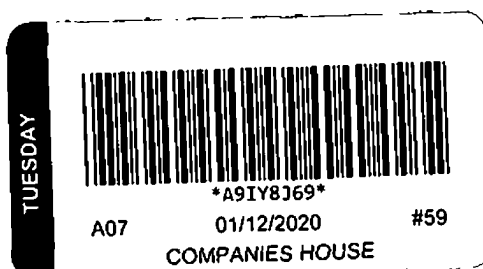


Company Registration No. 00620201 (England and Wales)

AEM LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



AEM LIMITED

COMPANY INFORMATION

Directors	J W Hardin A Harding E Speranza P Zetti T G Wilson
Secretary	L Carino
Company number	00620201
Registered office	PO Box 36 2 New Star Road Leicester LE4 9JQ
Auditors	Ernst & Young LLP No 1 Colmore Square Birmingham B4 6HQ
Business address	Taylor's End, Stansted Airport Stansted Essex CM24 1RB

AEM LIMITED

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AEM LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report for the year ended 31 December 2019.

The company's key financial indicators for the year were as follows:

	2019	2018	Change
	£'000	£'000	%
Turnover	29,818	26,328	13.26
Operating profit	4,184	5,099	(17.94)
Operating profit as a % of sales	14.03%	19.37%	-
Net current assets	8,758	10,481	(16.44)
Total equity	16,887	15,914	6.11

Review of the business

In the year to 31st December 2019, the company experienced steady sales, and has stayed on track with the market in which it operates. Aside from changes in income streams caused by currency variations, the core revenue over the previous 12 months has grown by around 11.8%. For the forthcoming 2020 year, growth expectations pre-Covid were at 6%, and 8% for 2021. This will now be impacted due to the pandemic at a rate yet to be determined, due to the current uncertainty around the full return of flights, demand and operational issues.. The market in which AEM operates is mature, with no expected new entrants in the foreseeable future. The company plans to continue the evolution of existing products, whilst growing new markets. Tight control of costs will remain in place, with margin improvements anticipated from material cost savings and operational efficiency improvements.

Principal risks and uncertainties

The company operates in a competitive and global environment and whilst the economic downturn has undoubtedly affected the airline industry as a whole, the company, with its increasing global spread of MRO (Maintenance, Repair and Overhaul) businesses under the AMETEK brand, is now of significant mass and diversification. Consequently, it is much better placed to minimise the effects of a market decline and well placed to take further advantage of any market fall-out.

Financial risk management

The company's principal financial instruments comprise trade debtor, trade creditor and inter-company loans and balances. The company does not enter into derivative transactions and it is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and foreign currency risk.

Interest rate risk

It is AMETEK group policy not to enter into interest rate swaps.

Foreign currency risk

The company has transactional and translated currency exposure arising from sales, purchases and loans in foreign currencies. It is AMETEK group policy not to actively hedge against foreign currency transactions and balances.

AEM LIMITED

STRATEGIC REPORT (CONTINUED)

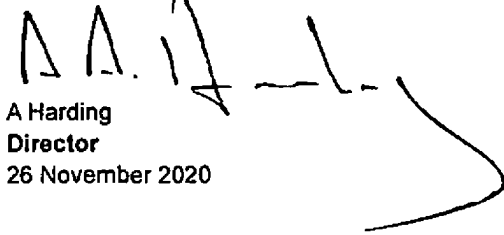
FOR THE YEAR ENDED 31 DECEMBER 2019

S172(1) statement

The Directors promote the success of the company for the benefit of the sole shareholder and that of the shareholders of its ultimate parent (AMETEK Inc) while taking into account, amongst other matters, the following:

- Long-term consequences – by preparing 5-year strategic plans as well as short term forecasts, all of which are discussed with and approved by Divisional and Group Management
- Interests of company employees – see statement headed "Employee Involvement" in the Directors' Report
- Relationships with suppliers, customers and others – by agreeing contracts and terms of trade with, rather than imposing on, our trading partners to ensure they are mutually beneficial.
- The impact on the community and the environment– see statement headed "Community & Environment" in the Directors' Report
- The desirability of maintaining a high reputation for standards of business conduct – including overseeing an annual reporting and certification process to ensure all relevant employees are aware of the high standards set in this regard and a mechanism to notify the company of any shortcomings, including a "whistle-blowing" hotline.

