

Registered Number: 2101607

AESSEAL plc
Annual Report
for the year ended 31 December 2018



AESSEAL plc

Annual Report

for the year ended 31 December 2018

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AESSEAL plc

Directors and advisers

Directors

C J Rea OBE DL

M O Williams

R Rea

G Bingham

A Colverson

C L Dickinson

R J Smith

J S Welsh

M J C McKervey

Company secretary

S M Dodd

Registered office

Global Technology Centre

Mill Close

Bradmarsh Business Park

Rotherham

S60 1BZ

Independent auditors

PricewaterhouseCoopers LLP

Central Square

29 Wellington Street

Leeds

LS1 4DL

Bankers

HSBC Bank plc

4th Floor, City Point

29 King Street

Leeds

LS1 2HL

AESSEAL plc

Strategic report for the year ended 31 December 2018

The directors present their strategic report on the company for the year ended 31 December 2018.

Principal activities

The company's principal activity during the year was the design, development, manufacture, sale and support of mechanical seals, engineered sealing systems and related products.

Our purpose

The company's purpose is to put customers at the heart of our business through providing exceptional customer service. Our customers have supported the expansion of our products, processes and the globalisation of our business.

Review of business and future developments

The results for the year to 31 December 2018 were strong with sales improving 9% to £51.9m (2017: £47.6m). We believe this growth will continue in 2019 and beyond as long as we continuously improve every aspect of our business that brings a benefit to our customers.

AESSEAL International subsidiaries have generated significant export sales growth in 2018, with a particularly strong performance from AESSEAL Malaysia, AESSEAL Inc, AESSEAL Saudi and AESSEAL Middle East.

Operating profit before exchange gain/losses increased 10% to £5.6m (2017: £5.1m) driven by sales volume and maintaining efficiencies. After exchange gains operating profit increased to £6.1m (2017: £4.5m).

Net assets as at 31 December 2018 were £29.0m (2017: £23.7m). Despite political uncertainty the company has continued to expand its manufacturing capacity in the business investing £4.1m on tangible assets. An additional £2.1m has been invested in new software development to improve efficiencies in the business process and reporting.

Research and development

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

The company now believes that it can seal as large a percentage of global applications, including Extreme Duty applications, as any other global mechanical seal supplier. Development will now focus on emerging technologies.

During the year to 31 December 2018 the company invested 7.6% of sales (2017: 8.4%) on research and development activities. Total research and development spend in 2018 was £4.0m (2017: £4.0m).

AESSEAL plc

Strategic report for the year ended 31 December 2018 - 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 company 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 company another unique competitive advantage.

Customer service excellence

Our determination to work to the very highest standards is exemplified by the certifications we hold at ISO9001 and 29001 (Quality Management), 14001 (Environmental Management), 18001 (Health and Safety), 20001 (IT Systems Management), and 50001 (Energy Management).

Principal risks and KPIs

The directors of AES Engineering Limited, the ultimate parent company, manage the group's risks and operations at a group level, rather than at an individual business unit level. For this reason, the company's directors believe that discussion of the group's risks and analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the company's business. The principal risks and uncertainties of the group, including credit, liquidity and cash flow risk of the company, and the development, performance and position of the company are discussed in the Directors' report of AES Engineering Limited's Annual Report which does not form part of this report.

AESSEAL plc

Strategic report for the year ended 31 December 2018 - continued

Withdrawal of the United Kingdom from the European Union

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

Approved by and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'C J Rea', is written over a light blue horizontal line.

**C J Rea OBE DL
Director
17 May 2019**

AESSEAL plc

Directors' report for the year ended 31 December 2018

The directors present their report and the audited financial statements of the company for the year ended 31 December 2018.

Details of principal risks, including financial risks, and KPIs are provided in the Strategic report.

Results and dividends

The profit and loss account for the year is set out on page 11. No dividend was paid in 2018 (2017: £1,500,000 (£30 per share)).

Directors

The directors who held office during the year and up to the date of signing are given below:

C J Rea OBE DL

M O Williams

R Rea

G Bingham

A Colverson

C L Dickinson

R J Smith

J S Welsh

M J C McKervey (appointed 10 September 2018)

G W Bridge (resigned 31 October 2018)

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 during the financial year and at the date of this report, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Charitable donations

The company gave £86,908 (2017: £21,415) for charitable purposes in the year. No political donations were made during the year (2017: £nil).

