

Registered Number 00392743

AES Engineering Limited
Annual Report
for the year ended 31 December 2020



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AES Engineering Limited

Directors and advisers

Directors

C J Rea CBE DL

S M Shaw

I M Lobleigh

J N Hamilton

C L Dickinson

R M Bishop

Company secretary

C L Dickinson

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Independent auditors

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Leeds

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Banker

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4th Floor, City Point

29 King Street

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AES Engineering Limited

Strategic report for the year ended 31 December 2020

The directors present their strategic report on the parent company and the group for the year ended 31 December 2020.

Principal activities

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

The principal activities of the group are reliability services and products being 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

“To give customers exceptional service that they never need to consider alternative sources of supply”

Through our investment in innovative sealing solutions we enable our customers in a wide range of industries to meet the complex needs of society both now and in the future. 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 and their experience with our organisation.

Review of the business and future developments

The AES Engineering Limited group entered the COVID-19 pandemic from a position of strength operationally, financially and strategically. Throughout the pandemic, our top priority has been to ensure the safety of our colleagues and customers whilst keeping the business running flawlessly to ensure exceptional customer service.

Continuing outbreaks of the virus and periodic strengthening of public safety measures in a number of our global territories led to some forced facility closures however the flexibility of the group maintained continuity of service to our customers throughout the pandemic.

Despite the sales for the year ending 31 December 2020 decreasing by 6% from £191.5m to £180.0m the group limited the impact on profitability with Earnings before interest, tax, depreciation and amortisation (EBITDA) being maintained at £36.0m (2019: £36.0m). Organically this has increased by 0.8% as calculated in the Key Performance Indicators section. The profit before tax for the year was £26.6m (2019: £27.9m) which is £1.3m behind due to the additional investment made by the group despite going through a pandemic.

Given the unique circumstances of this trading period we are reassured by the strength and agility of the AES employees to respond quickly and decisively to take advantage of all opportunities.

Group net assets as at 31 December 2020 were £151.6m (2019: £137.2m), an increase of 10.5% on the 2019 year end. Strong cash performance means that the group held a positive cash balance of £30.6m (2019: £16.1m) at the year end, after further capital expenditure of £12.0m, including the robotic cell and £4.3m on acquisitions.

AES Engineering Limited

Strategic report for the year ended 31 December 2020 – continued

In January 2020 the group acquired two reliability businesses in the Netherlands, Van Geffen AMS B.V and Van Geffen VMS B.V. Van Geffen is a recognised leader in reliability and vibration monitoring services, specialising in the prevention and solving of problems with machinery, foundations and structures. In keeping with other businesses within the group, Van Geffen is known for excellent customer service and quality. This acquisition will allow both new and existing customers to benefit from a synergy of skills and service capabilities to help manufacturing companies to reduce downtime and maintain and improve rotating machinery reliability.

The strength and flexibility we have built into the business has underpinned a robust performance in challenging market conditions and gives us confidence for future strategic growth. We continue to carefully manage the coronavirus situation being fully 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 practically with infection control measures as well as nurturing their wellbeing and communicating effectively. This is all in addition to the effective new ways to deliver services to our new and existing customers given the travel restrictions which remain in place.

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.

Given the continued success even through a pandemic the AES Engineering Limited group maintains a strong liquidity, cash flow and financial position and which allowed a dividend to be declared in December 2020 of £3.0m.

Research and development

Over forty years of continued product development means the business now has a full range of differentiated and enhanced patented technology for almost all Wet and Dry Gas Seal applications. 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.

By investing in pioneering technology, we simplify the whole ordering process and respond quickly to customers' needs and we aim to exceed expectation consistently: in delivery, quality, reliability and service.

The group has just received its 14th Queen's award for Enterprise in the Innovation category for a specialised mixer seal of the type required in vaccine manufacture and other complex industrial operations.

Development will now focus on emerging technologies and connecting the group's consultancy and reliability business digitally to its physical product range.

AES Engineering Limited

Strategic report for the year ended 31 December 2020 – continued

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.

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.

AES Engineering Limited

Strategic report for the year ended 31 December 2020 – continued

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.

The group has also developed and introduced a fully automated manufacturing robot requiring no intervention leading to increased speed and efficiency to exceed even the highest customer expectations. The barcode recognition software gives automation to both high volume and one-off jobs. The AES Super Cell selects the jaws, fits the jaws, machines the parts, measures and deburrs in cycle, also deburrs, washes, dries and conducts a final CMM inspection externally to the machines, but inside the cell. The cell is the subject of a patent application as it is probably the world's first robotic cell for small batch production with no human intervention inside the cell.

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), ISO45001 (Occupational 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.

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.'

AES Engineering Limited

Strategic report for the year ended 31 December 2020 – continued

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 Group.... 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 including the AES Super Cell, with a total of £12.0m invested in 2020. 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 group all of which were maintained throughout the pandemic as the Directors believed slowing down such programmes would inhibit future growth strategies.

Our People

This has been undoubtedly a unique year where our employees have gone above and beyond to ensure the safety of our colleagues and customers. A key focus throughout the pandemic has also been employee wellbeing and engagement whilst working from home.

The Directors recognise the value of the people the group employs and understands that without them the business could not succeed. 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 always kept to a high standard and are always safe, comfortable places to work. There has been no exception to this throughout the pandemic. 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.

AES Engineering Limited

Strategic report for the year ended 31 December 2020 – continued

Community and Environment

The group is one of the few companies that have published a Global warming policy as our investment decisions will always take into account sustainability and environmental factors as well as the success of the group. The Directors have provided the policy on the <https://betterworld.solutions> website, copyright free, for any organisation that wants to adopt an Investment Policy to Prevent Global Warming.

Ethical and fair behaviour to maintain the group's reputation

The Directors have always recognised the importance of governance and of its business operating in a highly ethical manner, 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. We now hold our own AES Dragon Awards day on 25 September to celebrate the success of our people globally.

Sustainability Strategy

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

Our Sustainability Strategy 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 a high moral standard of behaviour, are at the heart of the Directors' decision making process.

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.