On behalf of the board



A Harding
Director

26 November 2020

AEM LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

Company Registration No. 00620201

The directors present their report for the year ended 31 December 2019.

Principal activities

The principal activity of the company continued to be that of repair, overhaul, modification and testing of aircraft components and the supply of first aid and medical kits and equipment to the aviation industry.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

J W Hardin
A Harding
E Speranza
P Zetti
T G Wilson

Directors' insurance

AMETEK Inc. has indemnified one or more directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year and remains in place to the date of this report.

Results and dividends

The results for the year are set out on page 10.

The total distribution of dividends for the year ended 31 December 2019 was £3,251,000 (2018: £7,883,000).

Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and details of the company's exposure to risk are described in the strategic report on page 1. As noted on pages 10 and 12 respectively, the Company has generated a profit after tax of £4,177,000 for the year-ended 31 December 2019 and has net current assets of £8,758,000 and net assets of £16,887,000 at this date.

In assessing whether the financial statements should be prepared on a going concern basis the Directors have considered the impact of COVID-19 on the Company. In this regard, the Directors note that the Company operates in the Aviation industry and has a wide customer base.

The impact of COVID was swift and dramatic with orders and sales falling rapidly as governments around the world locked down communities to impede the spread of the virus. market conditions have been very difficult, though enquiries are increasing, as there continues to be strong demand for the products and services. As the company's products and services are supplied to the aviation industry exclusively, the uncertainty generated by COVID has caused many of its customers to protect their balance sheet, conserve cash, and to delay purchases as these customers have been extremely impacted by government restrictions on travel.

While the Directors anticipate that full year 2020 sales will be materially below 2019 sales, significant actions have also been taken to control costs and protect cash where feasible, including a headcount reduction.

AEM LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors have stress tested the forecasts for the remainder of 2020 and for 2021 noting the most significant factor impacting the cash inflows for the Company is the level of revenues being generated. These stress tests show that, without any management actions to further mitigate costs, a fall in forecast revenues of more than one third would be required over 12 months from the date of approval of these financial statements for the Company to run out of liquid funds. This fall in revenues represents a significant reduction on forecast revenues for the next 12 months as well as a reduction on actual and forecast revenues for the year-ended 31 December 2020. However, the Directors would not tolerate such a fall in revenue without taking further measures to reduce costs in the business.

The Company's ultimate parent, AMETEK Inc, has also performed favourably through the pandemic and has significant undrawn credit lines. The financial statements for AMETEK Inc are publicly available at www.ametek.com.

The Directors overall assessment is that the economic impact of COVID, while significant, has not impacted the longer-term viability or sustainability of the Company's business. The Directors assess that with the Company's customer, industry and market diversification alongside its innovative and modern product lines that it is well positioned to continue business and can effectively overcome future market shocks.

On the basis of their assessment, including the factors detailed above, the Directors have concluded it is appropriate for the Company's 2019 financial statements to be prepared on a going concern.

Market value of land and buildings

In the opinion of the directors, the market value of freehold land and buildings is not considered to be materially different to the net book value as disclosed in the fixed asset note.

Financial instruments

Details of financial instruments are provided in the strategic report on page 1.

Research and development

The company continues to invest in a programme of research and development across all business areas, researching and adding new capabilities considered strategic to support the markets it serves. During the year, the company spent £493,000 (2018: £469,000) on research and development.

Employee involvement

It is the company's policy to keep employees fully informed of matters affecting them as employees and to make them aware of the financial and economic factors influencing company performance. Encouragement is given to employees to contribute towards the company's financial performance by means of an annual bonus scheme for certain employees.

Community and environment

The company is fully committed to pursuing the best environmental practice and conducting its activities in a way that fully recognises its responsibilities to the environment.

Post reporting date events

The company has made distributions amounting to £1,250,000 in respect of the year ending 31 December 2020 since 31 December 2019.

On 11 March 2020, the World Health Organization declared a pandemic relating to COVID 19. As outlined in note 1.2, the directors have considered the impact of COVID 19 risk factors in the Going Concern assessment over a period of twelve months after signing these financial statements.

AEM LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

Future developments

The market in which AEM operates is mature, with no expected new entrants in the foreseeable future. The company plans to continue the evolution of existing products, whilst growing new markets. Tight control of costs will remain in place, with margin improvements anticipated from material cost savings and operational efficiency improvements.

