Year ended 2020 £m	Year ended 2019 £m
Trade and other payables: amounts falling due within one year		
Trade payables	0.6	1.1
Social security and PAYE	0.2	0.2
Other payables and accruals	4.6	4.8
Due to subsidiaries	86.4	73.5
Total trade and other payables	91.8	79.6

The Directors consider that the carrying amount of trade payables approximates to their fair value.

## 44. Issued share capital

	Year ended 2020 £m	Year ended 2019 £m
Issued and fully paid:		
419.4 million ordinary shares of 10p each	41.9	41.9

No shares were issued during 2019 and 2020.

The Company has one class of ordinary shares, which carry no right to fixed income.

## 45. Hedging and translation reserves

	Hedging reserve Year ended 2020 £m	Translation reserve Year ended 2020 £m	Total Year ended 2020 £m	Hedging reserve Year ended 2019 £m	Translation reserve Year ended 2019 £m	Total Year ended 2019 £m
Balance at 1 January	–	(0.3)	(0.3)	–	(0.3)	(0.3)
Exchange differences recycled to Income Statement	–	0.3	0.3	–	–	–
Balance at 31 December	–	–	–	–	(0.3)	(0.3)

## 46. Retained earnings

	Year ended 2020 £m	Year ended 2019 £m
Balance at 1 January	156.5	91.1
Dividends paid	–	(31.2)
(Loss)/profit for the year	(13.7)	86.6
Pension actuarial (loss)/gain	(8.4)	10.1
Transfer from equity reserve	3.4	2.0
Transfer from own share reserve	(2.5)	(0.3)
Tax on deductible temporary differences	0.5	(1.8)
Balance at 31 December	135.8	156.5

£7.5m (2019 – £7.5m) of the Company's retained earnings are considered undistributable.

In accordance with Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income, including the Income Statement and related Notes.

## 47. Own shares

	Year ended 2020 £m	Year ended 2019 £m
Balance at 1 January	(14.0)	(8.0)
Transfer to retained earnings	2.5	0.3
Purchase of new shares	–	(6.3)
Balance at 31 December	(11.5)	(14.0)

The own shares reserve represents the cost of shares purchased in the market and held by the Senior plc Employee Benefit Trust to satisfy options under the Group's share option schemes (see Note 33).

The nominal value of each share is £0.1 (2019 – £0.1). The total number of treasury shares at 31 December 2020 is 4,336,043 (2019 – 5,271,848).

## 48. Cash and bank balances

	Year ended 2020 £m	Year ended 2019 £m
Cash and cash equivalents comprise:		
Cash	0.7	1.4

Cash and bank balances held by the Company (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. The Directors consider that the carrying amount of cash and cash equivalents approximate to their face value.

## 49. Lease liabilities

When measuring lease liabilities, the Company discounts lease payments using incremental borrowing rates, determined on a lease portfolio basis.

	Year ended 2020 £m	Year ended 2019 £m
Undiscounted contractual maturity of lease liabilities:		
Amounts payable:		
On demand or within one year	0.2	0.2
In the second to fifth years inclusive	0.9	0.9
After five years	0.4	0.6
	1.5	1.7
Less: future finance charges	(0.1)	(0.1)
Lease liabilities	1.4	1.6

In 2020, the Company recognised income of £0.1m (2019 – £0.1m) in the Company Income Statement from sub-leasing right-of-use assets and had lease cash outflow of £0.2m (2019 – £0.2m).

As at the date of approving the accounts, the Company has guaranteed £0.5m (2019 – £0.5m) of annual lease commitments of certain current and previous subsidiary entities.



# Notes to the Company Financial Statements continued

## 50. Tax balance sheet

### Current tax

The current tax receivable is £nil (2019 – £0.8m). The prior year balance included excess tax paid to tax authorities that was recovered within 12 months by way of offset against future tax liabilities or refund.

### Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period:

	Accelerated tax depreciation £m	Retirement benefits £m	Share based payments £m	Tax losses £m	Total £m
At 1 January 2019	(0.1)	5.2	(0.3)	–	4.8
Charge to income	–	1.3	0.1	–	1.4
Charge to equity	–	–	0.1	–	0.1
Charge to other comprehensive income	–	1.7	–	–	1.7
At 1 January 2020	(0.1)	8.2	(0.1)	–	8.0
Credit to income	<b>(0.1)</b>	<b>1.0</b>	–	<b>(1.5)</b>	<b>(0.6)</b>
Charge to equity	–	–	–	–	–
Credit to other comprehensive income	–	<b>(0.5)</b>	–	–	<b>(0.5)</b>
<b>As at 31 December 2020</b>	<b>(0.2)</b>	<b>8.7</b>	<b>(0.1)</b>	<b>(1.5)</b>	<b>6.9</b>

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances, after offset:

	Year ended 2020 £m	Year ended 2019 £m
Deferred tax liabilities	<b>6.9</b>	8.0

At the Balance Sheet date, the Company has unused capital losses of £15.6m (2019 – £15.6m) available for offset against future capital gains. No deferred tax asset has been recognised as no such capital gains are anticipated to arise in the foreseeable future.

## 51. Retirement benefit scheme

The Company's defined benefit scheme is shown in Note 34 in the "UK plans funded" column.

## 52. Related party transactions

The remuneration of the Directors and Senior Managers, who are the key management personnel of the Group, is set out in the Remuneration Report on pages 66 to 84. In 2020, the Company recognised share-based payment expense of £0.5m (2019 – £0.2m) in relation to the executive Directors.

The Group has related party relationships with a number of pension schemes. Transactions between the Group and these pension schemes are disclosed in Note 34.

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 2020, the Group sold £2.2m (2019 – £1.8m) of components to Bloom Energy Corporation. The gross receivable position as at 31 December 2020 was £0.4m (2019 – £0.5m).

## 53. Share-based payments

The Company has a number of share-based payment arrangements that existed during 2020, the details of which can be found in Note 33.

For the savings-related share option plan, no shares were exercised in 2020 or 2019. The options outstanding at 31 December 2020 had exercise prices of 219.30p and 207.20p per share, and a weighted average remaining contractual life of 1.7 years. The options outstanding at 31 December 2019 had exercise prices of 219.30p, 207.20p and 222.00p per share, and a weighted average remaining contractual life of 1.7 years.

Share-based payment costs relating to subsidiaries are recharged from the Company.

