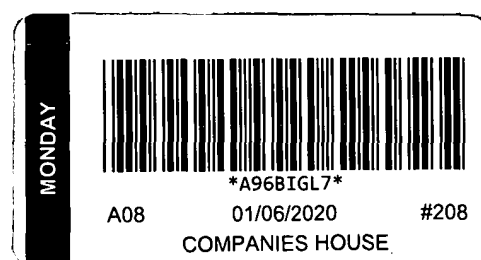


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Registered Number 00392743

AES Engineering Limited  
Annual Report  
for the year ended 31 December 2019



AES Engineering Limited  
Annual Report  
for the year ended 31 December 2019

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# **AES Engineering Limited**

## **Directors and advisers**

### **Directors**

C J Rea CBE DL  
S M Shaw  
I M Lobleigh  
S P Blagden CBE  
J N Hamilton  
C J Griffiths  
C L Dickinson

### **Company secretary**

C L Dickinson

### **Registered office**

Global Technology Centre  
Mill Close  
Bradmarsh Business Park  
Rotherham  
S60 1BZ

### **Independent auditors**

PricewaterhouseCoopers LLP  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

### **Bankers**

HSBC Bank plc  
4<sup>th</sup> Floor, City Point  
29 King Street  
Leeds  
LS1 2HL

# **AES Engineering Limited**

## **Strategic report for the year ended 31 December 2019**

The directors present their strategic report on the parent company and the group for the year ended 31 December 2019.

### **Principal activities**

The principal activity of the parent company is the holding of investments in subsidiary undertakings.

The principal activities of the group are the design, development, manufacture, sale and service of mechanical seals, engineered sealing systems, pumps and related products and the provision of reliability consultancy services.

### **Our purpose**

The group's purpose is to put customers at the heart of our business through providing exceptional customer service. Our customers have supported the expansion of our products, processes and the globalisation of our business. We believe that our long term growth will continue, as long as we continuously improve every aspect of our business that brings a benefit to our customers.

### **Review of the business and future developments**

Sales increased by 5.7% to £191.5m (2018: £181.3m), on a basis adjusted for acquisitions and currency fluctuations, organic sales growth was 6.0%. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased 3.7% to £36.0m (2018: £34.7m). On a currency adjusted basis the percentage increase was 5.0%.

Group net assets as at 31 December 2019 were £137.2m (2018: £122.8m), an increase of 11.7% on the 2018 year end. Strong cash performance means that the group held a positive cash balance of £16.1 million at the year end, after increasing capital expenditure, which included further investment in additional 9 and 11 axis machining capacity. This further investment is not only to service increased demand but also to support the group in taking advantage of digitalisation and the internet of things.

Our confidence for the future is built on the excellence of our product and service offering, and the business model and value proposition of the group, which is unique in the industry sector. We are carefully managing the coronavirus situation and the group is committed to providing a safe environment for our employees and ensuring business continuity for the benefit of our customers. We already have in place processes to protect our staff, including travel restrictions, working from home arrangements and temperature checks on entry to buildings.

Our manufacturing base is truly global and our stocking policies and logistics capabilities strengthen our ability to continue to deliver customer service. In addition we have alternative supplies from different areas of the world which will allow us to continue to supply our customers many of whom are in key industries.

No dividends will be paid to the shareholders of AES Engineering Limited in 2020 and AES Engineering's strong liquidity, cash flow and financial position will support the group through this pandemic.

# **AES Engineering Limited**

## **Strategic report for the year ended 31 December 2019 – continued**

### **Research and development**

Over forty years of continued product development means the business now has a range of differentiated and enhanced patented technology for almost all Wet and Dry Gas Seal applications. Increasingly the organisation is selling extreme duty seals for applications such as Boiler Feed, Boiler Recirculation, High Pressure Re-injection Pumps, Pipeline, Extreme Pressure and Temperature Autoclave and Dry Gas Compressor Seals.

The mechanical seal arm of the AES Engineering Limited group, AESSEAL, now believes that it can seal as large a percentage of global applications, including Extreme Duty applications, as any other global mechanical seal supplier. Development will now focus on emerging technologies and connecting the group's consultancy and reliability business digitally to its physical product range.

### **Key competitive advantage**

Cost effective product offerings and excellent delivery performance come from world class product design and processes. At least 80% of all orders are assembled to order, which is always faster and significantly less costly than the industry norm of producing low volumes of complete assemblies to order.

All product ranges from Component (Single) Seals to Gas Seals have now been developed in strict accordance with DCVIL principles. Product and process Design (D) for Configured (C) assembly to order, with a high level of Vertical Integration (VI) for Customer Service, which leads to a Lean (L) business model that does not exist in any other global mechanical seal manufacturer and which cannot easily be replicated and provides a key and sustainable competitive advantage.

### **Major productivity improvement**

The group has embarked on an initiative to automate all design, Computer Aided Manufacturing and Co-ordinate Measuring activities which has been made possible as products have been designed in accordance with the DCVIL principle and rules based technology tasks are better performed by Smart computing technology. This ongoing initiative is expected to release 50% of the skilled professionals in design and Computer Aided Manufacturing positions to work on complex tailor-made engineered product solutions that require a level of decision making that can only be performed by a human being.

The major impact will be a massive enhancement in customer service responsiveness for complex engineered products which the directors believe will give the group another unique competitive advantage.

### **The integration of mechanical, electrical and software engineering**

It is the view of the directors of the AES Engineering Limited group that businesses in our field that excel in the future will do so through a combination of world class mechanical, electrical and software engineered products and services.

The group believes that it is at the forefront of our industry in the provision of web based software driven analysis and reporting for many frequently occurring and preventable equipment failures, with the attendant reduction in plant reliability. Machine Sentry is a web hosted condition monitoring solution that provides detailed tools supported by world leading condition monitoring engineers.

# **AES Engineering Limited**

## **Strategic report for the year ended 31 December 2019 – continued**

The group has developed and introduced to the market Machine Sentry Mobile, the world's lowest cost professional reliability mobile data collector, which was added to by the introduction of an ATEX version. We have also developed ADA, an Automated Diagnostic Assistant that can predict stage 2, 3 and 4 bearing failure. The ADA algorithms have been developed by our own team of vibration experts based on thousands of hours of vibration data coupled with field experience.

The directors of the group firmly believe that the real value is in the Software Suite and the 30 years of data which includes millions of measurements collected on rotating equipment dimensions and running conditions.

This means the business has an intimate understanding of what good reliability looks like based upon the large amount of quality data in the Web Portal. More importantly the group has reliability professionals globally who can assist global customers to act on the information to improve reliability.

### **Global footprint and customer service excellence**

The business model, described above, ensures the group delivers industry leading customer service levels. A heavy investment in a group owned global sales and service infrastructure in 41 countries around the world ensures the group is close to end user customers and is positioned for continued, sustainable sales growth for years to come.

Our determination to work to the very highest standards is exemplified by the certifications we hold to ISO9001 and ISO/TS29001 (Quality Management), ISO14001 (Environmental Management), OHSAS 18001 (Health and Safety Management), ISO20000 (IT Systems Management), ISO27001 (Information Security Management System), ISO50001 (Energy Management) and ISO37001 (Anti-Bribery Management). Our detailed understanding of equipment reliability enables us to add value, not only as suppliers of product but as equipment reliability consultants to our customers, and we continue to work with uncompromising integrity in each of the 104 countries where we provide products and services.

### **Sustainability Strategy**

The group has consistently put sustainability projects first for capital investment and we have now published our policy to Prevent Global Warming through technological change and investment decisions and we intend to encourage other businesses to do so.

The group is committed to providing a safe and rewarding workplace, operating ethically, supporting its local communities, minimizing its impact on the environment and engaging its stakeholders. As a company it must continue to reduce its impact on the environment, attract gifted engineers and other skilled employees, and offer the solutions that meet increasingly demanding applications and customers. The AES Engineering Limited group always aims to exceed expectations and lead by example, operating in an ethical manner and working towards the UN's Sustainable Development Goals.

Today's more socially conscious society means that the AES Engineering group's customers and employees place a premium on working for, or with, a company with a focus on Corporate Governance. The group's sustainability strategy demonstrates a commitment to these values that provides a focused and practical framework. Where possible, it supports its strategy with third party standards or accreditations that ensure its actions are thoroughly controlled, managed and independently audited.

# **AES Engineering Limited**

## **Strategic report for the year ended 31 December 2019 – continued**

AES Engineering group's sustainability strategy covers the following:

- Enhancing the health, safety and well-being of its employees
- Developing its people and providing high quality employment opportunities
- Protecting the environment by reducing both its own and its customers' impact
- Providing benefits to local communities and particularly to those less advantaged
- Respecting human rights
- Operating in an ethical and transparent manner

### **Section 172 Reporting**

The Directors of AES Engineering Limited and those of all UK companies must act in accordance with a set of general duties. These duties are detailed in s172 of the UK Companies Act 2006 which are summarised below;

'A Director of a Company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the shareholders as a whole and in doing so have regard (amongst other matters) to;

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

### **Long term decision making**

As an organisation our purpose, our core values, our vision and our policies are all aligned to the duties described above.

Our Vision is "To Be The World Leading Reliability Company.... That also manufactures sealing products" which means all decisions consider the long term vision of the Company and therefore the long term effects of the decisions the Directors make.

The Directors have approved significant capital expenditure which will benefit the company over many years, investing in buildings, plant and machinery, with almost £6m invested in additional machine tools in 2019. The Directors are also at the heart of the significant research and development programmes designing products and services for the long term future of the Company.

Our Sustainability Strategy shown earlier in the Strategic Report shows that the interests of the company's employees, the sustainability of our customers' decisions, the local communities and the environment, how we strive to act fairly with high moral standard of behaviour, are at the heart of the Directors' decision making process.

# **AES Engineering Limited**

## **Strategic report for the year ended 31 December 2019 – continued**

### **Our People**

The Directors recognise the value of the people the group employs and understands that without them the business could not operate. The business always seeks to treat all its employees in a fair and equal manner with no discrimination against any protected characteristics of individuals. As an engineering business, it feels the pressure of the skills gap and, therefore, invests to develop its own talent to ensure a sustainable skilled workforce. These efforts have been recognized with the business maintaining the Investors in People standard since 1994.

The Directors also ensure that the facilities are kept to a high standard and are always safe, comfortable places to work. The culture of continuous improvement has gained positive results with its health and safety record. Directors assess and reduce risk, invest in equipment and involve employees at all levels.

### **Business Relationships**

As the Directors promote the success of the group, we need to develop and maintain strong business relationships with both customers and suppliers to be able to succeed. The Directors receive information on a variety of topics that indicate and inform how these stakeholders have been engaged with. We work with customers to deliver added value and long-term reliability solutions.

### **Community and Environment**

The group is one of the few companies that have a published a Global warming policy where our investment decisions will always take into account sustainability, environmental factors as well as the success of the group. The Directors have also provided the policy on the website copyright free to try and encourage other companies to adopt a global warming policy.

### **Ethical and fair behaviour to maintain the group's reputation**

The Directors have always recognised the importance of the governance of its business operating in a highly ethical manner in all its operations, such that its reputation may never be brought into disrepute. The Directors respect people for who they are and what they are capable of doing. Everyone deserves an equal chance to succeed based on their hard work, talent and commitment to the Company's values. Should any unethical business practices be discovered, employees at all levels are able to report them, either directly to the compliance committee, or through the independent hotline.