Auditor

The auditor, Ernst & Young LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

A Harding
Director

26 November 2020



AEM LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AEM LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AEM LIMITED

Opinion

We have audited the financial statements of AEM Limited (the 'company') for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice); 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Effects of COVID 19

We draw attention to Notes 1.2 and 26 of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19 which is impacting supply chains, customers, and financial markets. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

AEM LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF AEM LIMITED

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AEM LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF AEM LIMITED

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

**Stephen Kirk (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Birmingham**

26th November 2020
.....

AEM LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Turnover	3	29,818	26,328
Cost of sales		(16,195)	(14,585)
Gross profit		13,623	11,743
Distribution costs		(1,254)	(1,149)
Administrative expenses		(8,192)	(5,509)
Other operating income		7	14
Operating profit	4	4,184	5,099
Interest receivable and similar income	8	25	58
Interest payable and similar expenses	9	(18)	(68)
Profit before taxation		4,191	5,089
Taxation	10	(14)	(1,033)
Profit for the financial year	23	4,177	4,056

The income statement has been prepared on the basis that all operations are continuing operations.

AEM LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	£'000	£'000
Profit for the year	4,177	4,056
Other comprehensive income	-	-
Total comprehensive income for the year	<u>4,177</u>	<u>4,056</u>

AEM LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
Fixed assets			
Goodwill	12	2,751	3,210
Other intangible assets	12	5	16
Total intangible assets		2,756	3,226
Tangible assets	13	5,889	5,293
		8,645	8,519
Current assets			
Stocks	14	6,250	5,224
Debtors	15	4,117	5,583
Cash at bank and in hand		4,124	5,556
		14,491	16,363
Creditors: amounts falling due within one year	17	(5,733)	(5,882)
Net current assets		8,758	10,481
Total assets less current liabilities		17,403	19,000
Creditors: amounts falling due after more than one year	18	(456)	(3,027)
Provisions for liabilities	19	(60)	(59)
Net assets		16,887	15,914
Capital and reserves			
Called up share capital	21	3,000	3,000
Share premium account	22	8,856	8,856
Profit and loss reserves	23	5,031	4,058
Total equity		16,887	15,914

The financial statements were approved by the board of directors and authorised for issue on 26 November 2020 and are signed on its behalf by:

A Harding
Director

Company Registration No. 00620201

AEM LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Share capital £'000	Share premium account £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 January 2018		3,000	8,856	7,797	19,653
Year ended 31 December 2018:					
Profit for the year		-	-	4,056	4,056
Dividends	11	-	-	(7,883)	(7,883)
Equity settled share-based payments		-	-	88	88
Balance at 31 December 2018		3,000	8,856	4,058	15,914
Year ended 31 December 2019:					
Profit for the year		-	-	4,177	4,177
Dividends	11	-	-	(3,251)	(3,251)
Equity settled share-based payments		-	-	47	47
Balance at 31 December 2019		3,000	8,856	5,031	16,887

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

Company information

AEM Limited is a private company limited by shares incorporated in England and Wales. The registered office is PO Box 36, 2 New Star Road, Leicester, LE4 9JQ.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102, "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006. The financial statements were approved for issue on the date shown on the statement of financial position.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

The accounts of AEM Limited have taken advantage of the following disclosure exemptions under FRS 102:

- The requirement to present a statement of cash flows and related notes,
- financial instrument disclosures, including:
 - categories of financial instruments,
 - items of income, expenses, gains or losses relating to financial instruments and;
 - exposure to and management of financial risks
- share based payment disclosures, including:
 - a description of each type of share based payment arrangement that has existed and;
 - details of exercises and vests during the period
- related party transaction disclosures, including (i) transactions with wholly owned subsidiaries of the AMETEK Inc group (ii) disclosures related to key management remuneration.

1.2 Going concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and details of the company's exposure to risk are described in the strategic report on page 1. As noted on pages 10 and 12 respectively, the Company has generated a profit after tax of £4,177,000 for the year-ended 31 December 2019 and has net current assets of £8,758,000 and net assets of £16,887,000 at this date.