AES Engineering Limited

Strategic report for the year ended 31 December 2020 – continued

Environmental impact and carbon use disclosures

The group has consistently put sustainability projects first for capital investment and we have published our Investment Policy to Prevent Global Warming through technological change and investment decisions and we intend to encourage other businesses to do the same. Throughout the period ended 31 December 2020 the group has continued to strive toward creating a more socially, environmentally, and economically sustainable business. The group regularly reviews its sustainability strategy and as such can positively state that AESSEAL plc has reached a major environmental milestone in achieving a beneficial impact on the environment in 2020. Following the achievement of UK Net Zero carbon emissions for Scope 1 and 2 emissions AESSEAL plc sought independent verification of Scope 1 to 3 emissions, as well as the balancing impact of the emissions avoided by the use of the company's key products – the AESSEAL Water Management Systems. The independent consultants verified that AESSEAL's total (scope 1 to 3) emissions for 2020, which include direct emissions from things like business travel, amounted to 46,352 tonnes of CO₂e in 2020. They also separately verified that the emissions avoided by the use of AESSEAL's Water Management Systems, totalled 64,284 tonnes of CO₂e in 2020 which is a net benefit to the environment.

“Beyond Net Zero”

AESSEAL plc achieved its UK Carbon Net Benefit by:

- Continual improvement in line with integrated management systems and its certification to ISO 14001 and ISO 50001 for key operational sites
- Programmes of training and awareness to improve employee understanding of climate change and the behavioural impacts on energy use
- Driving down energy use by adopting energy saving technologies including high efficiency compressors, building management systems, intelligent controls, LED lighting and voltage optimisation
- Purchasing all remaining electricity on zero emission at point of generation tariffs
- Fleet replacement programme encouraging drivers to select lower emission vehicles

The AESSEAL plc approach and data was verified using the independent assessment body SGS.

In accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, we report on our greenhouse gas ('GHG') emissions as part of this annual Strategic Report.

The methodology used to calculate our emissions is based on the UK Governments Environmental Reporting Guidelines (2013) and emission factors from the 2017 Government GHG Conversion Factors for Company Reporting.

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 2020 – continued

AESSEAL plc is the largest operating entity in the group and the avoided scope 3 emissions make it likely the group will achieve its Net Zero Target of 01 April 2029.

Scope 1 GHG emissions include those from supplied mains gas, fleet vehicles, bottled gases (e.g. propane), other fuels consumed onsite (e.g. diesel) and any fluorinated refrigerant gases.

Scope 2 GHG emissions are limited to those from Electricity. There are no other Scope 2 emissions associated with the business activities.

	Ratio to Turnover Tonnes CO2e 2020	Absolute Tonnes CO2e 2020	Absolute KWh 2020
Gas consumption	3.54	188	1,024,000
Fleet emissions	1.48	79	264
Other emission	-	1	-
Net scope 1 emissions	5.02	268	1,024,264
Electricity consumption	-	-	3,654,000
Net scope 1 and scope 2 emissions	5.02	268	4,678,264

	Absolute Tonnes CO2e 2020
Scope 3 emissions	46,352
Product Emissions avoidance	(64,284)
Net Scope 3 GHG emissions	(17,932)

Going forward the group will be installing further voltage optimisation across certain sites. The first phase of fleet electrification will also take place in 2021 with the installation of charging infrastructure at head office and the purchase of electric cars and vans.

Withdrawal of the United Kingdom from the European Union

The UK has now left the EU and the transition period also ended on 31 December 2020. Supply chain disruption was the main risk to the group following the transition period however we continue to actively engage with our key suppliers and freight forwarders to reduce any impact on supply chains and distribution of our own products to customers. We have maintained Authorised Economic Operator status to enable streamlined border checks. 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 2020 – 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
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)
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 - Reportable accident rate

AES Engineering Limited

Strategic report for the year ended 31 December 2020 - 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
Foreign exchange		
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.
Credit risks		
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>
Employees		
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 2020 – continued

Principal and financial risks and uncertainties – continued

Given the Covid-19 pandemic we continue to capture the risks of the developing situation affecting the world. We work closely 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.

Risk description	Potential impact	How we mitigate
Covid-19		
The Outbreak of Coronavirus has a potential risk to 1) the health and safety of our people; and 2) global supply chains and the flow of goods and services.	1) Health and Safety risk to our people who come into contact with confirmed cases. 2) Supply chain response is slowed down or reduced.	1) We have implemented extensive hygiene controls, temperature checks, working from home arrangements and social distancing spots around the production facility. 2) 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

7 June 2021

AES Engineering Limited

Directors' report for the year ended 31 December 2020

The directors present their report and the audited financial statements of the Parent company and the group for the year ended 31 December 2020.

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
J N Hamilton
C L Dickinson
I M Lobley
R M Bishop – appointed 01 January 2021
S P Blagden CBE – resigned 31 December 2020
C J Griffiths – resigned 31 March 2021

Results and dividends

The group profit and loss account for the year is set out on page 23.

The future developments affecting the group and approach to financial risk management are referenced within the Strategic report on pages 4 to 14.

A dividend of £3,004,243 was declared in December 2020 (2019: £5,186,000). Actual dividends of £nil (2019: £5,006,000) were paid to the shareholders of AES Engineering Limited. The dividend rights held by the employee share ownership trust were waived in accordance with the Trust Deed in 2019.

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 2020 - 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. Environmental sustainability is a key issue and significant time and resources have been invested in building a more robust awareness culture and improving sustainability as discussed in the Strategic Report. 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 £41,000 (2019: £35,000) for charitable purposes in the year. No political donations were made during the year (2019: £nil).

Restatement of prior period – company only

During the year, management identified that a number of forward currency contracts held against the company's forecast transactions in US Dollars and Euros were being accounted for in a subsidiary company rather than by AES Engineering Limited. This was not reflected in the prior period financial statements and as a result the comparatives for the parent company have been restated in line with FRS 102 Section 10, Accounting Policies, Estimates and Errors, see note 34 for details. There is no effect on the group consolidated income statement or consolidated balance sheet in relation to relocating these financial instruments within the group.

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.

Change of Auditor

The directors changed the Group auditor for the year ended 31 December 2020 due to the time of tenure of the previous auditors from a governance perspective.