On 25 September 2018 the Company received from the Lord Mayor of London, the inaugural Business of Trust Dragon Award. This award has resonated deeply within our business as it recognises the foundation upon which our core values are built.

### **Withdrawal of the United Kingdom from the European Union**

At the date of this report, the terms under which the United Kingdom will withdraw from the European Union are not fully known. The Directors of the group are confident that the withdrawal of the United Kingdom from the European Union will not impact the group's and company's ability to continue as a going concern. The group has a diverse geographical customer base and is experienced in trading under multiple global trade and customs arrangements.



# AES Engineering Limited

## Strategic report for the year ended 31 December 2019 – continued

### Key performance indicators (KPIs)

In conjunction with the management of costs and working capital in order to improve operating profit, the group uses certain KPIs to monitor its performance and those of its operating entities, notably:

|                              |   |
|------------------------------|---|
| EBITDA                       | - Earnings before interest, taxation, depreciation and amortisation   |
| EBITDA margin                | - Earnings before interest, taxation, depreciation and amortisation expressed as a percentage of sales  |
| Sales growth                 | - Current year sales divided by prior year sales expressed as a percentage  |
| Organic sales growth         | - Current year sales divided by prior year sales, adjusted to eliminate the effect of exchange difference fluctuations and acquisitions and expressed as a percentage |
| Material cost of sales       | - Current year material costs divided by current year sales and expressed as a percentage   |
| Gross margin                 | - The ratio of gross margin to sales expressed as a percentage  |
| Return on net assets         | - Profit before tax and minority interests divided by net assets employed expressed as a percentage   |
| Cash conversion              | - Operating cash (outflow) / inflow divided by EBITDA expressed as a percentage   |
| Net debt                     | - The level of overall borrowings (bank loans, net overdrafts and HP finance)   |
| Debtor days                  | - The level of debtors and its ratio to sales, expressed in days  |
| Stock days                   | - The level of stock and its ratio to cost of sales, expressed in days  |
| Working capital %            | - Working capital (stock plus debtors less creditors) as a percentage of sales  |
| On time delivery performance | - Number of orders despatched on time divided by total orders expressed as a percentage   |
| Health & safety              | - Minor accidents per 100,000 labour hours<br>- Reportable accident rate  |

# AES Engineering Limited

## Strategic report for the year ended 31 December 2019 - continued

### Principal and financial risks and uncertainties

Taking risks is an inherent part of entrepreneurial activity and the assessment of risk is part of our culture. Specifically, we give careful consideration to the key risks in our business and how we can best mitigate those risks to meet our business objectives. The key risks affecting the business are:

| Risk description   | Potential impact   | How we mitigate   |
|--|--|---|
| <b>Foreign exchange</b>  |  |   |
| A significant proportion of the group's revenue, profit and net assets is denominated in currencies other than Sterling, principally the US Dollar and Euro, and to a lesser degree other currencies such as the South African Rand and Malaysian Ringgit. | The accounting profits of the group and the book value of assets and liabilities are subject to fluctuation based on changes in foreign currency rates.  | The group seeks to manage the risks involved by sourcing inputs in foreign currencies where possible. A central treasury function, which is not a profit centre, further manages risks via the use of derivative contracts solely for the purpose of hedging the exposures that arise in the normal course of business. |
| <b>Credit risks</b>  |  |   |
| The group has a very large customer base and a downturn in the economy leads to a slowing of payments from customers in some markets.  | A reduction of profit due to bad debt provisions and write-offs.   | <p>The Group policy is that new customers are subject to credit checks. Customers have authorised credit limits which are subject to regular review.</p> <p>There is a continued focus on debt recovery, review, and reporting at a group level.</p>  |
| <b>Employees</b>   |  |   |
| The group's performance depends largely on the recruitment and retention of individuals of above average levels of motivation and ability.   | Failure to attract staff with the required technical, management and leadership skills, to retain key employees and/or to provide for effective succession planning for critical positions may affect the group's financial results. | The group's growth and international scope provides excellent opportunities for the career development of talented individuals. The group sets out as an explicit statement of its culture to treat people fairly and to create an environment where employees are happy at work.                                       |

# AES Engineering Limited

## Strategic report for the year ended 31 December 2019 – continued

### Principal and financial risks and uncertainties - continued

| Risk description  | Potential impact  | How we mitigate   |
|---|---|---|
| <p>Given the current Covid-19 pandemic we have added a new risk to capture the risks of the developing situation affecting the world. We are closely working with all of our stakeholders to prioritise the Health and Safety of our people and to continue to supply our customers especially those in Key Industries.</p> |   |   |
| <b>Covid-19</b>   |   |   |
| <p>The Outbreak of Coronavirus has a potential risk to 1) the health and safety of our people; 2) the ability of our and our customers' businesses to operate normally; and 3) global supply chains and the flow of goods and services.</p>   | 1) Health and Safety risk to our people who come into contact with confirmed cases.                 | 1) We have implemented extensive hygiene controls, temperature checks, working from home arrangements and social distancing spots around the production facility.           |
|   | 2) Mandatory restrictions implemented by Country officials thus reduced sales and customer service. | 2) Sales calls are being performed through video conferencing where we cannot go on-site and we are engaging closely with our customers to support their needs.             |
|   | 3) Supply chain response is slowed down or reduced.   | 3) The majority of our supplies have alternative sources and as our products are mainly assemble to order we are better positioned to respond quickly to customer requests. |

Approved by and signed on behalf of the Board



C J Rea CBE DL  
Director

07 May 2020

# **AES Engineering Limited**

## **Directors' report for the year ended 31 December 2019**

The directors present their report and the audited financial statements of the Parent company and the group for the year ended 31 December 2019.

### **Directors**

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

C J Rea CBE DL  
S M Shaw  
I M Lobley  
S P Blagden CBE  
J N Hamilton  
R E Sullivan – resigned 29 July 2019  
C J Griffiths  
C L Dickinson – appointed 29 July 2019

### **Results and dividends**

The group profit and loss account for the year is set out on page 19.

The future developments affecting the group and approach to financial risk management are referenced within the Strategic report on pages 4 to 11.

A dividend of £5,186,000 was declared in March 2019 (2018: £nil). Actual dividends of £5,006,000 (2018: £5,250,000) were paid to the shareholders of AES Engineering Limited in April 2019, as the dividend rights held by the employee share ownership trust were waived in accordance with the Trust Deed.

### **Employee engagement**

Communication is crucial to helping employees engage with the business. We communicate through team briefings, presentations, lunch and learn, intranet and newsletters. The group has well-established forums for exchanging information and best practice, as well as discussing business issues, including efficiency initiatives, training and development, environmental and health & safety issues. In addition to this we hold strategic away days for a cross-section of employees to interact with different departments and the Directors; this is an opportunity for Directors to engage with the high-potential-talent individuals. All employees contribute to and understand the group's business culture - particularly the needs of the customers it serves. The group also uses employee surveys to establish feedback. The Board continues to encourage improvements in systems, processes and benefits which impact the health, safety and well-being of our employees.

The group is committed to promoting policies which are designed to ensure that employees and those who seek to work for the group are treated equally regardless of sex, marital status, sexual orientation, race or ethnic origin.

The group gives full and fair consideration to applications for employment by people who are disabled, to continue wherever possible the development of staff who become disabled and to provide equal opportunities for the career development of disabled employees.

# **AES Engineering Limited**

## **Directors' report for the year ended 31 December 2019 - continued**

### **Employee engagement - continued**

The group recognises that training for all levels of staff is vital to performance and it also provides a mechanism for increasing morale and improving staff retention. This ensures that knowledge of the group's product offering is not lost, thereby enhancing customer service. All employees are provided with regular training on behavioural standards, whilst succession planning, including the deployment of an effective apprenticeship scheme, will contribute to future business sustainability.

### **Stakeholder engagement**

Understanding the views and interests of our key stakeholders is important to the Board and the Directors have taken steps to consider stakeholders' views in Board discussions and decision-making. Different guests have been invited to board meetings both internally and externally to discuss topics upon which the board are making strategic decisions.

### **Charitable donations**

The group gave £35,000 (2018: £146,000) for charitable purposes in the year. No political donations were made during the year (2018: £nil).

### **Directors' indemnities**

The group maintains liability insurance for its directors and officers. The group has also provided an indemnity for its directors and the company secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006 and was in force during the financial year and at the date of approval of these financial statements.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

# AES Engineering Limited

## Directors' report for the year ended 31 December 2019 - continued

### Statement of directors' responsibilities - continued

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

Approved by and signed on behalf of the Board



C J Rea CBE DL  
Director

07 May 2020

# **AES Engineering Limited**

## **Independent auditors' report to the members of AES Engineering Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, AES Engineering Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the group and parent company balance sheets as at 31 December 2019; the group profit and loss account, the group statement of comprehensive income, the group cash flow statement, and the group and parent company statements of changes in equity for the year then ended; the statement of accounting policies; and the notes to the financial statements.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

# **AES Engineering Limited**

## **Independent auditors' report to the members of AES Engineering Limited - continued**

### **Conclusion relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.



# **AES Engineering Limited**

## **Independent auditors' report to the members of AES Engineering Limited - continued**

### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### **Responsibility of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### **Auditors' responsibilities for the audit of the financial statements**

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

# **AES Engineering Limited**

## **Independent auditors' report to the members of AES Engineering Limited – continued**

### **Responsibilities for the financial statements and the audit - continued**

#### **Use of this report**

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

**Kevin Strauther (Senior Statutory Auditor)**

**For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
07 May 2020**

## AES Engineering Limited

### Group profit and loss account for the year ended 31 December 2019

|   | Note | 2019<br>£000     | 2018<br>£000     |
|---|------|------------------|------------------|
| Turnover  | 1    | 191,546          | 181,274          |
| Change in stocks of finished goods and work in progress |      | 2,827            | 5,770            |
| Other operating income                                  |      | 668              | 563              |
|   |      | <b>195,041</b>   | <b>187,607</b>   |
| Raw materials and consumables                           |      | (63,897)         | (64,094)         |
| Staff costs   | 5    | (70,159)         | (65,804)         |
| Depreciation and amortisation                           | 3    | (7,943)          | (7,012)          |
| Other operating expenses                                |      | (25,002)         | (23,082)         |
| Exceptional operating items                             | 4    | (142)            | -                |
|   |      | <b>(167,143)</b> | <b>(159,992)</b> |
| <b>Operating profit</b>                                 | 3    | <b>27,898</b>    | <b>27,615</b>    |
| Share of operating profit of joint ventures             |      | -                | 5                |
| Share of operating profit of associates                 |      | 112              | 60               |
| Amortisation of associate goodwill                      | 3    | (3)              | (3)              |
| <b>Profit before interest and taxation</b>              |      | <b>28,007</b>    | <b>27,677</b>    |
| Net interest (payable)/receivable                       | 2    | (66)             | 1                |
| <b>Profit before taxation</b>                           |      | <b>27,941</b>    | <b>27,678</b>    |
| Tax on profit   | 7    | (9,760)          | (6,893)          |
| <b>Profit after taxation</b>                            |      | <b>18,181</b>    | <b>20,785</b>    |
| Minority interests                                      |      | (1,369)          | (1,578)          |
| <b>Profit for the financial year</b>                    |      | <b>16,812</b>    | <b>19,207</b>    |

All items dealt with in arriving at operating profit above, unless otherwise stated, relate to continuing operations.