Employees

Communication is crucial to helping employees engage with the business. We communicate through team briefings, presentations, intranet and newsletters. The company 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. All employees contribute to and understand the company's business culture - particularly the needs of the customers it serves. The company uses employee surveys to establish feedback.

Directors' report for the year ended 31 December 2018 - continued

Employees - continued

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

The company 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.

The company 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 company'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.

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 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 company and of the profit or loss of the 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 company will continue in business.

The directors 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.

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.

AESSEAL plc

Directors' report for the year ended 31 December 2018 – continued

Statement of directors' responsibilities - continued

Directors' confirmations

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

- So far as each director is aware, there is no relevant audit information of which the 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 company's auditors are aware of that information.

Approved by and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'C J Rea'.

**C J Rea OBE DL
Director
17 May 2019**

AESSEAL plc

Independent auditors' report to the members of AESSEAL plc

Report on the audit of the financial statements

Our opinion

In our opinion, AESSEAL plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2018; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; the statement of accounting policies; and the notes to the financial statements.

Basis for opinion

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

Independence

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

Conclusion relating to going concern

ISAs (UK) require us to report to you when:

- 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

AESSEAL plc

Independent auditors' report to the members of AESSEAL plc - continued

Reporting on other information

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

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

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

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

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibility of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

AESSEAL plc

Independent auditors' report to the members of AESSEAL plc - continued

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Kevin Strauther (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
17 May 2019

AESSEAL plc

Profit and loss account for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	1	51,941	47,575
Change in stocks of finished goods and in work in progress		933	430
Other operating income		504	450
		53,378	48,455
Raw materials and consumables		(19,638)	(19,132)
Staff costs	2	(17,638)	(15,976)
Depreciation and amortisation		(2,921)	(2,613)
Other operating expenses		(7,058)	(6,272)
		(47,255)	(43,993)
Operating profit	3	6,123	4,462
Net interest receivable	4	45	127
Profit before taxation		6,168	4,589
Tax on profit	6	(1,064)	(838)
Profit for the financial year		5,104	3,751

All items dealt with in arriving at operating profit above relate to continuing operations.

AESSEAL plc

Statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		5,104	3,751
Remeasurement income recognised on forward contracts	13	65	4,111
Movement on deferred tax relating to forward contracts	17	(45)	(781)
Total other comprehensive income for the year		20	3,330
Total comprehensive income for the year		5,124	7,081

AESSEAL plc

Balance sheet as at 31 December 2018

Registered number: 2101607

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	8	3,407	2,620
Tangible assets	10	12,791	11,096
Investments	9	49	49
		16,247	13,765
Current assets			
Stocks	11	10,577	9,291
Debtors	12	15,629	14,120
Derivative financial assets	13	254	368
Cash at bank and in hand		2,772	340
		29,232	24,119
Creditors: amounts falling due within one year	14	(13,489)	(10,383)
Net current assets		15,743	13,736
Total assets less current liabilities		31,990	27,501
Creditors: amounts falling due after more than one year	15	(505)	(1,145)
Derivative financial liabilities	13	(2,444)	(2,623)
Net assets		29,041	23,733
Capital and reserves			
Called up share capital	18	50	50
Cash flow hedge reserve	13	(2,190)	(2,255)
Retained earnings		31,181	25,938
Total shareholders' funds		29,041	23,733

The financial statements on pages 11 to 32 were approved by the board of directors on 17 May 2019 and were signed on its behalf by:



C J Rea OBE DL
Director

AESSEAL plc

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital	Cash flow hedge reserve	Retained earnings	Total shareholders funds
	£000	£000	£000	£000
At 1 January 2017	50	(6,366)	24,370	18,054
Profit for the financial year	-	-	3,751	3,751
Total Other comprehensive income/(expense)	-	4,111	(781)	3,330
Dividends paid	-	-	(1,500)	(1,500)
Transfer to reserves in respect of equity settled share based payments	-	-	98	98
At 31 December 2017	50	(2,255)	25,938	23,733
Profit for the financial year	-	-	5,104	5,104
Total Other comprehensive income/(expense)	-	65	(45)	20
Transfer to reserves in respect of equity settled share based payments	-	-	184	184
At 31 December 2018	50	(2,190)	31,181	29,041

AESSEAL plc

Statement of accounting policies

General Information

AESSEAL plc's ('the company') principal activity is the design, development, manufacture, sale and support of mechanical seals, engineered sealing systems and related products.