In assessing whether the financial statements should be prepared on a going concern basis the Directors have considered the impact of COVID-19 on the Company. In this regard, the Directors note that the Company operates in the Aviation industry and has a wide customer base.

The impact of COVID was swift and dramatic with orders and sales falling rapidly as governments around the world locked down communities to impede the spread of the virus. market conditions have been very difficult, though enquiries are increasing, as there continues to be strong demand for the products and services. As the company's products and services are supplied to the aviation industry exclusively, the uncertainty generated by COVID has caused many of its customers to protect their balance sheet, conserve cash, and to delay purchases as these customers have been extremely impacted by government restrictions on travel.

While the Directors anticipate that full year 2020 sales will be materially below 2019 sales, significant actions have also been taken to control costs and protect cash where feasible, including a headcount reduction.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

The Directors have stress tested the forecasts for the remainder of 2020 and for 2021 noting the most significant factor impacting the cash inflows for the Company is the level of revenues being generated. These stress tests show that, without any management actions to further mitigate costs, a fall in forecast revenues of more than one third would be required over 12 months from the date of approval of these financial statements for the Company to run out of liquid funds. This fall in revenues represents a significant reduction on forecast revenues for the next 12 months as well as a reduction on actual and forecast revenues for the year-ended 31 December 2020. However, the Directors would not tolerate such a fall in revenue without taking further measures to reduce costs in the business.

The Company's ultimate parent, AMETEK Inc, has also performed favourably through the pandemic and has significant undrawn credit lines. The financial statements for AMETEK Inc are publicly available at www.ametek.com.

The Directors overall assessment is that the economic impact of COVID, while significant, has not impacted the longer-term viability or sustainability of the Company's business. The Directors assess that with the Company's customer, industry and market diversification alongside its innovative and modern product lines that it is well positioned to continue business and can effectively overcome future market shocks.

On the basis of their assessment, including the factors detailed above, the Directors have concluded it is appropriate for the Company's 2019 financial statements to be prepared on a going concern.

1.3 Turnover

Turnover represents the amounts receivable by the company for goods supplied and services provided, excluding VAT and trade discounts. In the case of goods, invoices are raised on delivery to and, where required, formal acceptance by customers.

1.4 Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of unincorporated businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life, and is amortised on a systematic basis over its useful life of 20 years.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is subsequently reversed if, and only if, the reasons for the impairment loss have ceased to apply.

The goodwill above relates to the acquisition of the Aviation Windings and Aeromedic Innovations businesses in 2006. The goodwill was considered to have a useful economic life of 20 years from the acquisition date and under FRS 102 the goodwill has been amortised prospectively over the remaining life.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.5 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably; the intangible asset arises from contractual or other legal rights; and the intangible asset is separable from the entity.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Licences, patents and knowhow	7 years
-------------------------------	---------

1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Freehold Buildings	2% per annum
Leasehold Buildings	Over the life of the lease
Plant and machinery	10-15% per annum (aircraft rotatable spares 14%)
Fixtures, fittings & equipment	20- 33% per annum
Motor vehicles	25-33% per annum

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

Freehold land is not depreciated.

1.7 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried in at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.9 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.10 Financial assets

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through the income statement, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in the income statement.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

1.11 Financial liabilities

Basic financial liabilities are initially measured at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Other financial liabilities classified as fair value through the income statement are measured at fair value.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.12 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

1.13 Taxation

The tax expense represents the sum of current and deferred tax expense.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.14 Provisions

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in the income statement in the period it arises.

1.15 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.16 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

(Continued)

1.17 Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. No expense is recognised for awards that do not ultimately vest.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non market conditions that impact on the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement for the year (as part of wages and salaries) with a corresponding reserve transfer to the profit and loss reserve.

There are no non-equity settled share-based payments.

1.18 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

1.19 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the income statement for the period.