AES Engineering Limited

Directors' report for the year ended 31 December 2020 - continued

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.

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
7 June 2021

AES Engineering Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AES ENGINEERING LIMITED

Opinion

We have audited the financial statements of AES Engineering Limited ("the company") for the year ended 31 December 2020 which comprise the Group Profit and Loss Account, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group or the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the company will continue in operation.

AES Engineering Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AES ENGINEERING LIMITED - continued

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/ audit committee/ name of other relevant meeting minutes.
- Considering remuneration incentive schemes and performance targets for management, directors and sales staff.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and request to component audit teams to report to the group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that group and component management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as inventory provisioning.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included revenue-impacting journal entries posted to unusual accounts.
- Evaluated the business purpose of significant unusual transactions.
- Assessing significant accounting estimates such as inventory provisioning for bias and consistency with group policies across all significant components.
- Across all full scope components, for a sample of revenue transactions around the period end, vouching to supporting external documentation to corroborate whether those items were recorded in the correct accounting period.

AES Engineering Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AES ENGINEERING LIMITED - continued

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

AES Engineering Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AES ENGINEERING LIMITED - continued

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 14, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

AES Engineering Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AES ENGINEERING LIMITED - continued

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



John Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS14DA

8 June 2021

AES Engineering Limited

Group profit and loss account for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	1	179,692	191,546
Change in stocks of finished goods and work in progress		903	2,827
Other operating income		983	668
		181,578	195,041
Raw materials and consumables		(56,766)	(63,897)
Staff costs	5	(67,991)	(70,159)
Depreciation and amortisation	3	(8,909)	(7,943)
Other operating expenses		(20,980)	(25,002)
Exceptional operating items	4	-	(142)
Total Operating Expenses		(154,646)	(167,143)
Operating profit	3	26,932	27,898
Share of operating profit of associates		79	112
Amortisation of associate goodwill	3	(2)	(3)
Profit before interest and taxation		27,009	28,007
Net interest payable	2	(362)	(66)
Profit before taxation		26,647	27,941
Tax on profit	7	(7,037)	(9,760)
Profit after taxation		19,610	18,181
Minority interests		(1,471)	(1,369)
Profit for the financial year		18,139	16,812

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 2020


	2020 £000	2019 £000
Profit after taxation and minority interests	18,139	16,812
Other comprehensive income:		
Remeasurement (loss)/gain recognised on forward contracts	(1,336)	6,272
Deferred tax on forward contracts	254	(1,159)
Exchange loss arising on consolidation	(818)	(2,818)
Total other comprehensive (costs) / income for the year	(1,900)	2,295
Total comprehensive income for the year	16,239	19,107

AES Engineering Limited

Group balance sheet as at 31 December 2020

	Note	2020 £000	2019 £000
Fixed assets			
Intangible assets	10	15,618	13,242
Tangible assets	12	54,115	49,786
Investments	14	-	692
		69,733	63,720
Current assets			
Stocks	16	37,091	37,474
Debtors	17	41,527	42,955
Derivative financial assets	24	2,613	4,082
Cash at bank and in hand		30,634	16,051
Current assets		111,865	100,562
Creditors: amounts falling due within one year	18	(28,650)	(25,361)
Derivative financial liabilities	24	(155)	-
Net current assets		83,060	75,201
Total assets less current liabilities		152,793	138,921
Creditors: amounts falling due after more than one year	19	(463)	(330)
Provision for other liabilities	22	(624)	(1,420)
Derivative financial liabilities	24	(129)	-
Net assets		151,577	137,171
Capital and reserves			
Called up share capital	23	1,501	1,501
Share premium account		7,035	7,035
Capital redemption reserve		3,023	3,023
Cash flow hedge reserve		2,746	4,082
Retained earnings		129,674	115,129
Total shareholders' funds		143,979	130,770
Minority interests		7,598	6,401
Capital employed		151,577	137,171

The financial statements on pages 23 to 73 were approved by the board of directors on 7 June 2021 and were signed on its behalf by:


C J Rea CBE DL
 Director

AES Engineering Limited

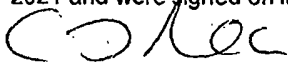
Parent company balance sheet as at 31 December 2020

Registered number 00392743

		2020	Restated 2019
	Note	£000	£000
Fixed assets			
Intangible assets	11	716	726
Tangible assets	13	12,214	11,945
Investments	15	35,304	29,737
		48,234	42,408
Current assets			
Debtors – amounts falling due within one year	17	12,735	4,529
– amounts falling due after more than one year	17	-	6,758
Derivative financial assets	24	2,568	3,567
Cash at bank and in hand		9,536	2,058
Current assets		24,839	16,912
Creditors – amounts falling due within one year	18	(31,980)	(3,518)
Derivative financial liabilities	24	(155)	(36)
Net current assets		(7,296)	13,358
Total assets less current liabilities		40,938	55,766
Creditors: amounts falling due after more than one year	19	-	(20,333)
Provision for other liabilities	22	-	(856)
Derivative financial liabilities	24	(129)	(80)
Net assets		40,809	34,497
Capital and reserves			
Called up share capital	23	1,501	1,501
Share premium account		7,035	7,035
Capital redemption reserve		3,023	3,023
Retained earnings		29,250	22,938
Total shareholders' funds		40,809	34,497

The profit of the company for the financial year amounted to £8,101,000 (2019 (restated): £7,767,000).