The company is limited by shares, and is incorporated and domiciled in the UK. The address of its registered office is Global Technology Centre, Mill Close, Bradmarsh Business Park, Rotherham, S60 1BZ.

Statement of compliance

The individual financial statements of AESSEAL plc 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).

Summary of significant accounting policies

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

Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention as modified by the fair value basis for certain financial instruments and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

Exemptions for qualifying entities under FRS 102

The company is a wholly owned subsidiary of AES Engineering Limited. It is included in the consolidated financial statements of AES Engineering Limited which are publicly available.

Consequently the company is a qualifying entity as per FRS 100 and has taken advantage of the disclosure exemptions of FRS 102, Section 1, paragraph 1.12(b) statement of cash flows, 1.12(d) certain share based payments disclosures and 1.12(e) key management compensation in total.

Turnover

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

Tangible 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.

Statement of accounting policies - continued

Tangible assets and depreciation - continued

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

Buildings	1% straight line
Plant, fixtures and equipment	10-20% straight line
Motor vehicles	25% straight line
Short leasehold property	Equal instalments over period of lease

An asset under construction will be transferred to Plant, fixtures and equipment when it has reached the working condition for its intended use.

Intangible assets

Research and development of a revenue nature is written off in the year in which it is incurred.

Other development expenditure relating to specific projects is capitalised and is amortised over the period during which the company is expected to benefit.

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.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress, 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 stocks.

Deferred taxation

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax is not provided on timing differences arising from revaluation of fixed assets where there are no commitments to sell the assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax liabilities are not discounted.

Statement of accounting policies - continued

Pension costs

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

Foreign currency

The company's functional and presentation currency is the pound sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions or at an average rate where this rate approximates the actual rate at the date of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

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 statement.

Amounts accumulated in the cash flow hedge reserve are recycled in the profit and loss statement 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 the profit and loss statement. 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 the profit and loss statement.

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.

Statement of accounting policies - continued

Share based incentives

In accordance with FRS 102 the fair value of equity settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model.

In these financial statements, only the expense charged to the profit and loss account for the year is disclosed (note 3). The other disclosures required under FRS 102 are included in the financial statements of the parent company, AES Engineering Limited.

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 separate component of the company's reserves and has no significance other than being the historical accumulation of the FRS 102 expense.

Government grants

Government grants are recognised in the financial statements initially as deferred income when there is reasonable assurance that they will be received and conditions attached to the grants will be adhered to. Grants that compensate for expenses incurred are recognised as other income in the profit and loss account in the same period in which the expenses are recognised. Grants that compensate for the cost of an asset are recognised in the financial statements as other income over the useful life of the asset.

Dividends

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

Investments

Investments are shown at cost less any amounts written off for permanent diminution of value.

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

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

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, economic utilisation and the physical condition of the assets. See note 10 for the carrying values of plant, property and equipment.

Statement of accounting policies – continued

Critical accounting estimates and judgements – continued

(b) Inventory provisioning

The company 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 11 for the net carrying amount of the inventory.

(c) Capitalised development costs

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

AESSEAL plc

Notes to the financial statements for the year ended 31 December 2018

1 Turnover

The company's turnover and operating profit relate entirely to its principal activity.

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

2 Staff costs

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

By activity	2018 Number	2017 Number
Sales engineers	26	26
Management and administration	186	179
Production and stores	255	233
	467	438
Staff costs for the above persons were:	2018 £'000	2017 £'000
Wages and salaries	15,972	14,354
Social security costs	1,423	1,361
Other pensions costs	243	261
	17,638	15,976

AESSEAL plc

Notes to the financial statements for the year ended 31 December 2018 - continued

3 Operating profit

	2018 £'000	2017 £'000
Operating profit is stated after (crediting)/charging:		
Depreciation of owned tangible assets	2,059	1,742
Depreciation of tangible assets held under hire purchase contracts	320	320
Amortisation of intangible assets	542	551
Auditors' remuneration including expenses		
- audit	25	24
- non-audit services	-	-
Operating leases - property	37	37
Research and development costs	3,972	4,030
Equity settled share based payments	184	98
Net foreign currency exchange (gains)/losses	(563)	562
(Profit) on disposal of fixed assets	(12)	(35)