2 Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The following are considered to have the most significant effect on the amounts recognized in the financial statements:

- Stocks – the determination of the provision required to ensure that inventories are recorded at the lower of cost and net realisable value.
- Fixed assets – Determination of whether impairment provisions are required to reduce the carrying value of tangible and intangible fixed assets.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3 Turnover

Turnover analysed by geographical market

	2019 £'000	2018 £'000
Europe and Middle East	27,783	25,270
Asia and Africa	1,691	846
Americas (excl USA)	60	51
USA	284	161
	<u>29,818</u>	<u>26,328</u>

4 Operating profit

Profit for the year is stated after charging/(crediting):

	2019 £'000	2018 £'000
Exchange losses / (gains)	(16)	(193)
Research and development costs	493	469
Depreciation of owned tangible fixed assets	771	727
Loss on disposal of tangible fixed assets	10	5
Amortisation of intangible assets	470	470
Cost of stocks recognised as an expense	11,353	10,348
Write downs of stocks recognised as an expense	15	52
Operating lease charges	263	267
	<u> </u>	<u> </u>

5 Auditors' remuneration

The analysis of auditor's remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	<u>37</u>	<u>42</u>

6 Employees

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

	2019 Number	2018 Number
Sales, administration and distribution	63	64
Manufacturing	153	143
	<u>216</u>	<u>207</u>

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

6 Employees (Continued)

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	5,924	5,326
Social security costs	745	672
Pension costs	377	313
	<u>7,046</u>	<u>6,311</u>

Included in wages and salaries is a total expense for share-based payments in relation to equity-settled transactions of £47,000 (2018: £88,000), of which £8,000 (2018: £61,000) relates to restricted shares and £39,000 (2018: £27,000) relates to share options.

Further details of the share-based payment arrangements applicable are given in the group financial statements of the ultimate parent entity AMETEK Inc.

7 Directors' remuneration

	2019 £'000	2018 £'000
Remuneration for qualifying services	350	299
Company pension contributions to defined contribution schemes	21	21
	<u>371</u>	<u>320</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 2 (2018 - 4).

The number of directors who exercised share options during the year was 1 (2018 - 2).

The number of directors who received shares under long term incentive schemes during the year was 1 (2018 - 3).

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	181	151
Company pension contributions to defined contribution schemes	12	12
	<u>193</u>	<u>163</u>

The highest paid director has exercised share options during the year.

The highest paid director has received shares under a long term incentive scheme during the year.

J W Hardin is a US based director within the AMETEK group and does not provide any qualifying services to AEM Limited. E Speranza is a France based director within the AMETEK group and does not provide any qualifying services to AEM Limited. P Zetti is an Italian based director within the AMETEK group and does not provide any qualifying services to AEM Limited.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

8 Interest receivable and similar income

	2019 £'000	2018 £'000
Interest income		
Interest on bank deposits	8	7
Interest receivable from group companies	17	51
Total income	25	58

9 Interest payable and similar expenses

	2019 £'000	2018 £'000
Interest payable to group undertakings	18	68

10 Taxation

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profits for the current period	-	1,045
Deferred tax		
Origination and reversal of timing differences	14	(12)
Total tax charge	14	1,033

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2019 £'000	2018 £'000
Profit before taxation	4,191	5,089
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19%)	796	967
Tax effect of expenses that are not deductible in determining taxable profit	95	65
Effect of changes in tax rates	(2)	1
Group relief received for nil value	(875)	-
Taxation for the year	14	1,033

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

10 Taxation

(Continued)

Factors that may affect the future tax charge

The Company's profits for this accounting period are taxed at a rate of 19%. The standard rate of Corporation Tax was due to fall further to 17% with effect from 1 April 2020 and therefore closing deferred tax balances are stated at 17%. It was announced in the Budget on 11 March 2020 that the reduction to 17% will be reversed but as that change was not substantively enacted at the balance sheet date it is not reflected in these financial statements.

11 Dividends

	2019 £'000	2018 £'000
Ordinary dividend	3,251	7,883

12 Intangible fixed assets

	Goodwill £'000	Licences, patents and knowhow £'000	Total £'000
Cost			
At 1 January 2019 and 31 December 2019	5,558	80	5,638
Amortisation and impairment			
At 1 January 2019	2,348	64	2,412
Amortisation charged for the year	459	11	470
At 31 December 2019	2,807	75	2,882
Carrying amount			
At 31 December 2019	2,751	5	2,756
At 31 December 2018	3,210	16	3,226