The financial statements on pages 23 to 73 were approved by the board of directors on 7 June 2021 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 2020

	Called up share capital	Share premium account	Capital redemption reserve	Cash flow hedge reserve	Retained earnings	Total Shareholders Fund
	£000	£000	£000	£000	£000	£000
At 1 January 2019	1,521	7,035	3,003	(2,190)	107,098	116,467
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)
At 31 December 2019	1,501	7,035	3,023	4,082	115,129	130,770
Profit for the year	-	-	-	-	18,139	18,139
Transfer to reserves in respect of equity settled share-based payments	-	-	-	-	252	252
Dividends	-	-	-	-	(3,004)	(3,004)
Other comprehensive (expense)	-	-	-	(1,336)	(564)	(1,900)
Arising from employee share ownership trust	-	-	-	-	(271)	(271)
Loss on equity transaction	-	-	-	-	(7)	(7)
At 31 December 2020	1,501	7,035	3,023	2,746	129,674	143,979

AES Engineering Limited

Parent company statement of changes in equity for the year ended 31 December 2020

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total Sharehold ers Fund
	£000	£000	£000	£000	£000
At 1 January 2019 restated	1,521	7,035	3,003	20,210	31,769
Buyback of share capital	(20)	-	20	-	-
Profit for the year - restated	-	-	-	7,767	7,767
Dividends	-	-	-	(5,006)	(5,006)
Arising from employee share ownership trust	-	-	-	(33)	(33)
At 31 December 2019 restated	1,501	7,035	3,023	22,938	34,497
Buyback of share capital	-	-	-	-	-
Transfer to reserves in respect of equity settled share-based payments	-	-	-	1,486	1,486
Profit for the year	-	-	-	8,101	8,101
Dividends	-	-	-	(3,004)	(3,004)
Arising from employee share ownership trust	-	-	-	(271)	(271)
At 31 December 2020	1,501	7,035	3,023	29,250	40,809

AES Engineering Limited

Group cash flow statement for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Cash flow from operating activities	30	39,079	28,804
Income taxes paid		(6,783)	(4,793)
Net cash generated from operating activities		32,296	24,011
Cash flows from investing activities			
Proceeds from sale of fixed assets		342	359
Purchases of tangible assets	12	(11,949)	(16,327)
Purchases of intangible assets	10	(545)	(862)
Acquisition of subsidiary undertakings		(4,292)	-
Net Cash acquired with subsidiary		668	-
Interest received	2	150	123
Net cash used in investing activities		(15,626)	(16,707)
Cash flows from financing activities			
Repayment of bank loans		(280)	(11)
New bank loans		32	-
New finance leases		-	69
Repayment of finance lease obligations		(53)	(763)
Interest paid	2	(500)	(170)
Interest element of finance lease payments	2	(12)	(19)
Net purchase of shares by employee share ownership trust		(271)	(33)
Dividend paid to minority shareholders		(787)	(1,036)
Acquisition of non-controlling interest		(53)	-
Dividend paid to shareholders	9	-	(5,006)
Net cash used in financing activities		(1,924)	(6,969)
Net increase in cash and cash equivalents	31	14,746	335
Foreign exchange translation adjustment	32	(163)	(748)
Cash and cash equivalents at the beginning of the year	32	16,051	16,464
Cash and cash equivalents at the end of the year	32	30,834	16,051

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 which the Directors consider to be appropriate for the following reasons.

The directors have prepared detailed cash flow forecasts for a period of 13 months from the date of these financial statements. The forecasts consider the directors' views of current and future economic conditions that are expected to prevail over the period. These forecasts include assumptions regarding future revenues and costs together with risks and mitigating actions where applicable.

The forecasts indicate the Company and Group is able meet its liabilities as they fall due throughout the period to 30 June 2022

Taking account of anticipated continuing impact of COVID-19 on the operations and its financial resources, the directors have modelled a severe but plausible downside scenario sensitivity which allows for a further two month period of lockdown between the date of these accounts and 30 June 2022. The business continued to trade profitably through various 2020 and 2021 lockdown periods and would expect to be able to do so again, should the government impose further lockdown restrictions in the future. As a result, the group decided not to renew its (unutilised) revolving loan facility in March 2021 and as at 31 December 2020 the group had significant net cash reserves of £33,634,000. Taking into account the severe but plausible downside before other mitigating actions available, the company and the group is still able to operate with significant positive cash levels throughout the period to 30 June 2022. Accordingly, the directors believe that it remains appropriate to prepare the financial statements on a 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.

AES Engineering Limited

Statement of accounting policies - continued

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.

Restatement of prior period – company only

During the year, management identified that a number of forward currency contracts held against the company's forecast transactions in US Dollars and Euros were being accounted for in a subsidiary company rather than by AES Engineering Limited. This was not reflected in the prior period financial statements and as a result the comparative in these accounts have been restated, in line with FRS 102 Section 10, Accounting Policies, Estimates and Errors. The full impact of the restatement on the individual line items is detailed in note 34 on page 63.

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 collection by the customer or their agent in the case of goods supplied ex-works, or upon delivery to the customer. 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.

AES Engineering Limited

Statement of accounting policies – continued

Intangible fixed assets

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

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 being amortised over 20 years as the group have reliably estimated this to be its useful economic life. 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. The estimated useful life for the software has been estimated at 25 years.

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. Amortisation over the estimated useful life of the development costs will commence once brought into use. Development costs are amortised over an estimated useful life of 5 years.

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.

AES Engineering Limited

Statement of accounting policies – continued

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.

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.

AES Engineering Limited

Statement of accounting policies – continued

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.

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:

AES Engineering Limited

Statement of accounting policies – continued

Critical accounting estimates and assumptions - continued

(a) 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.

(b) 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.

(c) Capitalised software and development costs

Projects where knowledge and understanding gained from research and practical experience are directed towards developing new products, processes or software, are recognised as intangible assets in the balance sheet when they meet the criteria for capitalisation. Costs are capitalised when the technical and commercial feasibility of completing the product, process or software can be demonstrated and the product, process or software 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 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 2020

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

	2020	2019
	£000	£000
Interest receivable	150	123
Interest payable on bank loans and overdrafts	(254)	(148)
Interest payable on hire purchase obligations and finance leases	(12)	(19)
Other interest payable	(246)	(22)
	(362)	(66)

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

3 Operating profit

	2020	2019
	£000	£000
Operating profit is stated after charging/(crediting):		
Equity-settled share-based payments	252	235
Depreciation of owned assets	6,956	6,057
Depreciation of assets held under hire purchase contracts	282	118
Amortisation of intangible assets	1,671	1,768
Amortisation of associate goodwill	2	3
Profit on disposal of fixed assets	(92)	(39)
Net foreign currency exchange loss	334	159
Auditors' remuneration including expenses		
- Group audit	471	310
- Company audit	21	-
- Other services	27	6
Operating leases – property	2,287	2,266
Operating leases – plant and machinery	318	348
Research and development costs	3,965	4,045