4 Net interest receivable

	2018 £'000	2017 £'000
Interest receivable from other group companies	89	178
Interest payable on hire purchase obligations and finance leases	(28)	(46)
Interest payable on bank overdrafts	(16)	(5)
Net interest receivable	45	127

AESSEAL plc

Notes to the financial statements for the year ended 31 December 2018 - continued

5 Directors' emoluments

	2018 £'000	2017 £'000
Emoluments including benefits in kind	839	749
Company pension contributions to money purchase scheme	29	32
Gain on exercise of share options	18	-
	886	781

Retirement benefits are accruing to eight (2017: six) directors under a money purchase scheme. During the year one (2017: no) director of AESSEAL plc exercised share options in AES Engineering Limited. There were no (2017: four) directors of AESSEAL plc to whom share options were granted during the year.

Highest paid director	2018 £'000	2017 £'000
Emoluments including benefits in kind	200	200
Company pension contributions to money purchase scheme	18	18
	218	218

**Notes to the financial statements
for the year ended 31 December 2018 - continued**

6 Tax on profit

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax on profits of the year	1,078	794
Adjustments in respect of prior years	5	(55)
Current tax charge for the year	1,083	739
Deferred tax: timing differences (note 17)	(19)	99
Tax on profits	1,064	838

Corporation tax is calculated at 19.00% (2017: 19.25%) of the estimated assessable profit for the year. As a result of the change in the UK corporation tax rate from 20% to 19% effective from 1 April 2017, substantively enacted on 26 October 2015, and from 19% to 17% effective from 1 April 2020, substantively enacted on 6 September 2016, deferred tax balances at the year end have been measured at 17.5% (2017: 19%) being the rate at which timing differences are expected to reverse.

The tax charged on the profit for the year is lower (2017: lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	2018 £'000	2017 £'000
Profit before taxation	6,168	4,589
Profit before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	1,172	883
Effects of:		
Expenses not deductible for tax purposes	(121)	4
Other reliefs	(75)	(42)
Adjustment in respect of prior years	5	(55)
Origination and reversal of timing differences	83	48
Tax charge for the year	1,064	838

AESSEAL plc

Notes to the financial statements for the year ended 31 December 2018 - continued

7 Dividends

	2018 £'000	2017 £'000
Ordinary dividend paid: £0 per share (2017: £30 per share)	-	1,500

8 Intangible assets

	Deferred Development expenditure £'000	Software under development £'000	Total £'000
Cost			
At 1 January 2018	6,389	1,257	7,646
Additions	443	886	1,329
At 31 December 2018	6,832	2,143	8,975
Accumulated depreciation			
At 1 January 2018	5,026	-	5,026
Charge for the year	542	-	542
At 31 December 2018	5,568	-	5,568
Net book value			
At 31 December 2018	1,264	2,143	3,407
At 31 December 2017	1,363	1,257	2,620

AESSEAL plc

Notes to the financial statements for the year ended 31 December 2018 - continued

9 Investments

	£'000
At 1 January 2018 and 31 December 2018	49

Interest in group undertakings

The undertakings of the company at 31 December 2018, all of which are included in the group consolidated financial statements, are shown below;

Name	Registered address	Class of share	% held
AESSEAL Colombia SA	Calle 25G No. 85B - 65 Barrio Santa Cecilia de Modelia	Ordinary	1.5
AESSEAL Saudi Arabia Company Limited	2nd Industrial City, Mekkahh Street, Dammam 34334, P.O Box 6770	Ordinary	5

The directors believe that the carrying value of the investments is supported by the underlying net assets of the investments.

AESSEAL Colombia SA and AESSEAL Saudi Arabia Company Limited both operate as distributors of mechanical seals, have a year end of 31 December 2018 and are fully owned by the AES Engineering Limited group, of which AESSEAL plc is a part.