## AES Engineering Limited

### Group statement of comprehensive income for the year ended 31 December 2019

|  | 2019<br>£000  | 2018<br>£000  |
|--|---------------|---------------|
| Profit after taxation and minority interests       | 16,812        | 19,207        |
| Other comprehensive income:                        |               |               |
| Remeasurement gain recognised on forward contracts | 6,272         | 65            |
| Deferred tax on forward contracts                  | (1,159)       | (48)          |
| Exchange (loss)/gain arising on consolidation      | (2,818)       | 293           |
| Total other comprehensive income for the year      | 2,295         | 310           |
| <b>Total comprehensive income for the year</b>     | <b>19,107</b> | <b>19,517</b> |

# AES Engineering Limited

## Group balance sheet as at 31 December 2019

|   | Note | 2019<br>£000    | 2018<br>£000    |
|---|------|-----------------|-----------------|
| <b>Fixed assets</b>                                     |      |                 |                 |
| Intangible assets                                       | 10   | 13,242          | 14,161          |
| Tangible assets   | 12   | 49,786          | 40,691          |
| Investments   | 14   | 692             | 608             |
|   |      | <b>63,720</b>   | <b>55,460</b>   |
| <b>Current assets</b>                                   |      |                 |                 |
| Stocks  | 16   | 37,474          | 34,310          |
| Debtors   | 17   | 42,955          | 42,615          |
| Derivative financial assets                             | 24   | 4,082           | 254             |
| Cash at bank and in hand                                |      | 16,051          | 16,464          |
|   |      | <b>100,562</b>  | <b>93,643</b>   |
| <b>Creditors: amounts falling due within one year</b>   | 18   | <b>(25,361)</b> | <b>(23,351)</b> |
| <b>Net current assets</b>                               |      | <b>75,201</b>   | <b>70,292</b>   |
| <b>Total assets less current liabilities</b>            |      | <b>138,921</b>  | <b>125,752</b>  |
| Creditors: amounts falling due after more than one year | 19   | (330)           | (549)           |
| Derivative financial liabilities                        | 24   | -               | (2,444)         |
| Provision for other liabilities                         | 22   | (1,420)         | -               |
| <b>Net assets</b>                                       |      | <b>137,171</b>  | <b>122,759</b>  |
| <b>Capital and reserves</b>                             |      |                 |                 |
| Called up share capital                                 | 23   | 1,501           | 1,521           |
| Share premium account                                   |      | 7,035           | 7,035           |
| Capital redemption reserve                              |      | 3,023           | 3,003           |
| Cash flow hedge reserve                                 | 24   | 4,082           | (2,190)         |
| Retained earnings                                       |      | 115,129         | 107,098         |
| <b>Total shareholders' funds</b>                        |      | <b>130,770</b>  | <b>116,467</b>  |
| Minority interests                                      |      | 6,401           | 6,292           |
| <b>Capital employed</b>                                 |      | <b>137,171</b>  | <b>122,759</b>  |

The financial statements on pages 19 to 63 were approved by the board of directors on 07 May 2020 and were signed on its behalf by:



**C J Rea CBE DL**  
Director

# AES Engineering Limited

## Parent company balance sheet as at 31 December 2019

Registered number 00392743

|   | Note | 2019<br>£000  | 2018<br>£000   |
|---|------|---------------|----------------|
| <b>Fixed assets</b>                                     |      |               |                |
| Intangible assets                                       | 11   | 726           | 593            |
| Tangible assets   | 13   | 11,945        | 11,882         |
| Investments   | 15   | 29,737        | 28,323         |
|   |      | <b>42,408</b> | <b>40,798</b>  |
| <b>Current assets</b>                                   |      |               |                |
| Debtors – amounts falling due within one year           | 17   | 4,529         | 12,018         |
| – amounts falling due after more than one year          | 17   | 9,810         | 82             |
| Cash at bank and in hand                                |      | 2,058         | 722            |
| <b>Current assets</b>                                   |      | <b>16,397</b> | <b>12,822</b>  |
| Creditors – amounts falling due within one year         | 18   | (3,518)       | (17,950)       |
| <b>Net current assets/ (liabilities)</b>                |      | <b>12,879</b> | <b>(5,128)</b> |
| <b>Total assets less current liabilities</b>            |      | <b>55,287</b> | <b>35,670</b>  |
| Creditors: amounts falling due after more than one year | 19   | (20,333)      | -              |
| Provision for other liabilities                         | 22   | (200)         | (200)          |
| <b>Net assets</b>                                       |      | <b>34,754</b> | <b>35,470</b>  |
| <b>Capital and reserves</b>                             |      |               |                |
| Called up share capital                                 | 23   | 1,501         | 1,521          |
| Share premium account                                   |      | 7,035         | 7,035          |
| Capital redemption reserve                              |      | 3,023         | 3,003          |
| Retained earnings                                       |      | 23,195        | 23,911         |
| <b>Total shareholders' funds</b>                        |      | <b>34,754</b> | <b>35,470</b>  |

The profit of the company for the financial year amounted to £4,323,000 (2018: £9,852,000).

The financial statements on pages 19 to 63 were approved by the board of directors on 07 May 2020 and were signed on its behalf by:



**C J Rea CBE DL**  
Director

# AES Engineering Limited

## Group statement of changes in equity for the year ended 31 December 2019

|  | Called up<br>share<br>capital | Share<br>premium<br>account | Capital<br>redemption<br>reserve | Cash flow<br>hedge<br>reserve | Retained<br>earnings | Total<br>Shareholders<br>Fund |
|--|-------------------------------|-----------------------------|----------------------------------|-------------------------------|----------------------|-------------------------------|
|  | £000                          | £000                        | £000                             | £000                          | £000                 | £000                          |
| <b>At 1 January 2018</b>   | <b>1,521</b>                  | <b>7,035</b>                | <b>3,003</b>                     | <b>(2,255)</b>                | <b>87,445</b>        | <b>96,749</b>                 |
| Profit for the year  | -                             | -                           | -                                | -                             | 19,207               | 19,207                        |
| Transfer to reserves in respect of equity settled share based payments | -                             | -                           | -                                | -                             | 252                  | 252                           |
| Other comprehensive income   | -                             | -                           | -                                | 65                            | 245                  | 310                           |
| Increase in minority interest with no loss of control                  | -                             | -                           | -                                | -                             | 79                   | 79                            |
| Arising from employee share ownership trust                            | -                             | -                           | -                                | -                             | (130)                | (130)                         |
| <b>At 31 December 2018</b>   | <b>1,521</b>                  | <b>7,035</b>                | <b>3,003</b>                     | <b>(2,190)</b>                | <b>107,098</b>       | <b>116,467</b>                |
| Cancellation of shares   | (20)                          | -                           | 20                               | -                             | -                    | -                             |
| Profit for the year  | -                             | -                           | -                                | -                             | 16,812               | 16,812                        |
| Transfer to reserves in respect of equity settled share based payments | -                             | -                           | -                                | -                             | 235                  | 235                           |
| Dividends  | -                             | -                           | -                                | -                             | (5,006)              | (5,006)                       |
| Other comprehensive income/(expense)                                   | -                             | -                           | -                                | 6,272                         | (3,977)              | 2,295                         |
| Arising from employee share ownership trust                            | -                             | -                           | -                                | -                             | (33)                 | (33)                          |
| <b>At 31 December 2019</b>   | <b>1,501</b>                  | <b>7,035</b>                | <b>3,023</b>                     | <b>4,082</b>                  | <b>115,129</b>       | <b>130,770</b>                |

## AES Engineering Limited

### Parent company statement of changes in equity for the year ended 31 December 2019

|  | Called up<br>share<br>capital | Share<br>premium<br>account | Capital<br>redemption<br>reserve | Retained<br>earnings | Total<br>Shareholders<br>Fund |
|--|-------------------------------|-----------------------------|----------------------------------|----------------------|-------------------------------|
|  | £000                          | £000                        | £000                             | £000                 | £000                          |
| <b>At 1 January 2018</b>                       | <b>1,521</b>                  | <b>7,035</b>                | <b>3,003</b>                     | <b>14,189</b>        | <b>25,748</b>                 |
| Profit for the year                            | -                             | -                           | -                                | 9,852                | 9,852                         |
| Arising from employee<br>share ownership trust | -                             | -                           | -                                | (130)                | (130)                         |
| <b>At 31 December 2018</b>                     | <b>1,521</b>                  | <b>7,035</b>                | <b>3,003</b>                     | <b>23,911</b>        | <b>35,470</b>                 |
| Buyback of share capital                       | (20)                          | -                           | 20                               | -                    | -                             |
| Profit for the year                            | -                             | -                           | -                                | 4,323                | 4,323                         |
| Dividends                                      | -                             | -                           | -                                | (5,006)              | (5,006)                       |
| Arising from employee<br>share ownership trust | -                             | -                           | -                                | (33)                 | (33)                          |
| <b>At 31 December 2019</b>                     | <b>1,501</b>                  | <b>7,035</b>                | <b>3,023</b>                     | <b>23,195</b>        | <b>34,754</b>                 |



## AES Engineering Limited

### Group cash flow statement for the year ended 31 December 2019

|   | Note | 2019<br>£000    | 2018<br>£000    |
|---|------|-----------------|-----------------|
| <b>Cash flow from operating activities</b>                  | 29   | <b>28,804</b>   | <b>27,654</b>   |
| Income taxes paid   |      | (4,793)         | (9,240)         |
| <b>Net cash generated from operating activities</b>         |      | <b>24,011</b>   | <b>18,414</b>   |
| <b>Cash flows from investing activities</b>                 |      |                 |                 |
| Proceeds from sale of fixed assets                          |      | 359             | 531             |
| Purchases of tangible assets                                | 12   | (16,327)        | (8,553)         |
| Purchases of intangible assets                              | 10   | (862)           | (1,542)         |
| Acquisition of subsidiary undertakings                      |      | -               | (1,427)         |
| Acquisition of associate                                    |      | -               | (551)           |
| Interest received   | 2    | 123             | 154             |
| <b>Net cash used in investing activities</b>                |      | <b>(16,707)</b> | <b>(11,388)</b> |
| <b>Cash flows from financing activities</b>                 |      |                 |                 |
| Repayment of bank loans                                     |      | (11)            | (16)            |
| New finance leases  |      | 69              | 250             |
| Repayment of finance lease obligations                      |      | (763)           | (802)           |
| Interest paid   | 2    | (170)           | (121)           |
| Interest element of finance lease payments                  | 2    | (19)            | (37)            |
| Net purchase of shares by employee share ownership trust    |      | (33)            | (130)           |
| Dividend paid to minority shareholders                      |      | (1,036)         | (1,329)         |
| Dividend paid to shareholders                               | 9    | (5,006)         | (5,250)         |
| <b>Net cash used in financing activities</b>                |      | <b>(6,969)</b>  | <b>(7,435)</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | 30   | <b>335</b>      | <b>(409)</b>    |
| Foreign exchange translation adjustment                     | 31   | (748)           | (505)           |
| Cash and cash equivalents at the beginning of the year      | 31   | 16,464          | 17,378          |
| <b>Cash and cash equivalents at the end of the year</b>     | 31   | <b>16,051</b>   | <b>16,464</b>   |

# **AES Engineering Limited**

## **Statement of accounting policies**

### **General Information**

AES Engineering Limited ('the Company') and its subsidiaries (together 'the Group') principal activity is the holding of investments in subsidiary undertakings and design, development, manufacture, sale and service of mechanical seals, engineered sealing systems, pumps and related products and the provision of reliability consultancy services respectively.