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

13 Tangible fixed assets

	Freehold land and buildings	Short leasehold land and buildings	Plant and machinery	Fixtures, Motor vehicles fittings & equipment		Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January 2019	3,277	33	8,466	637	117	12,530
Additions	-	639	526	10	25	1,200
Intra group transfers	-	-	199	-	-	199
Disposals	-	-	(257)	(3)	(22)	(282)
At 31 December 2019	3,277	672	8,934	644	120	13,647
Depreciation and impairment						
At 1 January 2019	1,053	1	5,637	472	74	7,237
Depreciation charged in the year	80	11	585	74	21	771
Eliminated in respect of disposals	-	-	(243)	(3)	(4)	(250)
At 31 December 2019	1,133	12	5,979	543	91	7,758
Carrying amount						
At 31 December 2019	2,144	660	2,955	101	29	5,889
At 31 December 2018	2,224	32	2,829	165	43	5,293

Freehold land amounting to £267,000 (2018: £267,000) is not depreciated.

14 Stocks

	2019 £'000	2018 £'000
Raw materials and consumables	4,730	4,559
Work in progress	1,230	535
Finished goods and goods for resale	290	130
	<u>6,250</u>	<u>5,224</u>

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

15 Debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	3,001	3,234
Corporation tax recoverable	320	-
Amount due from fellow subsidiary undertakings	460	1,731
Other debtors	183	408
Prepayments and accrued income	153	203
	<u>4,117</u>	<u>5,576</u>
Deferred tax asset (note 16)	-	7
	<u>4,117</u>	<u>5,583</u>

16 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Liabilities	Assets
	2019	2018
	£'000	£'000
Balances:		
Decelerated capital allowances	(46)	(35)
Share based payment	39	42
	<u>(7)</u>	<u>7</u>
Movements in the year:		2019
		£'000
Asset at 1 January 2019		(7)
Effect of origination differences taken to income statement		14
Effect of tax rates taken to income statement		-
Liability at 31 December 2019		<u>7</u>

The effect of future changes in tax rates is not considered to have a material effect on the deferred tax balance.

The company expects deferred tax assets of £2,000 to reverse in 2020.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

17 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	4,321	3,661
Amounts due to fellow subsidiary undertakings	256	54
Corporation tax payable	-	1,336
Taxation and social security	176	-
Other creditors	568	444
Accruals and deferred income	412	387
	<u>5,733</u>	<u>5,882</u>

18 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Amounts due to fellow subsidiary undertakings	<u>456</u>	<u>3,027</u>

19 Provisions for liabilities

	Notes	2019 £'000	2018 £'000
Warranty provision		53	59
Deferred tax liabilities	16	7	-
		<u>60</u>	<u>59</u>

Movements on provisions apart from deferred tax liabilities:

	£'000
At 1 January 2019	59
Reversal of provision	(6)
At 31 December 2019	<u>53</u>

Provision has been made to meet customer warranty obligations that cover the past 12 months shipments and outstanding claims. the balance will be utilised during 2020.

20 Retirement benefit schemes

The total costs charged to income in respect of defined contribution schemes was £377,000 (2018: £313,000).

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

21 Share capital	2019	2018
	£'000	£'000
Ordinary share capital		
Allotted, issued and fully paid		
3,000,001 Ordinary shares of £1 each	<u>3,000</u>	<u>3,000</u>

22 Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

23 Profit and loss reserves

This account includes all current and prior period retained profits and losses.

24 Financial commitments, guarantees and contingent liabilities

The company has issued bank guarantees to the value of £10,000 (2018: £10,000).

25 Operating lease commitments

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019	2018
	£'000	£'000
Within one year	256	256
Between two and five years	963	942
In over five years	<u>1,097</u>	<u>1,321</u>
	<u>2,316</u>	<u>2,519</u>

26 Events after the reporting date

The company has made distributions amounting to £1,250,000 in respect of the year ending 31 December 2020 since 31 December 2019.

On 11 March 2020, the World Health Organization declared a pandemic relating to COVID 19. As outlined in note 1.2, the directors have considered the impact of COVID 19 risk factors in the Going Concern assessment over a period of twelve months after signing these financial statements.

AEM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

27 Ultimate controlling party

The immediate parent company is AMETEK Aerospace and Defense Group UK Limited, a company registered in England and Wales. The ultimate parent company is AMETEK Inc, a company incorporated in the United States of America.

AMETEK Inc. prepares group financial statements which include the company and are the smallest and largest consolidated accounts that the company is included in, copies of which can be obtained from P O Box 36, 2 New Star Road, Leicester LE4 9JQ.