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

4 Exceptional items

	2020	2019
	£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 2020

5 Employee information

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

By activity	2020 Number	2019 Number
Sales engineers	409	413
Management and administration	674	708
Production and stores	727	687
	1,810	1,808
Staff costs for the above persons	2020 £000	2019 £000
Wages and salaries	60,443	62,938
Social security costs	5,581	5,183
Other pensions costs	1,460	1,548
Severance costs	255	255
Equity-settled share-based payments	252	235
	67,991	70,159

Certain employees of AESSEAL plc, AESSEAL Inc., AESSEAL (Proprietary) Limited, AESSEAL Ningbo Limited, AESSEAL India Private Limited, AESSEAL Canada Inc, AVTPUMP Limited, AESSEAL Australia Pty Limited, AESSEAL Polska Sp.zo.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 2020

6 Directors' emoluments

	2020	2019
	£000	£000
Emoluments including benefits in kind	919	855
Company pension contributions to money purchase schemes	39	39
	958	894

Retirement benefits are accruing to six (2019: seven) directors under money purchase schemes. During the year no director (2019: no director) of AES Engineering Limited exercised share options in the year. There were two directors (2019: no directors) of AES Engineering Limited to whom share options were granted during the year.

Highest paid director	2020	2019
	£000	£000
Emoluments including benefits in kind	282	262
Company pension contributions to money purchase scheme	9	9
	291	271

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

7 Tax on profit

	2020	2019
	£000	£000
Current tax:		
UK corporation tax on profits of the year	2,368	5,353
Adjustments in respect of previous periods	17	(55)
	2,385	5,298
Foreign tax:		
Group companies	4,748	4,001
Adjustments in respect of previous periods	444	16
	5,192	4,017
Total current tax	7,577	9,315
Deferred tax: origination and reversal of timing differences	(540)	445
Tax on profit	7,037	9,760

Corporation tax is calculated at 19% (2019: 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 2020

7 Tax on profit – continued

The tax charged on the profit for the year is higher (2019: higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2020 £000	2019 £000
Profit before taxation	26,647	27,941
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	5,063	5,309
Effects of:		
Expenses not deductible for tax purposes	511	211
Origination and reversal of other timing differences	(440)	2,955
Share of associated company tax	45	25
Higher tax rates on overseas profits	1,325	1,484
Unutilised losses	102	-
Adjustments in respect of previous periods	461	(39)
Income not subject to tax	(30)	(185)
Tax on profit	7,037	9,760

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 £8,101,000 (2019: restated £7,767,000).

9 Dividends

No dividends were paid during the year (2019: £5,006,000) but £3,004,243 dividends were declared in December 2020 (2019: £nil).

AES Engineering Limited

Notes to the financial statements for the ended 31 December 2020

10 Intangible assets – group

	Goodwill £000	Deferred development expenditure £000	Software £000	Other £000	Total £000
Cost					
At 1 January 2020	20,412	7,847	2,143	1,322	31,724
Additions	3,536	468	-	77	4,081
Disposals	-	-	-	-	-
Exchange difference	(75)	4	-	2	(69)
At 31 December 2020	23,873	8,319	2,143	1,401	35,736
Accumulated amortisation					
At 1 January 2020	11,449	6,409	86	538	18,482
Charge for the year	996	449	86	140	1,671
Exchange difference	(39)	2	-	2	(35)
At 31 December 2020	12,406	6,860	172	680	20,118
Net book value					
At 31 December 2020	11,467	1,459	1,971	721	15,618
At 31 December 2019	8,963	1,438	2,057	784	13,242

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

11 Intangible assets – company

	Goodwill £000	Trademark and patents costs £000	Total £000
Cost			
At 1 January 2020	337	988	1,325
Additions	-	41	41
At 31 December 2020	337	1,029	1,366
Accumulated amortisation			
At 1 January 2020	285	314	599
Charge for the year	10	41	51
At 31 December 2020	295	355	650
Net book value			
At 31 December 2020	42	674	716
At 31 December 2019	52	674	726

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

12 Tangible assets – group

	Land and buildings	Plant, fixtures and equipment	Assets under construction	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2020	25,689	60,685	82	6,404	92,860
Additions	1,214	10,130	-	605	11,949
Disposals	(97)	(429)	-	(877)	(1,403)
On acquisition	-	188	-	-	188
Exchange difference	(128)	(402)	-	(15)	(545)
Transfer	-	82	(82)	-	-
At 31 December 2020	26,678	70,254	-	6,117	103,049
Accumulated					
At 1 January 2020	3,674	35,895	-	3,505	43,074
Charge for the year	390	5,730	-	1,118	7,238
Disposals	(70)	(332)	-	(751)	(1,153)
Exchange difference	(26)	(193)	-	(6)	(225)
At 31 December 2020	3,968	41,100	-	3,866	48,934
Net book value					
At 31 December 2020	22,710	29,154	-	2,251	54,115
At 31 December 2019	22,015	24,790	82	2,899	49,786

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

12 Tangible assets – group - continued

The net book value of land and buildings comprises:	2020	2019
	£000	£000
Freehold	22,282	21,583
Long leasehold	317	317
Short leasehold	111	115
	22,710	22,015

The cost of depreciable assets included in land and buildings at 31 December 2020 was £25,057,000 (2019: £24,068,000).

The net book value of tangible fixed assets includes an amount of £174,000 (2019: £202,000) 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 2020

13 Tangible assets – company

	Land and buildings	Plant, fixtures and equipment	Total
	£000	£000	£000
Cost			
At 1 January 2020	13,193	1,321	14,514
Additions	504	-	504
At 31 December 2020	13,697	1,321	15,018
Accumulated depreciation			
At 1 January 2020	1,627	942	2,569
Charge for the year	118	117	235
At 31 December 2020	1,745	1,059	2,804
Net book value			
At 31 December 2020	11,952	262	12,214
At 31 December 2019	11,566	379	11,945

The net book value of land and buildings comprises:

	2020	2019
	£000	£000
Freehold	11,635	11,249
Long leasehold	317	317
	11,952	11,566

The cost of depreciable assets included in land and buildings at 31 December 2020 was £12,327,000 (2019: £12,074,000).