The Company is a private Company limited by shares and is incorporated in England. The address of its registered office is Mill Close, Mill Close, Bradmarsh Business Park, Rotherham, S60 1BZ.

### **Statement of compliance**

The financial statements of the group have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

### **Basis of preparation of financial statements**

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006, applicable accounting standards in the United Kingdom and under the historical cost convention. There were no material departures from those standards. A summary of the main accounting policies, which have been applied consistently, is set out below.

The Directors have considered the latest trading position of the group and have made appropriate enquiries of the group's financial position and forecasts, including assessment of a severe but plausible downside scenario in relation to the impact of COVID19 in assessing the adoption of the going concern basis of accounting in preparing the annual financial statements. On this basis the financial statements have been prepared on the going concern basis.

### **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

### **Basis of consolidation**

The consolidated financial statements include the results of the parent company, its subsidiaries, together with the group's share of the results of associated undertakings and joint ventures. Results of companies acquired during the year are included from the effective date of acquisition. All acquisitions are accounted for under the purchase method in accordance with FRS 102.

### **Exemptions for qualifying entities under FRS 102**

The company has taken advantage of the disclosure exemptions of FRS 102, Section 1, paragraph 1.12(a) reconciliation of the number of shares outstanding at the beginning and at the end of the period, paragraph 1.12(b) statement of cash flows.

# AES Engineering Limited

## Statement of accounting policies – continued

### Turnover

Turnover represents the amounts invoiced to customers net of value added tax and excluding intra-group transactions. Under normal circumstances, turnover from product sales is recognised upon delivery to the customer or, in the case of goods supplied ex-works, generally upon collection by the customer or their agent. Turnover from service sales is recognised when the services have been completed and agreed by the customer. Where consignment stock arrangements are in place, turnover is recognised upon notification by the customer that the product has been withdrawn from consignment.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual value, on a straight line basis over their estimated economic lives. The depreciation rates used for this purpose are:

|  |  |
|--|--|
| Freehold and long leasehold properties | 1% - 4% straight line                  |
| Plant, fixtures and equipment          | 10% - 20% straight line                |
| Motor vehicles                         | 25% straight line                      |
| Short leasehold property               | Equal instalments over period of lease |
| Land is not depreciated.               |  |

Assets under construction represent tangible assets received but not yet commissioned. An asset under construction will be transferred to Plant, fixtures and Equipment when it has reached the working condition for its intended use.

### Intangible fixed assets

Costs incurred in applying for patents have been capitalised and are amortised on the straight line basis over the estimated life of the patent, not exceeding 20 years.

The costs incurred in registering trademarks have been capitalised and are not amortised. The directors consider the trademarks to be worth at least the net book amount stated in the balance sheet and therefore no amortisation has been charged.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values of identifiable net assets, liabilities and contingent liabilities identified.

Where the group is not able to make a reliable estimate of useful economic life, goodwill is amortised over a period not exceeding 10 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the profit and loss accounts. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

The costs incurred in the development and installation of significant software projects are capitalised as intangible assets. Amortisation over the estimated useful life of the software will commence once brought into use.

# **AES Engineering Limited**

## **Statement of accounting policies – continued**

### **Intangible fixed assets - continued**

Development costs are capitalised where they meet the following criteria:

- the technical feasibility of the intangible asset is completed so that it will be available for use or sale, and
- an intention to complete the intangible asset and use or sell it
- ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits. Among other things, demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset.
- ability to measure reliably the expenditure attributable to the intangible assets during its development.

Where these criteria are not met, development costs are written off in the year of expenditure.

### **Investments**

Investments in subsidiaries, joint ventures and associated undertakings are shown at cost less any amounts written off for permanent diminution in value. At group level investments in associated undertakings are stated at the group's share of the fair value of underlying net assets together with goodwill arising on acquisition less amortisation to date. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Other investments are stated at cost less any amounts written off for permanent diminution in value.

### **Stock and work in progress**

Stock and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress and finished goods and goods for resale, cost includes direct materials, labour and manufacturing overheads incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less further costs to completion and selling costs. Provision is made for slow moving and obsolete stock.

### **Deferred taxation**

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

### **Pension costs**

The group operates defined contribution pension schemes. The charge in the profit and loss account for pension costs is the amount of the group's contributions payable to the pension schemes in the year.

# **AES Engineering Limited**

## **Statement of accounting policies – continued**

### **Foreign currency**

For individual companies within the group, transactions denominated in foreign currencies are translated into the local currency using the exchange rate ruling at the date of the transaction. Assets and liabilities denominated in a foreign currency have been translated into the local currency at the year end rate. Realised foreign exchange differences are taken to the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

On consolidation the profit and loss accounts of foreign subsidiaries are translated into sterling at the average exchange rate for the accounting period and assets and liabilities are translated at the year end rate. Any exchange difference arising on consolidation is taken to the profit and loss reserve.

### **Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The effective portions of changes in the fair values of derivatives that are designated and qualify as cash-flow hedges are recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in the hedge reserve are recycled in the profit and loss account in the periods when the hedged items will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the hedge reserve at that time remains in the reserve and is recognised when the forecast transaction is ultimately recognised in profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit and loss account.

### **Leasing**

Assets acquired under hire purchase contracts are capitalised and depreciated in the same manner as other tangible fixed assets. Assets acquired under finance leases are capitalised and depreciated over the lower of the useful lives and the terms of the lease. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease rentals are charged to the profit and loss account as they are incurred. Lease incentives are recognised on a straight line basis over the period until the next rent review.

### **Dividends**

Dividends are recognised in the period in which they are declared and approved by the shareholders.

### **Employee share ownership trust**

The trust's assets and liabilities are recognised by the sponsoring company, AES Engineering Limited, as its own. The ordinary shares of the company held by the employee share ownership trust are shown as a deduction from shareholders' funds at the market value of the shares at the date of acquisition less any amount written off in respect of any permanent diminution in the value of the shares.

# AES Engineering Limited

## Statement of accounting policies – continued

### Share based incentives

In accordance with FRS 102 the fair value of equity settled share based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model. The expense recognised in the profit and loss account results in a corresponding increase in equity. In accordance with FRS 102 this is presented as a component of the group retained earnings and has no significance other than being the historical accumulation of the expense.

### Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities which are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to them are recognised in the period in which they are revised.

The estimates and judgement that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### (a) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, economic utilisation and the physical condition of the assets. See notes 11 and 12 for the carrying values of plant, property and equipment.

#### (b) Inventory provisioning

The group sells mechanical seals and related products and is subject to changing customer demands. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 16 for the net carrying amount of the inventory.

#### (c) Impairment of investments in subsidiaries and goodwill on acquisition

Determining whether the company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require management to estimate the future cash flows expected to arise from the investments. In addition, the group considers whether intangible assets and/or goodwill are impaired. Where an indication of impairment is identified an estimation of the recoverable value is required.

#### (d) Provisions

Provision is made for dilapidations and contingencies. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements.

# **AES Engineering Limited**

## **Statement of accounting policies – continued**

### **Critical accounting estimates and assumptions - continued**

**(d) Provisions - continued**

In addition, the timing of cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

**(e) Capitalised development costs**

Development projects where knowledge and understanding gained from research and practical experience are directed towards developing new products or processes, are recognised as intangible assets in the balance sheet when they meet the criteria for capitalisation. Development costs are capitalised when the technical and commercial feasibility of completing the product or process can be demonstrated and the product or process is intended to be sold or used. Probable future economic benefit related to the asset flowing to the group is also expected and can be measure reliably. The reported value includes all directly attributable compensation to employees working on a development project. Individual assessment is made of major ongoing research and development projects to determine whether these criteria have been met.

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 1 Turnover

The group's turnover and operating profit relate entirely to its principal activities.

In the opinion of the directors disclosure of the group's turnover split by geographical market would be seriously prejudicial to the interests of the group, therefore such information has not been disclosed.

### 2 Net interest (payable)/receivable

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| Interest receivable  | 123          | 154          |
| Interest payable on bank loans and overdrafts                    | (148)        | (69)         |
| Interest payable on hire purchase obligations and finance leases | (19)         | (37)         |
| Other interest payable   | (22)         | (47)         |
|  | (66)         | 1            |



## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 3 Operating profit

|   | 2019<br>£000 | 2018<br>£000 |
|---|--------------|--------------|
| Operating profit is stated after charging/(crediting):    |              |              |
| Equity-settled share based payments                       | 235          | 252          |
| Depreciation of owned assets                              | 6,057        | 4,676        |
| Depreciation of assets held under hire purchase contracts | 118          | 424          |
| Amortisation of intangible assets                         | 1,768        | 1,578        |
| Impairment of intangible assets                           | -            | 334          |
| Amortisation of associate goodwill                        | 3            | 3            |
| Profit on disposal of fixed assets                        | (39)         | (93)         |
| Net foreign currency exchange loss/(gain)                 | 159          | (627)        |
| Auditors' remuneration including expenses                 |              |              |
| - Group audit   | 154          | 137          |
| - Other services  |              |              |
| - statutory audit of subsidiaries                         | 156          | 128          |
| - other services  | 6            | 6            |
| Operating leases – property                               | 2,266        | 2,350        |
| Operating leases – plant and machinery                    | 348          | 343          |
| Research and development costs                            | 4,045        | 3,972        |

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 4 Exceptional items

|   | 2019  | 2018 |
|---|-------|------|
|   | £000  | £000 |
| Exceptional items:                              |       |      |
| - Provision for doubtful debts of joint venture | (91)  | -    |
| - Impairment of loan with joint venture         | (176) | -    |
| - Reversal of share of joint venture losses     | 125   | -    |
|   | (142) | -    |

The 2019 exceptional items include the impairment of investment in the joint venture AESSEAL Oryx LLC, the provision for doubtful debts against AESSEAL Oryx LLC and the reversal of historical losses in relation to AESSEAL Oryx LLC.

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 5 Employee information

The average monthly number of persons (including executive directors) employed by the group during the year was:

| By activity                              | 2019<br>Number | 2018<br>Number |
|--|----------------|----------------|
| Sales engineers                          | 413            | 418            |
| Management and administration            | 708            | 692            |
| Production and stores                    | 687            | 709            |
|  | <b>1,808</b>   | <b>1,819</b>   |
| <b>Staff costs for the above persons</b> | <b>2019</b>    | <b>2018</b>    |
|  | <b>£000</b>    | <b>£000</b>    |
| Wages and salaries                       | 62,938         | 58,793         |
| Social security costs                    | 5,183          | 5,113          |
| Other pensions costs                     | 1,548          | 1,405          |
| Severance costs                          | 255            | 241            |
| Equity – settled share based payments    | 235            | 252            |
|  | <b>70,159</b>  | <b>65,804</b>  |

Certain employees of AESSEAL plc, AESSEAL Inc., AESSEAL (M) SDN. BHD., AESSEAL Ireland Limited, AESSEAL France SAS, AESSEAL (Proprietary) Limited, AESSEAL Ningbo Limited, AESSEAL India Private Limited, AESSEAL Canada Inc, AVTPUMP Limited, AESSEAL Univeda Lda, AESSEAL Australia Pty Limited, AESSEAL Polska Sp. z o.o and AVT Reliability Limited are awarded options to purchase shares in AES Engineering Limited, at an exercise price determined by the directors of AES Engineering Limited.