# Five-year summary

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
<b>Group income statement</b>					
<b>Revenue</b>					
Continuing operations	733.6	1,110.70	1,082.10	1,023.4	917.0
<b>Adjusted operating profit</b>					
Continuing operations	3.7	89.4	91.6	82.6	85.6
Amortisation of intangible assets from acquisitions	(7.7)	(13.1)	(15.4)	(17.1)	(19.8)
Goodwill impairment and write-off	(134.3)	–	–	–	–
Restructuring	(39.0)	(12.1)	–	–	–
US class action lawsuits	–	(2.6)	(3.9)	–	–
<b>Operating (loss)/profit</b>	<b>(177.3)</b>	61.6	72.3	65.5	65.8
Investment income/finance costs, net (excluding lease liabilities)	(7.8)	(8.1)	(8.8)	(9.3)	(10.1)
Interest on lease liabilities	(3.0)	(3.5)	–	–	–
Net finance income/(cost) of retirement benefits	0.9	0.7	0.2	(0.2)	(0.2)
Disposal activities	(4.6)	(22.0)	–	(3.8)	–
<b>(Loss)/profit before tax</b>	<b>(191.8)</b>	28.7	63.7	52.2	55.5
Tax	33.3	0.5	(7.8)	8.1	(10.1)
<b>(Loss)/profit for the year</b>	<b>(158.5)</b>	29.2	55.9	60.3	45.4
<b>Depreciation and amortisation of intangibles excluding right-of-use assets</b>					
	51.4	57.5	56.9	57.9	54.0
<b>Depreciation on right-of-use assets</b>					
	10.2	10.2	–	–	–
<b>Gross capital expenditure</b>					
	26.8	64.8	56.3	54.8	52.8
<b>Basic (loss)/earnings per share</b>					
	(38.20)p	7.04p	12.81p	14.39p	10.84p
<b>Diluted (loss)/earnings per share</b>					
	(38.20)p	7.01p	12.63p	14.30p	10.83p
<b>Adjusted (loss)/earnings per share</b>					
	(0.84)p	16.17p	16.08p	14.39p	14.37p
<b>Dividends in respect of years – per share</b>					
	0.0p	2.28p	7.42p	6.95p	6.57p
<b>– value</b>					
	–	9.5	30.9	29.0	27.5
<b>Group Balance Sheet</b>					
Non-current assets excluding right-of-use assets	482.7	651.4	662.0	624.3	647.0
Right-of-use assets IFRS 16	72.5	82.3	–	–	–
Non-current assets	555.2	733.7	662.0	624.3	647.0
Net current assets	89.2	102.5	131.0	66.0	94.0
Non-current liabilities	(251.1)	(276.6)	(221.2)	(158.7)	(240.5)
Net assets	393.3	559.6	571.8	531.6	500.5
Net debt pre IFRS 16	(129.4)	(145.9)	(153.0)	(155.3)	(198.1)
Lease liabilities IFRS16	(76.5)	(83.7)	–	–	–
Net debt	(205.9)	(229.6)	(153.0)	(155.3)	(198.1)
<b>Group cash flow</b>					
Net cash from operating activities	48.9	115.9	100.7	110.9	100.3
Costs on disposal activities	4.6	3.4	–	–	–
Restructuring cash paid	15.2	2.9	–	–	–
US class action lawsuits	3.9	–	–	–	–
Interest received	0.2	0.2	0.4	0.4	0.2
Proceeds from disposal of property, plant and equipment	0.5	0.7	0.5	1.8	0.8
Purchase of property, plant and equipment – cash	(25.2)	(63.0)	(54.6)	(52.3)	(50.7)
Purchase of intangible assets	(1.6)	(1.8)	(1.7)	(2.5)	(2.1)
Free cash flow	46.5	58.3	45.3	58.3	48.5
Dividends paid	–	(31.2)	(29.6)	(27.9)	(26.4)
Acquisitions less disposals	0.4	2.9	–	0.4	1.3
Costs on disposal activities	(4.6)	(3.4)	–	–	–
Restructuring cash paid	(15.2)	(2.9)	–	–	–
US class action lawsuits	(3.9)	–	–	–	–
Loan to joint venture	–	–	0.5	0.3	0.5
Purchase of shares held by employee benefit trust	–	(6.3)	(7.2)	(0.1)	(1.1)
Decrease in loans	(7.2)	(3.2)	(2.4)	(37.1)	(19.5)
Decrease in lease liabilities	(7.9)	(7.8)	(0.3)	(0.5)	(0.8)
Increase/(decrease) in cash and cash equivalents	8.1	6.4	6.3	(6.6)	2.5