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

14 Investments – group

	Associates	Joint ventures
	£000	£000
Cost or valuation		
At 1 January 2020	692	-
Share of retained profit	32	-
Amortisation of goodwill	(2)	-
Stepped acquisition of associate to subsidiary	(722)	-
At 31 December 2020	-	-
Goodwill	-	-
Share of investments	-	-
At 31 December 2020	-	-

The investments are all unlisted.

On 3 August 2020, the group acquired a further 26% in Eastern Seals Holdings Limited and its subsidiary undertakings for £691,000. The acquisition took the total shareholding to 51%. See note 25 for further details

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 35.

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

15 Investments – company

	Subsidiary undertakings	Joint ventures	Total
	£000	£000	£000
Cost of shares			
At 1 January 2020	29,737	-	29,737
Additions	5,567	-	5,567
Impairment	-	-	-
At 31 December 2020	35,304	-	35,304

The investments are all unlisted.

On 1 January 2020, the Company acquired 100% of the share capital of Van Geffen AMS B.V and Van Geffen VMS B.V see note 25 for details.

The company also acquired the remaining 9% minority share in AESSEAL Nordic AB during the year.

Details of subsidiary undertakings and joint ventures are also shown in note 35.

16 Stocks

	Group	
	2020	2019
	£000	£000
Raw materials and consumables	3,194	3,941
Finished goods and goods for resale	33,897	33,533
	37,091	37,474

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

17 Debtors

	Group		Company	
	2020	2019	2020	Restated 2019
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	32,133	33,742	-	-
Amounts owed by group undertakings	-	-	12,489	3,887
Amounts owed by undertakings in which the entity has a participating interest	6	46	-	-
Other debtors	2,576	5,034	222	163
Non-derivative financial asset	2,238	-	-	-
Corporation tax recoverable	1,319	878	-	-
Prepayments	3,166	3,079	19	25
Accrued income	89	176	-	-
Other taxation and social security	-	-	5	2
Dividend Receivable	-	-	-	452
	41,527	42,955	12,735	4,529
Amounts falling due after more than one year				
Amounts owed by group undertakings	-	-	-	6,758

Amounts owed by group undertakings are unsecured, at a market rate of interest. Amounts falling due within one year in 2019 were repayable by 31 December 2020.

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

18 Creditors amounts falling due within one year

	Group		Company	
	2020	2019	2020	2019
Bank loans and overdrafts (note 20)	-	23	-	-
Obligations under finance leases and hire purchase contracts (note 21)	86	84	-	-
Trade creditors	6,679	8,681	-	3
Amounts owed to group undertakings	-	-	24,788	220
Amounts owed to undertakings in which the entity has a participating interest	-	16	-	-
Other creditors	48	171	487	36
Corporation tax payable	6,876	5,482	3,464	3,111
Other taxation and social security	2,115	1,147	-	-
Accruals	9,724	9,420	237	148
Dividend Payable	3,004	-	3,004	-
Deferred income	118	337	-	-
	28,650	25,361	31,980	3,518

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

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

19 Creditors amounts falling due after more than one year

	Group		Company	
	2020	2019	2020	2019
Other creditors	333	193	-	-
Bank Loans	49	-	-	-
Obligations under finance leases and hire purchase contracts (note 21)	81	137	-	-
Amounts owed to group undertakings	-	-	-	20,333
	463	330	-	20,333

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 2020

20 Loans and overdrafts

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Bank loans	49	23	-	-
Bank loans due within five years:				
Within one year	-	23	-	-
Between one and two years	12	-	-	-
Between two and five years	37	-	-	-
	49	23	-	-

At the year end the group had total undrawn loan and overdraft facilities of £20m (2019: £20m), all of which are carried at amortised cost.

The group's principal bankers are HSBC Bank Plc, with whom the company had a £15m multi-currency committed loan facility, which has been repaid in full by March 2021. The group no longer has a loan facility as it was deemed unnecessary given it was not being utilised even through the pandemic.

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 2020 the overdraft balance in the company was £nil (2019: £nil). The gross overdraft balance in the other companies covered by the multilateral guaranteed was £nil (2019: £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 195k 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 2020

21 Obligations under finance leases and hire purchase agreements

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

	Group	
	2020	2019
	£000	£000
Due within one year	90	91
Between one and five years	82	143
Total gross payments	172	234
Less finance charges included above	(5)	(13)
	167	221

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	
	Restated	
	Group	Company
	£000	£000
At 1 January 2020	1,420	856
Exchange Difference	(2)	-
Net charge in year through profit and loss account	(540)	(856)
Net charge in year through other comprehensive income	(254)	-
At 31 December 2020	624	-

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

22 Provision for other liabilities - continued

Deferred taxation provided in the financial statements comprises:

	Group		Company	
	2020	2019	2020	Restated 2019
	£000	£000	£000	£000
Timing differences:				
Accelerated capital allowances	1,597	1,674	-	200
Other timing differences	(981)	(1,030)	-	-
Derivative financial assets and liabilities	8	776	-	656
	624	1,420	-	856

23 Called up share capital

Group and Company	2020	2019
	£000	£000
Allotted and fully paid		
691,984 (2019: 691,984) ordinary shares of £1 each	692	692
777,500 (2019: 777,500) deferred ordinary shares of £1 each	777	777
28,458 (2019: 28,458) "A" ordinary shares of £1 each	29	29
466,008 (2019: 466,008) "A" deferred shares of £0.001 each	1	1
2,608 (2019: 2,608) "B" ordinary shares of £1 each	2	2
	1,501	1,501

During the year no "A" ordinary shares were cancelled by the company (2019: 20,382 shares).

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

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

	Group		Company	
	2020	2019	2020	Restated 2019
	£000	£000	£000	£000
Derivative financial assets: amounts falling due within one year	768	670	722	284
Derivative financial assets: amounts falling due after more than one year	1,845	3,412	1,846	3,283
Derivative financial liabilities: amounts falling due within one year	(155)	-	(155)	(36)
Derivative financial liabilities: amounts falling due after more than one year	(129)	-	(129)	(80)
	2,329	4,082	2,284	3,451

All derivative financial assets and liabilities are measured at fair value.