The group expenses an estimate of how many shares are likely to vest based on the market price at the date of grant, taking account of the five/three year vesting window and estimated share price volatility.

The principal vesting requirement is that the employees to whom the options are granted remain in employment until the date options are exercised. Options may be exercised between three and ten years from the date of grant, and are settled in equity.

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 6 Directors' emoluments

|   | 2019 | 2018 |
|---|------|------|
|   | £000 | £000 |
| Emoluments including benefits in kind                   | 855  | 886  |
| Company pension contributions to money purchase schemes | 39   | 52   |
|   | 894  | 938  |

Retirement benefits are accruing to seven (2018: seven) directors under money purchase schemes. No director (2018: one director) of AES Engineering Limited exercised share options in the year. There were no directors (2018: two directors) of AES Engineering Limited to whom share options were granted during the year.

| Highest paid director                                  | 2019 | 2018 |
|--|------|------|
|  | £000 | £000 |
| Emoluments including benefits in kind                  | 262  | 260  |
| Company pension contributions to money purchase scheme | 9    | 9    |
|  | 271  | 269  |

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 7 Tax on profit

|  | 2019         | 2018         |
|--|--------------|--------------|
|  | £000         | £000         |
| <b>Current tax:</b>  |              |              |
| UK corporation tax on profits of the year                    | 5,353        | 2,189        |
| Adjustments in respect of previous periods                   | (55)         | (58)         |
|  | <b>5,298</b> | <b>2,131</b> |
| <b>Foreign tax:</b>  |              |              |
| Group companies  | 4,001        | 4,444        |
| Adjustments in respect of previous periods                   | 16           | 255          |
|  | <b>4,017</b> | <b>4,699</b> |
| <b>Total current tax</b>                                     | <b>9,315</b> | <b>6,830</b> |
| Deferred tax: origination and reversal of timing differences | 445          | 63           |
| <b>Tax on profit</b>   | <b>9,760</b> | <b>6,893</b> |

Corporation tax is calculated at 19% (2018: 19.00%) of the estimated assessable profit for the year. Previously enacted corporation tax rates were due to be reduced from 19% to 17% from 1 April 2020. The 2020 Finance Act confirmed the rate of corporation tax will remain at 19% from 1 April 2020, cancelling the enacted cut to 17%. Deferred tax balances at the year-end have been measured at 19%.

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 7 Tax on profit – continued

The tax charged on the profit for the year is higher (2018: higher) than the standard rate of corporation tax in the UK. The difference is explained below:

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| Profit before taxation   | 27,941       | 27,677       |
| Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%) | 5,309        | 5,259        |
| Effects of:  |              |              |
| Expenses not deductible for tax purposes   | 211          | 113          |
| Origination and reversal of other timing differences                                   | 2,955        | 22           |
| Share of associated company tax  | 25           | -            |
| Higher tax rates on overseas profits   | 1,484        | 1,347        |
| Unutilised losses  | -            | 30           |
| Adjustments in respect of previous periods   | (39)         | 197          |
| Income not subject to tax  | (185)        | (75)         |
| <b>Tax on profit</b>   | <b>9,760</b> | <b>6,893</b> |

#### 8 Profit and loss account

No profit and loss account is presented for the company, as permitted by section 408 of the Companies Act 2006. The profit for the financial year of the company amounted to £4,323,000 (2018: £9,852,000).

#### 9 Dividends

Dividends of £5,006,000 were paid during the year (2018: £5,250,000) and no further dividends were declared (2018: £nil).

# AES Engineering Limited

## Notes to the financial statements for the ended 31 December 2019

### 10 Intangible assets – group

|                                 | Goodwill<br>£000 | Deferred<br>development<br>expenditure<br>£000 | Software<br>£000 | Other<br>£000 | Total<br>£000 |
|---------------------------------|------------------|--|------------------|---------------|---------------|
| <b>Cost</b>                     |                  |  |                  |               |               |
| At 1 January 2019               | 20,502           | 7,214  | 2,143            | 1,117         | 30,976        |
| Additions                       | -                | 642  | -                | 220           | 862           |
| Disposals                       | -                | (6)  | -                | (2)           | (8)           |
| Exchange difference             | (90)             | (3)  | -                | (13)          | (106)         |
| <b>At 31 December 2019</b>      | <b>20,412</b>    | <b>7,847</b>                                   | <b>2,143</b>     | <b>1,322</b>  | <b>31,724</b> |
| <b>Accumulated amortisation</b> |                  |  |                  |               |               |
| At 1 January 2019               | 10,599           | 5,704  | -                | 512           | 16,815        |
| Charge for the year             | 936              | 707  | 86               | 39            | 1,768         |
| Exchange difference             | (86)             | (2)  | -                | (13)          | (101)         |
| <b>At 31 December 2019</b>      | <b>11,449</b>    | <b>6,409</b>                                   | <b>86</b>        | <b>538</b>    | <b>18,482</b> |
| <b>Net book value</b>           |                  |  |                  |               |               |
| <b>At 31 December 2019</b>      | <b>8,963</b>     | <b>1,438</b>                                   | <b>2,057</b>     | <b>784</b>    | <b>13,242</b> |
| At 31 December 2018             | 9,903            | 1,510  | 2,143            | 605           | 14,161        |

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 11 Intangible assets – company

|                                 | Goodwill<br>£000 | Trademark<br>and patents<br>costs<br>£000 | Total<br>£000 |
|---------------------------------|------------------|---|---------------|
| <b>Cost</b>                     |                  |   |               |
| At 1 January 2019               | 337              | 801                                       | 1,138         |
| Additions                       | -                | 187                                       | 187           |
| <b>At 31 December 2019</b>      | <b>337</b>       | <b>988</b>                                | <b>1,325</b>  |
| <b>Accumulated amortisation</b> |                  |   |               |
| At 1 January 2019               | 268              | 277                                       | 545           |
| Charge for the year             | 17               | 37  | 54            |
| <b>At 31 December 2019</b>      | <b>285</b>       | <b>314</b>                                | <b>599</b>    |
| <b>Net book value</b>           |                  |   |               |
| <b>At 31 December 2019</b>      | <b>52</b>        | <b>674</b>                                | <b>726</b>    |
| At 31 December 2018             | 69               | 524                                       | 593           |



## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 12 Tangible assets – group

|   | Land and<br>buildings | Plant,<br>fixtures and<br>equipment | Assets under<br>construction | Motor<br>vehicles | Total         |
|---|-----------------------|-------------------------------------|------------------------------|-------------------|---------------|
|   | £000                  | £000                                | £000                         | £000              | £000          |
| <b>Cost</b>   |                       |                                     |                              |                   |               |
| At 1 January 2019                                   | 22,652                | 57,341                              | 281                          | 5,824             | 86,098        |
| Additions   | 3,573                 | 11,202                              | 82                           | 1,470             | 16,327        |
| Disposals   | (14)                  | (7,341)                             | -                            | (707)             | (8,062)       |
| Exchange difference                                 | (522)                 | (798)                               | -                            | (183)             | (1,503)       |
| Transfer  | -                     | 281                                 | (281)                        | -                 | -             |
| <b>At 31 December 2019</b>                          | <b>25,689</b>         | <b>60,685</b>                       | <b>82</b>                    | <b>6,404</b>      | <b>92,860</b> |
| <b>Accumulated</b>                                  |                       |                                     |                              |                   |               |
| At 1 January 2019                                   | 3,444                 | 38,959                              | -                            | 3,004             | 45,407        |
| Charge for the year                                 | 315                   | 4,677                               | -                            | 1,183             | 6,175         |
| Disposals   | (2)                   | (7,153)                             | -                            | (594)             | (7,749)       |
| Exchange difference                                 | (83)                  | (588)                               | -                            | (88)              | (759)         |
| <b>At 31 December 2019</b>                          | <b>3,674</b>          | <b>35,895</b>                       | <b>-</b>                     | <b>3,505</b>      | <b>43,074</b> |
| <b>Net book value</b>                               |                       |                                     |                              |                   |               |
| <b>At 31 December 2019</b>                          | <b>22,015</b>         | <b>24,790</b>                       | <b>82</b>                    | <b>2,899</b>      | <b>49,786</b> |
| At 31 December 2018                                 | 19,208                | 18,382                              | 281                          | 2,820             | 40,691        |
| The net book value of land and buildings comprises: |                       |                                     |                              | <b>2019</b>       | <b>2018</b>   |
|   |                       |                                     |                              | <b>£000</b>       | <b>£000</b>   |
| Freehold  |                       |                                     |                              | 21,583            | 18,764        |
| Long leasehold                                      |                       |                                     |                              | 317               | 317           |
| Short leasehold                                     |                       |                                     |                              | 115               | 127           |
|   |                       |                                     |                              | <b>22,015</b>     | <b>19,208</b> |

The cost of depreciable assets included in land and buildings at 31 December 2019 was £24,068,000 (2018: £21,021,000).

The net book value of tangible fixed assets includes an amount of £202,000 (2018: £1,783,000) in respect of assets held under hire purchase contracts or finance leases.

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 13 Tangible assets – company

|                                 | Land and<br>buildings | Plant, fixtures<br>and equipment | Total         |
|---------------------------------|-----------------------|----------------------------------|---------------|
|                                 | £000                  | £000                             | £000          |
| <b>Cost</b>                     |                       |                                  |               |
| At 1 January 2019               | 12,900                | 1,321                            | 14,221        |
| Additions                       | 293                   | -                                | 293           |
| <b>At 31 December 2019</b>      | <b>13,193</b>         | <b>1,321</b>                     | <b>14,514</b> |
| <b>Accumulated depreciation</b> |                       |                                  |               |
| At 1 January 2019               | 1,522                 | 817                              | 2,339         |
| Charge for the year             | 105                   | 125                              | 230           |
| <b>At 31 December 2019</b>      | <b>1,627</b>          | <b>942</b>                       | <b>2,569</b>  |
| <b>Net book value</b>           |                       |                                  |               |
| <b>At 31 December 2019</b>      | <b>11,566</b>         | <b>379</b>                       | <b>11,945</b> |
| At 31 December 2018             | 11,378                | 504                              | 11,882        |

The net book value of land and buildings comprises:

|                | 2019<br>£000  | 2018<br>£000  |
|----------------|---------------|---------------|
| Freehold       | 11,249        | 11,061        |
| Long leasehold | 317           | 317           |
|                | <b>11,566</b> | <b>11,378</b> |

The cost of depreciable assets included in land and buildings at 31 December 2019 was £12,074,000 (2018: £11,531,000).

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 14 Investments – group

|                            | Associates Joint ventures |          |
|----------------------------|---------------------------|----------|
|                            | £000                      | £000     |
| <b>Cost or valuation</b>   |                           |          |
| At 1 January 2019          | 608                       | (160)    |
| Reversal of losses         | -                         | 125      |
| Share of retained profit   | 87                        | -        |
| Amortisation of goodwill   | (3)                       | -        |
| Exchange difference        | -                         | 35       |
| <b>At 31 December 2019</b> | <b>692</b>                | <b>-</b> |
| Goodwill                   | 182                       | -        |
| Share of investments       | 510                       | -        |
| <b>At 31 December 2019</b> | <b>692</b>                | <b>-</b> |

The investments are all unlisted.

Additional losses from the joint venture are recognised by a provision only to the extent that there is a legal or constructive obligation or a payment has been made on behalf of the joint venture.