# Group undertakings

Operating Companies	Business Units	Locations	Country of Incorporation	Registered Office
Senior UK Limited	Senior Aerospace Bird Bellows	Congleton	England & Wales	59/61 High Street, Rickmansworth, Hertfordshire, WD3 1RH, UK
	Senior Aerospace BWT	Macclesfield		
	Senior Flexonics Crumlin	Crumlin		
	Senior Aerospace Weston	Colne		
	Senior Aerospace Thermal Engineering	Royston		
Lymington Precision Engineers Co. Limited	Senior Flexonics Lymington	Lymington	England & Wales	59/61 High Street, Rickmansworth, Hertfordshire, WD3 1RH, UK
Senior Flexonics Czech s.r.o.	Senior Flexonics Czech	Olomouc, Czech Republic	Czech Republic	Olomouc, Prumyslová 733/9, postcode 779 00, Czech Republic
Senior Aerospace Ermeto SAS	Senior Aerospace Ermeto	Blois, France	France	Z.A Euro Val de Loire, 8 rue du Clos Thomas, 41330 Fosse, France
Senior Calorstat SAS	Senior Aerospace Calorstat	Dourdan, France	France	11 Rue des Soufflets, 91410, Dourdan, France
Senior Flexonics GmbH	Senior Flexonics Kassel	Kassel, Germany	Germany	Frankfurter Strasse 199, 34121 Kassel, Germany
Senior India Private Limited	Senior Flexonics New Delhi	New Delhi, India	India	4th, Floor, Rectangle No.1, Commercial Complex D-4, Saket-New Delhi-110017, India
Senior Aerospace Bosman B.V.	Senior Aerospace Bosman	Rotterdam, Netherlands	Netherlands	Bergen 6, 2993 LR Barendrecht, Netherlands
Senior Operations (Canada) Limited	Senior Flexonics Canada	Brampton, Ontario	Canada	134 Nelson Street West, Brampton, Ontario, L6X 1C9, Canada
Senior Flexonics SA (Pty) Limited	Senior Flexonics Cape Town	Cape Town, South Africa	South Africa	11 Thor Circle, Viking Place, Thornton, Cape Town, 7460, South Africa
Senior Operations LLC	Senior Aerospace AMT	Arlington, Washington	USA	Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, USA
	Senior Aerospace Jet Products	San Diego, California		
	Senior Aerospace Ketema	El Cajon, California		
	Senior Aerospace Metal Bellows	Sharon, Massachusetts		
	Senior Aerospace Damar	Monroe, Washington		
	Senior Aerospace SSP	Burbank, California		
	Senior Aerospace Connecticut <sup>(1)</sup>	Enfield, Connecticut		
	Senior Flexonics Bartlett	Bartlett, Illinois		
	Senior Flexonics GA	Franklin, Wisconsin		
	Senior Flexonics Pathway	New Braunfels, Texas & Maine, Delaware		
Steico Industries, Inc.	Senior Aerospace Steico Industries	Oceanside, California	USA	818 West Seventh St., Ste. 930, Los Angeles, CA 90017
Senior Aerospace (Thailand) Limited	Senior Aerospace Thailand	Chonburi, Thailand	Thailand	789/115-116 Moo1, Pinthong Industrial Estate, Sainhongkor- Lamchabang Road, Tambol Nhongkham, Amphur Sriracha, Chon Buri Province 20230, Thailand
Upeca Aerotech Sdn Bhd Upeca Flowtech Sdn Bhd	Senior Aerospace Upeca Senior Flexonics Upeca	Selangor, Malaysia	Malaysia	10th Floor, Menara Hap Seng, No 1&3, Jalan P. Ramlee, 50250 W.P – Kuala Lumpur, Malaysia
Upeca Engineering (Tianjin) Co Ltd	Senior Flexonics Upeca (China)	Tianjin, China	China	No. 12 Quanhe Road, Wu Qing Development Area, Tianjin 301700, PR China

Operating Companies	Business Units	Locations	Country of Incorporation	Registered Office
Flexonics Limited			England & Wales	59/61 High Street, Rickmansworth, Hertfordshire, WD3 1RH, UK
Lymington Precision				
Engineering (LPE) Limited				
Senior Aerospace Limited				
Senior Americas One Limited				
Senior Americas Two Limited				
Senior Automotive Limited				
Atlas Composites Limited				
Senior Engineering				
Investments Limited				
Senior Five Limited				
Senior Finance Four Limited				
Senior Finance Six Limited				
Senior Finance Seven Limited				
Senior Flexonics Limited				
Senior Trustee Limited				
Senior France SAS			France	11 Rue des Soufflets, 91410, Dourdan, France
Senior Investments (Deutschland) GmbH			Germany	Frankfurter Strasse 199, 34121 Kassel, Germany
Senior Holdings LLC			USA	Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, USA
Senior Investments GmbH			Switzerland	Fronwagplatz 10, CH-8200, Schaffhausen, Switzerland
Senior IP GmbH				
Flexonics, Inc.			USA	Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, USA
Senior US Holdings Inc				
Upeca Technologies Sdn Bhd			Malaysia	10th Floor, Menara Hap Seng, No 1&3, Jalan P. Ramlee, 50250 W.P – Kuala Lumpur, Malaysia

<sup>(1)</sup> On 5 March 2021, the Company announced the divestiture of Senior Aerospace Connecticut; the transaction is expected to close in the first half of 2021

Senior Aerospace and Flexonics Business Units in Mexico are operated by a third party under contract manufacturing agreements.