At 31 December 2020 the company held forward exchange contracts to sell \$41,100,000 (2019: \$60,000,000) and €48,850,000 (2019: €40,100,000) at exchange rates ranging between \$1.2437 - \$1.3472 and €1.0552 - €1.1525 respectively. Of these \$17,400,000 (£13,237,862) and €15,500,000 (£14,019,528) fall due within one year (2019: \$18,900,000 (£13,203,229) and €5,250,000 (£4,749,894)).

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

24 Derivative financial assets and liabilities – continued

At 31 December 2020 the group held forward exchange contracts to sell \$41,100,000 (2019: \$60,000,000) and €49,850,000 (2019: €53,480,000) at exchange rates ranging between \$1.2437 - \$1.3472 and €1.0552 - €1.1525 respectively. Of these \$17,400,000 (£13,237,862) and €18,500,000 (£16,767,284) fall due within one year (2019: \$18,900,000 (£13,203,229) and €15,630,000 (£13,956,035)). In the group accounts 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 £177,040 (2019: £585,000 loss). Compared to market rates at year end, the amounts receivable under these contracts give rise to a loss in other comprehensive income of £1,336,249 (2019: £6,272,000 gain).

25 Acquisitions

On 1 January 2020, the Company acquired 100% of the share capital of Van Geffen AMS B.V and Van Geffen VMS B.V for £4,088,000.

	Van Geffen AMS £000	Van Geffen VMS £000	Total £000
Tangible fixed assets	147	-	147
Trade and other debtors	629	366	995
Cash	53	22	75
Trade and other creditors	(281)	(8)	(289)
Total net assets	548	380	928
Fair Value Adjustments	-	-	-
Group share of net assets acquired	548	380	928
Initial cash consideration			3,038
Contingent consideration paid			489
Contingent consideration expected to be paid			76
Deferred consideration at fair value			411
Costs directly attributable to the business			74
Total consideration			4,088
Goodwill on acquisition			3,160

The expected useful life of the goodwill stemming from this acquisition is 20 years.

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

25 Acquisitions - continued

On 3 August 2020, the group acquired a further 26% in Eastern Seals Holdings Limited and its subsidiary undertakings for £691,000. The acquisition took the total shareholding to 51%.

The book value and fair value of the net assets on the date of acquisition were as follows;

	Eastern Seals Group £000
Tangible fixed assets	41
Trade and other debtors	627
Stocks	1,412
Cash	593
Interest-bearing loans and borrowings	(275)
Trade and other creditors	(492)
Total net assets	1,906
Fair value adjustments	-
NCI at acquisition	(869)
Group share of net assets acquired	1,037
Consideration for initial 25% held	551
Share of associate profit up to August 2020	171
Consideration for 26% acquired in the year	691
Total consideration	1,413
Goodwill on acquisition	376

The expected useful life of the goodwill stemming from this acquisition is 20 years.

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

26 Capital and other financial commitments

	Group	
	2020	2019
	£000	£000
Capital expenditure authorised and contracted for	953	3,838

The company has no capital or other financial commitments.

27 Leasing commitments

At 31 December 2020 the group had total commitments under non-cancellable operating leases expiring as follows:

	Group	
	2020	2019
	£000	£000
Land and buildings:		
Within one year	1,964	2,009
Between two to five years	3,827	3,599
After five years	987	1,618
	6,778	7,226
Other operating leases:		
Within one year	347	324
Between two to five years	340	201
	687	525

The company has no leasing commitments.

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

28 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 £1,460,000 (2019: £1,548,000), and outstanding contributions at the balance sheet date amounted to £379,000 (2019: £406,000).

29 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 2020	4,950	1,396	2,442	587
Sold	-	-	-	-
At 31 December 2020	4,950	1,396	2,442	587

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

At the year-end options outstanding are:

Options	AESSEAL plc Number	Other subsidiaries Number	Total Number	Weighted average exercise price £
Outstanding at 1 January 2020	20,600	7,504	28,104	255.87
Activity during year:				
- Granted during the year	2,206	997	3,203	355.59
- Forfeited during the year	(900)	(200)	(1,100)	252.50
- Exercised during the year	(1,050)	(1,200)	(2,250)	235.26
Outstanding at 31 December 2020	20,856	7,101	27,957	269.09
Exercisable at 31 December 2020	3,750	2,100	5,850	245.57

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

29 Share option plans - continued

In respect of options outstanding as at 31 December 2020 the exercise prices range from £245.26 to £391.20, with a weighted average remaining contractual life of 6.4 years.

Options granted during the year

3,203 share options were granted during the year. The weighted average fair value of these options was £57.01. The options are valued using a Black-Scholes model. Key assumptions used in the calculation are as follows:

	2020	
Option life in years	7.5	(Maximum 10)
Risk free rate	0.31	(UK government bonds nominal yield)
Expected volatility	21.64	(estimated based on industry review)
Expected dividend yield	2%	

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

	Note	2020 £000	2019 £000
Cash flows from operating activities			
Profit after taxation		19,610	18,181
Adjustments for:			
Amortisation of intangible assets	3	1,671	1,768
Impairment of intangible assets	3	-	-
Depreciation of property, plant and equipment	3	7,238	6,175
Profit on disposal of property, plant and equipment	3	(92)	(39)
Share of associates profits		(76)	(109)
Exceptional items	4	-	142
Interest paid	2	512	189
Interest received	2	(150)	(123)
Exchange differences		531	(107)
Equity settled share-based payments	3	252	235
Taxation		7,038	9,760
Decrease/(Increase) in trade and other debtors		3,172	(3,654)
Decrease/(Increase) in stocks		1,168	(4,064)
(Decrease)/Increase in trade and other creditors		(1,795)	450
Cash flow from operating activities		39,079	28,804

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

31 Reconciliation of net cash flow to movement in net cash

	2020	2019
	£000	£000
Increase in cash in the year	14,746	335
Increase in debt and lease financing	300	774
Change in net cash resulting from cash flows	15,046	1,109
Foreign currency translation adjustment	(160)	(742)
New finance leases	-	(69)
Bank loans on acquisition	(275)	-
Movement in net cash in the year	14,611	298
Net cash at 1 January	15,807	15,509
Net cash at 31 December	30,418	15,807