Details of associates and joint ventures are shown in note 33.

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 15 Investments – company

|                            | Subsidiary<br>undertakings | Joint ventures | Total         |
|----------------------------|----------------------------|----------------|---------------|
|                            | £000                       | £000           | £000          |
| <b>Cost of shares</b>      |                            |                |               |
| At 1 January 2019          | 28,162                     | 161            | 28,323        |
| Additions                  | 1,575                      | -              | 1,575         |
| Impairment                 | -                          | (161)          | (161)         |
| <b>At 31 December 2019</b> | <b>29,737</b>              | <b>-</b>       | <b>29,737</b> |

The investments are all unlisted.

During the year AESSEAL China was recapitalised by £1,575,000. The company's shareholding remains unchanged.

Details of subsidiary undertakings and joint ventures are also shown in note 33.

During the year the company impaired the investment in the joint venture AESSEAL Oryx LLC.

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 16 Stocks

|                                     | Group  |        |
|-------------------------------------|--------|--------|
|                                     | 2019   | 2018   |
|                                     | £000   | £000   |
| Raw materials and consumables       | 3,941  | 3,604  |
| Finished goods and goods for resale | 33,533 | 30,706 |
|                                     | 37,474 | 34,310 |

#### 17 Debtors

|   | Group  |        | Company |        |
|---|--------|--------|---------|--------|
|   | 2019   | 2018   | 2019    | 2018   |
|   | £000   | £000   | £000    | £000   |
| <b>Amounts falling due within one year</b>                                    |        |        |         |        |
| Trade debtors   | 33,742 | 33,876 | -       | -      |
| Amounts owed by group undertakings  | -      | -      | 3,887   | 9,665  |
| Amounts owed by undertakings in which the entity has a participating interest | 46     | 262    | -       | 183    |
| Other debtors   | 5,034  | 3,298  | 165     | 249    |
| Corporation tax recoverable   | 878    | 2,440  | -       | 1,875  |
| Deferred taxation (note 22)   | -      | 162    | -       | -      |
| Prepayments   | 3,079  | 2,309  | 25      | 46     |
| Accrued income  | 176    | 268    | -       | -      |
| Dividend Receivable   | -      | -      | 452     | -      |
|   | 42,955 | 42,615 | 4,529   | 12,018 |

#### Amounts falling due after more than one year

|                                    |   |   |       |    |
|------------------------------------|---|---|-------|----|
| Amounts owed by group undertakings | - | - | 9,810 | 82 |
|------------------------------------|---|---|-------|----|

Amounts owed by group undertakings are unsecured, at a market rate of interest. Amounts falling due within one year are repayable by 31 December 2020. Amounts falling due after more than one year are repayable by 31 December 2021.

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 18 Creditors amounts falling due within one year

|   | Group         |               | Company      |               |
|---|---------------|---------------|--------------|---------------|
|   | 2019          | 2018          | 2019         | 2018          |
|   | £000          | £000          | £000         | £000          |
| Bank loans and overdrafts (note 20)   | 23            | 36            | -            | -             |
| Obligations under finance leases and hire purchase contracts (note 21)        | 84            | 750           | -            | -             |
| Trade creditors   | 8,681         | 7,317         | 3            | 2             |
| Amounts owed to group undertakings  | -             | -             | 220          | 17,848        |
| Amounts owed to undertakings in which the entity has a participating interest | 16            | 5             | -            | -             |
| Other creditors   | 171           | 177           | 36           | -             |
| Corporation tax payable   | 5,482         | 2,671         | 3,111        | 14            |
| Other taxation and social security  | 1,147         | 2,435         | -            | -             |
| Accruals  | 9,420         | 9,429         | 148          | 86            |
| Deferred income   | 337           | 531           | -            | -             |
|   | <b>25,361</b> | <b>23,351</b> | <b>3,518</b> | <b>17,950</b> |

Amounts owed to group undertakings are unsecured, at a market rate of interest, repayable by 31 December 2020.

### 19 Creditors amounts falling due after more than one year

|  | Group      |            | Company       |          |
|--|------------|------------|---------------|----------|
|  | 2019       | 2018       | 2019          | 2018     |
|  | £000       | £000       | £000          | £000     |
| Other creditors  | 193        | 220        | -             | -        |
| Investment in joint ventures (note 14)                                 | -          | 160        | -             | -        |
| Obligations under finance leases and hire purchase contracts (note 21) | 137        | 169        | -             | -        |
| Amounts owed to group undertakings                                     | -          | -          | 20,333        | -        |
|  | <b>330</b> | <b>549</b> | <b>20,333</b> | <b>-</b> |

Amounts owed to group undertakings falling due after more than one year are unsecured, at a market rate of interest, repayable by 31 December 2021.

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 20 Loans and overdrafts

|                                   | Group |      | Company |      |
|-----------------------------------|-------|------|---------|------|
|                                   | 2019  | 2018 | 2019    | 2018 |
|                                   | £000  | £000 | £000    | £000 |
| Bank loans                        | 23    | 36   | -       | -    |
|                                   | 23    | 36   | -       | -    |
| Bank loans due within five years: |       |      |         |      |
| Within one year                   | 23    | 36   | -       | -    |
| Between one and two years         | -     | -    | -       | -    |
| Between two and five years        | -     | -    | -       | -    |
|                                   | 23    | 36   | -       | -    |

At the year end the group had total undrawn loan and overdraft facilities of £20m (2018: £20m), all of which are carried at amortised cost.

The group's principal bankers are HSBC Bank Plc, with whom the company has a £15m multi-currency committed loan facility, which is repayable in full by March 2021. HSBC Bank Plc also provide a £4m overdraft facility, repayable on demand, to the company, AESSEAL plc, Vulcan Engineering Limited, AVTPUMP Limited, AESSEAL (MCK) Limited, AESSEAL Ireland Limited and AESSEAL Marine plc.

The bank loan and overdraft facilities are secured by fixed and floating charges over the assets and legal mortgages over the property of the company, group subsidiaries based in the United Kingdom and AESSEAL Inc. These undertakings have also given multilateral guarantees in favour of HSBC Bank Plc. At 31st December 2019 the overdraft balance in the company was £ nil (2018: £nil). The gross overdraft balance in the other companies covered by the multilateral guaranteed was £nil (2018: £nil). The interest chargeable on the principal loan and overdraft is 1.08% above LIBOR and 1.15% above base rate respectively.

AESSEAL (Proprietary) Limited and AESPUMP (Pty) Limited share a ZAR 10m overdraft facility provided by HSBC Bank Plc. It is repayable on demand and subject to interest rates charged at 0.90% below the South African Prime Rate.

AESSEAL Brasil LTDA has an overdraft facility for BRL 95k with ITAU and an overdraft facility for BRL 130k with Santander. The company also has access to a BRL 450k ITAU loan facility.

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 21 Obligations under finance leases and hire purchase agreements

The future minimum payments under finance leases and hire purchase agreements are as follows:

|                                     | Group        |              |
|-------------------------------------|--------------|--------------|
|                                     | 2019<br>£000 | 2018<br>£000 |
| Due within one year                 | 91           | 769          |
| Between one and five years          | 143          | 179          |
| Total gross payments                | 234          | 948          |
| Less finance charges included above | (13)         | (29)         |
|                                     | 221          | 919          |

The obligations under finance leases and hire purchase contracts are secured on certain tangible fixed assets of the company and the group.

The company has no obligations under finance leases and hire purchase agreements.

#### 22 Provisions for other liabilities

|   | Deferred taxation |                 |
|---|-------------------|-----------------|
|   | Group<br>£000     | Company<br>£000 |
| At 1 January 2019                                     | (162)             | 200             |
| Exchange difference                                   | (22)              | -               |
| Net charge in year through profit and loss account    | 445               | -               |
| Net charge in year through other comprehensive income | 1,159             | -               |
| At 31 December 2019                                   | 1,420             | 200             |

The 2018 deferred taxation asset is included in debtors (note 17).



## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 22 Provision for other liabilities - continued

Deferred taxation provided in the financial statements comprises:

|   | Group   |       | Company |      |
|---|---------|-------|---------|------|
|   | 2019    | 2018  | 2019    | 2018 |
|   | £000    | £000  | £000    | £000 |
| Timing differences:                         |         |       |         |      |
| Accelerated capital allowances              | 1,674   | 1,167 | 200     | 200  |
| Other timing differences                    | (1,030) | (946) | -       | -    |
| Derivative financial assets and liabilities | 776     | (383) | -       | -    |
|   | 1,420   | (162) | 200     | 200  |

#### 23 Called up share capital

| Group and Company   | 2019  | 2018  |
|---|-------|-------|
|   | £000  | £000  |
| Allotted and fully paid                                     |       |       |
| 691,984 (2018: 691,984) ordinary shares of £1 each          | 692   | 692   |
| 777,500 (2018: 777,500) deferred ordinary shares of £1 each | 777   | 777   |
| 28,458 (2018: 48,840) "A" ordinary shares of £1 each        | 29    | 49    |
| 466,008 (2018: 466,008) "A" deferred shares of £0.001 each  | 1     | 1     |
| 2,608 (2018: 2,608) "B" ordinary shares of £1 each          | 2     | 2     |
|   | 1,501 | 1,521 |

During the year 20,382 "A" ordinary shares were cancelled by the company (2018: nil shares).

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 23 Called up share capital - continued

##### Deferred Ordinary Shares and "A" Deferred Shares

The holders of the both classes of deferred shares have no right to dividends and carry no voting rights. On a return of assets, on liquidation or capital reduction or otherwise, the holders of the deferred shares shall be entitled to be paid, as a class, one penny.

##### "A" Ordinary Shares

The holders of the "A" ordinary shares have no right to receive notice of or to attend or vote at any general meeting of the Company.

##### "B" Ordinary Shares

The holders of the "B" ordinary shares have no right to dividends and no right to receive notice of or to attend or vote at any general meeting of the Company.

#### 24 Derivative financial assets and liabilities

|   | 2019  | 2018    |
|---|-------|---------|
|   | £000  | £000    |
| Derivative financial assets measured at fair value      | 4,082 | 254     |
| Derivative financial liabilities measured at fair value | -     | (2,444) |
|   | 4,082 | (2,190) |

At 31 December 2019 the company held forward exchange contracts to sell \$58,500,000 (2018: \$54,300,000) and €51,980,000 (2018: €58,300,000) at exchange rates ranging between \$1.2360 - \$1.3472 and €1.0552 - €1.2170 respectively. Of these \$17,400,000 (£13,203,000) and €14,130,000 (£12,630,000) fall due within one year (2018: \$22,500,000 (£16,900,000) and €17,520,000 (£15,110,000)).

Forward contracts are designated as cash flow hedges against forecast foreign currency sales. Losses on forward contracts on maturity were recycled from other comprehensive income to turnover which amounted to £585,000 (2018: £1,951,000).

Compared to market rates at year end, the amounts receivable under these contracts give rise to a gain in other comprehensive income of £6,272,000 (2018: £65,000 gain).

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 25 Capital and other financial commitments

|   | Group |       |
|---|-------|-------|
|   | 2019  | 2018  |
|   | £000  | £000  |
| Capital expenditure authorised and contracted for | 3,838 | 4,058 |

The company has no capital or other financial commitments.