The Group has a 49% interest in Senior Flexonics Technologies (Wuhan) Limited, a jointly controlled entity incorporated in China.

Senior Investments LLC was dissolved on 19 May 2020.

Management has taken the decision to close Senior Aerospace Bosman and Senior Flexonics Upeca, Malaysia in 2021.

All Group undertakings are wholly and directly owned by subsidiary undertakings of Senior plc, and in every case the principal country of operation is the country of incorporation.

# Additional shareholder information

Analysis of shareholders at 31 December 2020

	Shareholders Number	Shareholders %	Issued Shares Millions	Issued Shares %
By category				
Corporate bodies	604	25.34	410.40	97.85
Other shareholders	1,780	74.66	9.02	2.15
	2,384	100.00	419.42	100.00
By range of holdings				
1 – 24,999	2,060	86.40	7.36	1.75
25,000 – 49,999	80	3.36	2.71	0.65
50,000 – 249,999	107	4.49	12.76	3.04
250,000 – 499,999	34	1.43	12.29	2.93
500,000 – 999,999	34	1.43	22.70	5.41
1,000,000 – and over	69	2.89	361.60	86.21
	2,384	100.00	419.42	100.00

The number of shares in issue at 31 December 2020 was 419,418,082.

## Share Registrars

All shareholder records are maintained by Equiniti and all correspondence should be addressed to the Registrar, Senior plc at the Equiniti address shown on the inside back cover, quoting the reference number starting with 0228 detailed on your dividend vouchers. The registrar should be notified regarding changes to name or address, loss of share certificate, or request for, or change to, a dividend mandate.

Equiniti provides a range of shareholder information on-line. Shareholders can check their holdings, update details and obtain practical help on transferring shares at: [www.shareview.co.uk](http://www.shareview.co.uk).

Instead of payment by post to your registered address, dividends can be paid through the BACS system direct into a UK bank or building society account, with the dividend voucher still sent to your registered address. If you wish to use this facility and have not previously applied, then please apply direct to Equiniti and request a dividend mandate form. Shareholders who are currently receiving duplicate sets of Company mailings, as a result of any inconsistency in name or address details, should write direct to Equiniti so holdings can be combined, if appropriate.

## CREST Proxy Voting

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 23 April 2021 and any adjournment(s) thereof by using the procedures described in the CREST manual. Further details relating to voting via CREST may be found on the 2021 AGM Notice of Meeting and Form of Proxy.



# Officers and advisers

## Secretary and registered office

Andrew Bodenham  
Senior plc  
59/61 High Street, Rickmansworth, Hertfordshire WD3 1RH  
Registered in England and Wales No. 00282772

## Registrars

Equiniti  
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

## Auditor

KPMG LLP  
15 Canada Square, London E14 5GL

## Sharegift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The ShareGift Transfer Form may be obtained from Equiniti, the Company's Registrars, at [www.shareview.co.uk](http://www.shareview.co.uk). There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from [www.ShareGift.org](http://www.ShareGift.org).

## Solicitors

Slaughter and May  
One Bunhill Row, London EC1Y 8YY

## Principal UK clearing bankers

Lloyds Bank plc  
25 Gresham Street, London EC2V 7HN

## Financial advisers

Lazards & Co., Limited  
50 Stratton Street, London W1J 8LL

## Joint corporate brokers

Jefferies International Limited  
100 Bishopsgate  
London EC2N 4JL

Credit Suisse International  
One Cabot Square  
London E14 4QJ