32 Analysis of changes in net debt

	At 1 January 2020	Cash flow	Acquisitions	Exchange movement	At 31 December 2020
	£000	£000	£000	£000	£000
Cash at bank and in hand	12,330	1,891	668	(163)	14,726
Overdraft offset facility	3,721	12,187	-	-	15,908
Cash and cash equivalents	16,051	14,078	668	(163)	30,634
Bank loans	(23)	247	(275)	2	(49)
Finance lease obligations	(221)	53	-	1	(167)
	(244)	300	(275)	3	(216)
Total	15,807	14,378	393	(160)	30,418

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

33 Restatement of prior year – company only

During the year, management identified that a number of forward currency contracts held against the company's forecast transactions in US Dollars and Euros were being accounted for in a subsidiary company rather than by AES Engineering Limited. This was not reflected in the prior period financial statements and as a result the comparative in these accounts have been restated as shown below:

	Original Balance £000	Adjustments £000	As restated £000
Balance Sheet as at 1 January 2019			
Net assets	35,470	(3,701)	31,769
Retained earnings	23,911	(3,701)	20,210
Total shareholders' funds	35,470	(3,701)	31,769
Balance Sheet as at 31 December 2019			
Derivative financial asset	-	3,567	3,567
Debtors – amounts falling due after more than one	9,810	(3,052)	6,758
Current assets	16,397	515	16,912
Derivative financial liability – amounts falling due within one year	-	(36)	(36)
Net current assets	12,879	479	13,358
Total assets less current liabilities	55,287	479	55,766
Provision for other liabilities	(200)	(656)	(856)
Derivative financial liability – amounts falling due after more than one year	-	(80)	(80)
Net assets	34,754	(257)	34,497
Retained earnings	23,195	(257)	22,938
Total shareholders' funds	34,754	(257)	34,497

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

34 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:

	2020	2019
	£000	£000
Amounts due from subsidiaries	759	800
Amounts due to subsidiaries	(9,427)	(9,539)
	(8,668)	(8,739)

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 £79,000 (2019: £81,000 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 £47,000 (2019: £97,000).

At the year end the net balance owed to the group by AESSEAL Oryx LLC was £6,000 (2019: £6,000).

The net balance owed by the group to AESSEAL Oryx LLC was £nil (2019: £1,000).

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

35 Group companies

Group undertakings

The undertakings of the group at 31 December 2020, 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
AVT Reliability 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 2020

35 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 2020

35 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 2020

35 Group companies - continued

Name	Country of incorporation	Registered Address	Class of share	% held
AESSEAL Colombia SA (*)	Colombia	Calle 25G No. 85B - 65 Barrio Santa Cecilia de Modelia	Ordinary	100
AESSEAL Czech s.r.o.	Czech Republic	Turanka 115, 627 00 Brno	Ordinary	75
AESSEAL Danmark A/S	Denmark	Koebenhavnsvej 222, DK-4600 Koege	Ordinary	100
AESSEAL Finland OY	Finland	Sorastajantie 1a lt.2, Jyvaskyla, 40340	Ordinary	100
AESSEAL France SAS	France	392 Rue de l'Epinette, 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 2020

35 Group companies - continued

Name	Country of incorporation	Registered Address	Class of share	% held
AESSEAL Nordic AB	Sweden	Jordbro Park Lokal 1, Rörvägen 57, 136 50 Jordbro, Stockholm	Ordinary	100
AESSEAL Nordic AS (*)	Norway	Lilleakerveien 10, Lilleakerveien, 0283, Oslo, Norway	Ordinary	100
AESSEAL Polska Sp.zo.o	Poland	Mazańcowice 999, 43- 391 Mazańcowice	Ordinary	100
AESSEAL Rus	Russia	Boldyreva Street, 1 Korollov City, Moscow Area, 141073	Ordinary	85
AESSEAL Saudi Arabia Company Limited (*)	Saudi Arabia	2nd Industrial City, Mekkahh Street, Dammam 34334, P.O Box 6770	Ordinary	100
AESSEAL Singapore PTE Limited (*)	Singapore	No 41 Toh Guan East, ADL Building, #04-01C	Ordinary	90
AESSEAL Sizdermazlık Sistermleri Ticaret Limited Sirketi	Turkey	Tekstil Kent İş 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

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

35 Group companies - continued

AVT Reliability (Ireland) Limited (*)	Ireland	Crowleys DFK, 5 Lapps Quay, Cork, T12 RW7D	Ordinary	100
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 th 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 Bhore, 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
Eastern Seals (Holdings) Limited (*)	England and Wales	Jubilee Industrial Estate, Unit 3, Sovereign Business Park, Remscheid Way, Ashington NE63 8UG	Ordinary	43.4

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

35 Group companies - continued

Name	Country of incorporation	Registered Address	Class of share	% held
Eastern Seals (UK) Limited (*)	England and Wales	Jubilee Industrial Estate, Unit 3, Sovereign Business Park, Remscheid Way, Ashington NE63 8UG	Ordinary	43.4
UK Seals and Polymers (*)	England and Wales	Jubilee Industrial Estate, Unit 3, Sovereign Business Park, Remscheid Way, Ashington NE63 8UG	Ordinary	43.4
ITK Sealing Solutions Limited (*)	England and Wales	Unit 3-4 Troutbeck Road, South West Centre, Sheffield, South Yorkshire, S8 0JR	Ordinary	90
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
Van Geffen Allround Machine Support B.V	Netherlands	Uilenwaard 7-11, 5236 WB, 's-Hertogenbosch, Netherlands	Ordinary	100
Van Geffen Vibration Monitoring Services B.V	Netherlands	Uilenwaard 7-11, 5236 WB, 's-Hertogenbosch, Netherlands	Ordinary	100

(*) 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.

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

35 Group companies - continued

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

At 31 December 2020 the aggregate capital and reserves of AESSEAL Oryx LLC was negative £53,000 (2019: negative £96,000) and the profit for the year ended 31 December 2020 was £43,000 (2019: £132,000 loss).

AES Engineering Limited

Notes to the financial statements for the year ended 31 December 2020

36 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.