#### 26 Leasing commitments

At 31 December 2019 the group had total commitments under non-cancellable operating leases expiring as follows:

|                                | Group        |              |
|--------------------------------|--------------|--------------|
|                                | 2019         | 2018         |
|                                | £000         | £000         |
| <b>Land and buildings:</b>     |              |              |
| Within one year                | 2,009        | 2,016        |
| Between two to five years      | 3,599        | 3,212        |
| After five years               | 1,618        | 1,606        |
|                                | <b>7,226</b> | <b>6,834</b> |
| <b>Other operating leases:</b> |              |              |
| Within one year                | 324          | 704          |
| Between two to five years      | 201          | 397          |
|                                | <b>525</b>   | <b>1,101</b> |

The company has no leasing commitments.

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 27 Pension commitments

The group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds.

Contributions payable to the schemes by the group are included in the pension cost charge in respect of the year and amounted to £1,548,000 (2018: £1,405,000), and outstanding contributions at the balance sheet date amounted to £406,000 (2018: £248,000).

### 28 Share option plans

An employee share ownership trust was established in the year ended 31 December 2001 to encourage and facilitate the acquisition and holding of shares in the company by and for the benefit of certain employees of the group.

|                            | "A" Ordinary Shares |              | "B" Ordinary Shares |            |
|----------------------------|---------------------|--------------|---------------------|------------|
|                            | Number              | £000         | Number              | £000       |
| At 1 January 2019          | 25,632              | 9,398        | 2,442               | 587        |
| Sold                       | (20,682)            | (8,002)      | -                   | -          |
| <b>At 31 December 2019</b> | <b>4,950</b>        | <b>1,396</b> | <b>2,442</b>        | <b>587</b> |

"A" ordinary shares were created to offer to employees under share option schemes.

At the year end options outstanding are:

| Options                                | AESSEAL<br>plc<br>Number | Other<br>subsidiaries<br>Number | Total<br>Number | Weighted<br>average<br>exercise price<br>£ |
|--|--------------------------|---------------------------------|-----------------|--|
| Outstanding at 1 January 2019          | 22,090                   | 7,754                           | 29,844          | 254.09                                     |
| Activity during year:                  |                          |                                 |                 |  |
| - Granted during the year              | -                        | 200                             | 200             | 391.20                                     |
| - Forfeited during the year            | (1,290)                  | -                               | (1,290)         | 311.18                                     |
| - Exercised during the year            | (200)                    | (450)                           | (650)           | 148.32                                     |
| <b>Outstanding at 31 December 2019</b> | <b>20,600</b>            | <b>7,504</b>                    | <b>28,104</b>   | <b>255.87</b>                              |
| <b>Exercisable at 31 December 2019</b> | <b>50</b>                | <b>200</b>                      | <b>250</b>      | <b>155.25</b>                              |

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 28 Share option plans - continued

In respect of options outstanding as at 31 December 2019 the exercise prices range from £155.25 to £391.20, with a weighted average remaining contractual life of 6.7 years.

#### Options granted during the year

200 share options were granted during the year. The weighted average fair value of these options was £96.06. The options are valued using a Black-Scholes model. Key assumptions used in the calculation are as follows:

|                         | 2019  |                                      |
|-------------------------|-------|--------------------------------------|
| Option life in years    | 7.5   | (Maximum 10)                         |
| Risk free rate          | 1.13  | (UK government bonds nominal yield)  |
| Expected volatility     | 28.89 | (estimated based on industry review) |
| Expected dividend yield | 2%    |                                      |

### 29 Reconciliation of profit for the financial year to cash flow from operating activities

|   | Note | 2019<br>£000  | 2018<br>£000  |
|---|------|---------------|---------------|
| <b>Cash flows from operating activities</b>         |      |               |               |
| Profit after taxation                               |      | 18,181        | 20,785        |
| Adjustments for:                                    |      |               |               |
| Amortisation of intangible assets                   | 3    | 1,768         | 1,578         |
| Impairment of intangible assets                     | 3    | -             | 334           |
| Depreciation of property, plant and equipment       | 3    | 6,175         | 5,100         |
| Profit on disposal of property, plant and equipment | 3    | (39)          | (93)          |
| Share of joint venture profits                      |      | -             | (5)           |
| Share of associates profits                         |      | (109)         | (57)          |
| Exceptional items                                   | 4    | 142           | -             |
| Interest paid                                       | 2    | 189           | 153           |
| Interest received                                   | 2    | (123)         | (154)         |
| Exchange differences                                |      | (107)         | 123           |
| Equity settled share based payments                 | 3    | 235           | 252           |
| Taxation  |      | 9,760         | 6,893         |
| Increase in trade and other debtors                 |      | (3,654)       | (2,508)       |
| Increase in stocks                                  |      | (4,064)       | (5,984)       |
| Increase in trade and other creditors               |      | 450           | 1,237         |
| <b>Cash flow from operating activities</b>          |      | <b>28,804</b> | <b>27,654</b> |

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 30 Reconciliation of net cash flow to movement in net cash

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| Increase / (decrease) in cash in the year    | 335          | (409)        |
| Increase in debt and lease financing         | 774          | 817          |
| Change in net debt resulting from cash flows | 1,109        | 408          |
| Foreign currency translation adjustment      | (742)        | (489)        |
| New finance leases                           | (69)         | (250)        |
| Movement in net debt in the year             | 298          | (331)        |
| Net cash at 1 January                        | 15,509       | 15,840       |
| Net cash at 31 December                      | 15,807       | 15,509       |

#### 31 Analysis of changes in net debt

|                           | At 1 January<br>2019<br>£000 | Cash flow<br>£000 | Other<br>Changes<br>£000 | Exchange<br>movement<br>£000 | At 31<br>December<br>2019<br>£000 |
|---------------------------|------------------------------|-------------------|--------------------------|------------------------------|-----------------------------------|
| Cash at bank and in hand  | 15,702                       | (2,624)           | -                        | (748)                        | 12,330                            |
| Overdraft offset facility | 762                          | 2,959             | -                        | -                            | 3,721                             |
| Cash and cash equivalents | 16,464                       | 335               | -                        | (748)                        | 16,051                            |
| Bank loans                | (36)                         | 11                | -                        | 2                            | (23)                              |
| Finance lease obligations | (919)                        | 763               | (69)                     | 4                            | (221)                             |
|                           | (955)                        | 774               | (69)                     | 6                            | (244)                             |
| <b>Total</b>              | <b>15,509</b>                | <b>1,109</b>      | <b>(69)</b>              | <b>(742)</b>                 | <b>15,807</b>                     |

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 32 Related party transactions

##### Company

At the year end the balances owed to and by subsidiaries and joint ventures not wholly owned by the company are as follows:

|                                 | 2019<br>£000 | 2018<br>£000 |
|---------------------------------|--------------|--------------|
| Amounts due from subsidiaries   | 800          | 773          |
| Amounts due from joint ventures | -            | 183          |
| Amounts due to subsidiaries     | (9,539)      | (10,366)     |
|                                 | (8,739)      | (9,410)      |

Interest is charged on the above balances on a normal commercial basis and carried out at arm's length. The total net interest incurred by the company during the year was £81,000 (2018: £108,000 net interest incurred). The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the group.

##### Group

Transactions with joint ventures are on a normal commercial basis and carried out at arm's length.

##### Joint ventures:

During the year the group made sales to AESSEAL Oryx LLC of £97,000 (2018: £152,000).

At the year end the net balance owed to the group by AESSEAL Oryx LLC was £6,000 (2018: £262,000).

The net balance owed by the group to AESSEAL Oryx LLC was £1,000 (2018: £2,000).

##### Associated companies:

During the year the group made sales of £206,000 to the Eastern Seals group of companies (2018: £152,000).

During the year the group purchased £121,000 from the Eastern Seals group of companies (2018: £nil)

At the year end the net balance owed to the group by Eastern Seals group of companies was £40,000 (2018: £nil).

The net balance owed by the group to the Eastern Seals group of companies was £16,000 (2018: £3,000).

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 33 Group companies

#### Group undertakings

The undertakings of the group at 31 December 2019, all of which are included in the consolidated financial statements, are shown below.

| Name  | Country of incorporation | Registered Address | Class of share | % held |
|---|--------------------------|--------------------|----------------|--------|
| The following subsidiaries are registered at Global Technology Centre, Mill Close, Bradmarsh Business Park, Rotherham, S60,1BZ, United Kingdom: |                          |                    |                |        |
| Absolute Vacuum Services Limited  | England and Wales        |                    | Ordinary       | 100    |
| AES Engineering Employee Trust Limited  | England and Wales        |                    | Ordinary       | 100    |
| AESSEAL plc   | England and Wales        |                    | Ordinary       | 100    |
| AVT Reliability Limited   | England and Wales        |                    | Ordinary       | 100    |
| AVTPUMP Limited   | England and Wales        |                    | Ordinary       | 100    |
| AESSEAL MARINE PLC  | England and Wales        |                    | Ordinary       | 100    |
| The following subsidiaries are registered at 67 Loper Avenue, Aeroport Park, Spartan Ext 2 Isando, 1619:  |                          |                    |                |        |
| AESSEAL (Proprietary) Limited   | South Africa             |                    | Ordinary       | 74.9   |
| AESPUMP (Pty) Limited (*)   | South Africa             |                    | Ordinary       | 74.9   |
| AESSEAL Holdings (Pty) Ltd  | South Africa             |                    | Ordinary       | 100    |
| The following subsidiaries are registered at 355 Dunavant Drive, Rockford, Tennessee 37853:   |                          |                    |                |        |
| AESSEAL Inc.  | United States of America |                    | Ordinary       | 100    |
| AESSEAL Investments Inc (*)   | United States of America |                    | Ordinary       | 100    |
| AESSEAL Holdings LLC (*)  | United States of America |                    | Ordinary       | 100    |



## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 33 Group companies - continued

| Name                                | Country of Incorporation | Registered Address  | Class of share | % held |
|-------------------------------------|--------------------------|---|----------------|--------|
| AVT Reliability B.V. (*)            | Netherlands              | Nikkelstraat 27, 4823 AE, Breda.  | Ordinary       | 100    |
| AESSEAL Benelux B.V.                | Netherlands              | Nikkelstraat 27, 4823 AE, Breda.  | Ordinary       | 100    |
| AESPUMP GmbH                        | Germany                  | Heidigstrasse 9, Kronau, D - 76709  | Ordinary       | 100    |
| AESSEAL Deutschland GmbH            | Germany                  | Heidigstrasse 9, Kronau, D - 76709  | Ordinary       | 100    |
| ProPack Dichtungen und Packungen AG | Germany                  | Rudolf-Diesel-Ring 28, D 82054 Sauerlach  | Ordinary       | 100    |
| AESSEAL Cold Weld Private Limited   | India                    | Shed No. 11, The Sidhpura Co-operative Industrial estate Ltd, S. V. Road, Behind Kamat Club, Goregaon (West), | Ordinary       | 60     |
| AESSEAL India Private Limited       | India                    | Gat No 85, At Post Varve, Taluka Bhore, Dist. Pune, Pune 412 205  | Ordinary       | 100    |
| AESSEAL (MCK) Limited               | Northern Ireland         | 139A Hillsborough Old Rd, Lisburn, County Antrim, BT27 5QE  | Ordinary       | 100    |
| AESSEAL Ireland Limited             | Northern Ireland         | 139A Hillsborough Old Rd, Lisburn, County Antrim, BT27 5QE  | Ordinary       | 100    |
| AESSEAL Madagascar SARL. (*)        | Madagascar               | 25 Rue Raveloary, Isoraka, 101 Antananarivo.  | Ordinary       | 99     |
| AESSEAL (M) SDN. BHD.               | Malaysia                 | Room 101, 1st Floor, No. 368, Jalan Pudu, 55100 Kuala Lumpur  | Ordinary       | 90     |

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 33 Group companies - continued

| Name                           | Country of incorporation | Registered Address  | Class of share | % held |
|--------------------------------|--------------------------|---|----------------|--------|
| AESSEAL Argentina SA           | Argentina                | Jose Ingenieros 4860-64, (1646) San Fernando, B1605BH - Munro, Buenos Aires   | Ordinary       | 71     |
| AESSEAL Australia Pty Limited  | Australia                | DFO Centre Suite38, 16 Amazons Place, JINDALEE QLD 4074   | Ordinary       | 87.5   |
| AESSEAL Botswana (Pty) Ltd (*) | Botswana                 | Plot 50371, Fairground Office Park, Gaborone  | Ordinary       | 100    |
| AESSEAL Brasil LTDA            | Brazil                   | São Paulo: Av. Guido Caloi No 1985, Galpao 3, Santo Amaro, CEP 0582-140, Sao Paulo SP                               | Ordinary       | 60     |
| AESSEAL Canada Inc             | Canada                   | Unit #304 Willowbrook Business Centre, 19292 60th Avenue, Surrey, BC V3S 3M2  | Ordinary       | 100    |
| AESSEAL Caribbean Limited      | Trinidad and Tobago      | Cor Carli Bay Road and Caspian Drive, Point Lisas, Trinidad W1  | Ordinary       | 100    |
| AESSEAL Chile SA (*)           | Chile                    | Av. El Retiro 1275, Bodega A05 / Renca – Santiago   | Ordinary       | 71     |
| AESSEAL Ningbo Limited         | China                    | No. 366 Jingu Zhonglu, Yinzhou Investment and Business, Incubation Centre, Zhengjiang Province, Ningbo City, 315104 | Ordinary       | 100    |

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 33 Group companies - continued

| Name                                 | Country of incorporation | Registered Address  | Class of share | % held |
|--------------------------------------|--------------------------|---|----------------|--------|
| AESSEAL Colombia SA (*)              | Colombia                 | Calle 25G No. 85B - 65<br>Barrio Santa Cecilia de Modelia   | Ordinary       | 100    |
| AESSEAL Czech s.r.o.                 | Czech Republic           | Turanka 115, 627 00<br>Brno   | Ordinary       | 75     |
| AESSEAL Danmark A/S                  | Denmark                  | Koebenhavnsvej 222,<br>DK-4600 Koege  | Ordinary       | 100    |
| AESSEAL Finland OY                   | Finland                  | Sorastajantie 1a lt.2,<br>Jyvaskyla, 40340  | Ordinary       | 100    |
| AESSEAL France SAS                   | France                   | 392 Rue de l'Epinette,<br>BAT 5- ZA Monts De Flandres, 59850 Nieppe                                   | Ordinary       | 100    |
| AESSEAL Ibérica S.L.                 | Spain                    | Calle Plata 7, Polígono Industrial Riu Clar, 43006 Tarragona  | Ordinary       | 100    |
| AESSEAL Italia SRL                   | Italy                    | Via Varese 17/B - 21013 Gallarate (Va)  | Ordinary       | 100    |
| AESSEAL Mexico S. de R.L. de C.V.(*) | Mexico                   | Carretera Tampico-Mante 2005-D planta alta y baja, Colonia del Bosque, CP. 89318, Tampico, Tamaulipas | Ordinary       | 100    |
| AESSEAL Middle East FZE              | United Arab Emirates     | Showroom No S3B5SR08, Jebel Ali, PO Box: 263199, Dubai, UAE   | Ordinary       | 100    |
| AESSEAL Namibia (Pty) Limited (*)    | Namibia                  | 3rd Floor, 344 Independence Avenue, Windhoek, Namibia   | Ordinary       | 100    |

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 33 Group companies - continued

| Name   | Country of incorporation | Registered Address   | Class of share | % held |
|--|--------------------------|--|----------------|--------|
| AESSEAL Nordic AB  | Sweden                   | Varuvägen 32, Älvsjö, SE 125 30  | Ordinary       | 91     |
| AESSEAL Nordic AS (*)                                    | Norway                   | Lilleakerveien 10, Lilleakerveien, 0283, Oslo, Norway                              | Ordinary       | 91     |
| AESSEAL Polska Sp.zo.o                                   | Poland                   | Mazańcowice 999, 43-391 Mazańcowice  | Ordinary       | 100    |
| AESSEAL Rus  | Russia                   | Boldyreva Street, 1 Koroliov City, Moscow Area, 141073                             | Ordinary       | 85     |
| AESSEAL Saudi Arabia Company Limited (*)                 | Saudi Arabia             | 2nd Industrial City, Mekkahh Street, Damman 34334, P.O Box 6770                    | Ordinary       | 100    |
| AESSEAL Singapore PTE Limited (*)                        | Singapore                | No 41 Toh Guan East, ADL Building, #04-01C   | Ordinary       | 90     |
| AESSEAL Sizdermazlik Sisternleri Ticaret Limited Sirketi | Turkey                   | Tekstil Kent Is Merkezi, A15 Blok, No.13 Esenler - Istanbul 34235                  | Ordinary       | 100    |
| AESSEAL Taiwan Co Ltd (*)                                | Taiwan                   | No.124 Zhumen Ln., RenWu Dist., Kaohsiung City 81448, Taiwan (R.O.C.)              | Ordinary       | 81     |
| AESSEAL Univeda Lda                                      | Portugal                 | Estrada Consiglieri Pedroso, 71 Edificio E - Fracção Q4 - 2730-055 Queluz de Baixo | Ordinary       | 100    |
| AESSEAL Austria GmbH                                     | Austria                  | 4616 Weißkirchen an der Traun, Obere Dorfstraße 39                                 | Ordinary       | 100    |
| AVT Reliability (Ireland) Limited (*)                    | Ireland                  | Crowleys DFK, 5 Lapps Quay, Cork, T12 RW7D   | Ordinary       | 100    |

## AES Engineering Limited

### Notes to the financial statements for the year ended 31 December 2019

#### 33 Group companies - continued

| Name   | Country of Incorporation | Registered Address   | Class of share | % held |
|--|--------------------------|--|----------------|--------|
| Vulcan Engineering Limited                     | England and Wales        | Unit 3, South West Centre, Troutbeck Road, Sheffield, South Yorkshire, S8 0JR  | Ordinary       | 90     |
| Vulcan Seals, Inc. (*)                         | United States of America | 11401-11481 Rupp Drive, Burnsville, MN 55337                                   | Ordinary       | 85.1   |
| Mechanical Seal & Service, Inc. (*)            | United States of America | 3717 Brazos Avenue, Odessa, Texas, 79764                                       | Ordinary       | 100    |
| Coating Center Inc. (*)                        | United States of America | 108 West 13 <sup>th</sup> Street, Wilmington, Delaware 19801                   | Ordinary       | 85.1   |
| AVT Sealing Solutions Inc. (*)                 | United States of America | 1421 Bernard Drive, Addison, IL 60101  | Ordinary       | 100    |
| Sealing Products of Corpus Christi, L.L.P. (*) | United States of America | 433 Sunbelt Drive, Suite A, Corpus Christi, TX 78408                           | Ordinary       | 100    |
| AES Insulate Seals India Private Limited       | India                    | Gat No 85, At Post Varve, Taluka Bhor, Dist. Pune, Pune 412 205                | Ordinary       | 90     |
| TCCI Limited (*)                               | England and Wales        | 139-141 Watling Street, Gillingham, Kent, ME7 2YY                              | Ordinary       | 90     |
| Marine Sealing Services Limited (*)            | England and Wales        | 139-141 Watling Street, Gillingham, Kent, ME7 2YY                              | Ordinary       | 85.1   |
| ITK Sealing Solutions Limited (*)              | England and Wales        | Unit 3-4 Troutbeck Road, South West Centre, Sheffield, South Yorkshire, S8 0JR | Ordinary       | 90     |

# AES Engineering Limited

## Notes to the financial statements for the year ended 31 December 2019

### 33 Group companies - continued

| Name                | Country of incorporation | Registered Address  | Class of share | % held |
|---------------------|--------------------------|---|----------------|--------|
| Sealman Limited (*) | England and Wales        | Unit 3, South West Centre, Troutbeck Road, Sheffield, South Yorkshire, S8 0JR | Ordinary       | 90     |
| Sealtec PLC SA (*)  | Uruguay                  | Asuncion 1476, CP11800 Montevideo, Uruguay                                    | Ordinary       | 71     |
| AESSEAL Coj SARL**  | Algeria                  | Lot No 5 Zone, d'activities, Ain Benian, Alger, Algeria                       | Ordinary       | 49     |

(\*) Denotes companies whose shares are fully or partially owned by a subsidiary at the balance sheet date.

(\*\*) The directors are of the opinion that the parent company exercises dominant control over AESSEAL COJ SARL and therefore believe it is appropriate to account for the entity as a subsidiary.

#### Joint ventures and associated companies

| Name                                 | Country of incorporation | Registered Address   | Class of share | % held |
|--------------------------------------|--------------------------|--|----------------|--------|
| AESSEAL Oryx LLC                     | Qatar                    | PO Box 205045, East Side Support Service Area, Ras Laffan Industrial City, Ras Laffan          | Ordinary       | 49     |
| Eastern Seals (Holdings) Limited (*) | England & Wales          | Unit 3 Sovereign Business Park, Jubilee Industrial Estate, Ashington, Northumberland, NE63 8UG | Ordinary       | 21.3   |
| Eastern Seals (UK) Limited (*)       | England & Wales          | Unit 3 Sovereign Business Park, Jubilee Industrial Estate, Ashington, Northumberland, NE63 8UG | Ordinary       | 21.3   |
| UK Seals and Polymers Limited (*)    | England & Wales          | Unit 1d Avenue One, Chilton Industrial Estate, Chilton, Ferryhill, DL17 0SF                    | Ordinary       | 21.3   |

At 31 December 2019 the aggregate capital and reserves of AESSEAL Oryx LLC was negative £463,000 (2018: negative £337,000) and the loss for the year ended 31 December 2019 was £127,000 (2018: £5,000 profit).

# **AES Engineering Limited**

## **Notes to the financial statements for the year ended 31 December 2019**

### **34 Post balance sheet event**

On 1 January 2020 AES Engineering Limited purchased 100% of the share capital of Van Geffen AMS for an initial consideration of €3,600,000. A further indemnity of €400,000 is payable on 31 December 2020. An amount of €836,000 is also due on recoverability of an excess debtors balance reviewed quarterly less €78,000 for debt in excess of cash on acquisition.

In early 2020, the existence of a new coronavirus ("COVID-19") was confirmed as a global pandemic and has since spread across a number of countries, leading to disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Company and group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practicable at this time to determine the potential quantitative impact of COVID-19 on the balance sheet of the Company and group.

### **35 Ultimate controlling party**

The Directors consider Mr C J Rea CBE DL to be the ultimate controlling party and parent undertaking by virtue of his shareholding in AES Engineering Limited.

Copies of the financial statements of AES Engineering Limited can be obtained from the Registered Office at Global Technology Centre, Mill Close, Bradmarsh Business Park, Rotherham, S60 1BZ, United Kingdom.