**Notes to the financial statements
for the year ended 31 December 2018 - continued**

10 Tangible assets

	Land and buildings	Plant, fixtures and equipment	Assets under construction	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2018	376	30,548	2,733	891	34,548
Additions	-	3,690	281	140	4,111
Disposals	-	(63)	-	(48)	(111)
Transfer	-	2,733	(2,733)	-	-
At 31 December 2018	376	36,908	281	983	38,548
Accumulated depreciation					
At 1 January 2018	56	22,856	-	540	23,452
Charge for the year	4	2,219	-	156	2,379
Disposals	-	(26)	-	(48)	(74)
At 31 December 2018	60	25,049	-	648	25,757
Net book value					
At 31 December 2018	316	11,859	281	335	12,791
At 31 December 2017	320	7,692	2,733	351	11,096

The cost of depreciable assets included in land and buildings is £376,000 (2017: £376,000).

The net book value of tangible assets includes an amount of £1,539,000 (2017: £1,859,000) in respect of assets held under hire purchase contracts or finance leases.

**Notes to the financial statements
for the year ended 31 December 2018 - continued****11 Stocks**

	2018	2017
	£'000	£'000
Raw materials, work in progress and consumables	2,335	1,982
Finished goods and goods for resale	8,242	7,309
	10,577	9,291

12 Debtors

	2018	2017
	£'000	£'000
Trade debtors	3,733	3,128
Amounts owed by group undertakings	9,659	8,814
Other debtors	1,417	1,443
Prepayments and accrued income	820	735
	15,629	14,120

Amounts owed by group undertakings are trading balances which are unsecured, interest free and repayable on demand.

13 Derivative financial assets and liabilities

	2018	2017
	£'000	£'000
Derivative financial assets measured at fair value	254	368
Derivative financial liabilities measured at fair value	(2,444)	(2,623)
	(2,190)	(2,255)

At 31 December 2018 the company held forward exchange contracts to sell \$54,300,000 (2017: \$25,500,000) and €58,300,000 (2017: €59,650,000) at exchange rates ranging between \$1.288 - \$1.507 and €1.06 - €1.30 respectively. Of these \$22,500,000 (£16,900,000) and €17,520,000 (£15,110,000) fall due within one year (2017: \$16,800,000 (£11,589,000) and €19,500,000 (£16,244,000)).

**Notes to the financial statements
for the year ended 31 December 2018 - continued****13 Derivative financial assets and liabilities – continued**

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 £1,951,000 (2017: £2,702,000).

Compared to market rates at year end, the amounts receivable under these contracts give rise to a gain in other comprehensive income of £65,000 (2017: £4,111,000 Gain).

14 Creditors: amounts falling due within one year

	2018	2017
	£'000	£'000
Bank loans and overdrafts	1,407	3,104
Obligations under finance leases and hire purchase agreements	630	669
Trade creditors	2,488	2,302
Amounts owed to group undertakings	5,917	1,021
Corporate tax payable	576	408
Other taxation and social security	131	28
Accruals and deferred income	2,093	2,630
Deferred Taxation (note 17)	247	221
	13,489	10,383

Amounts owed to group undertakings are unsecured, at a market rate of interest and repayable on demand.

15 Creditors: amounts falling due after more than one year

	2018	2017
	£'000	£'000
Obligations under finance leases and hire purchase agreements	-	630
Accruals and deferred income	505	515
	505	1,145

Deferred income represents unrecognised grant income. In 2018 £218,000 (2017: £158,000) was recognised within the profit and loss account within other income.

**Notes to the financial statements
for the year ended 31 December 2018 - continued**

16 Obligations under finance leases and hire purchase agreements

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

	2018	2017
	£'000	£'000
Due within one year	639	697
Between one and five years	-	639
Total gross payments	639	1,336
Less finance charges included above	(9)	(37)
	630	1,299

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

17 Provision for liabilities

Deferred taxation	2018	2017
	£'000	£'000
At 1 January	221	(659)
Origination of timing differences on profit related activities	(19)	99
Origination of timing differences within other comprehensive income	45	781
At 31 December	247	221

Deferred taxation provided in the financial statements comprises:	2018	2017
	£'000	£'000
Timing differences:		
Accelerated capital allowances	662	668
Other timing differences	(32)	(19)
Derivative financial assets and liabilities	(383)	(428)
	247	221

AESSEAL plc

Notes to the financial statements for the year ended 31 December 2018 - continued

18 Called up share capital

	2018 £'000	2017 £'000
Authorised		
50,000 (2017: 50,000) ordinary shares of £1 each	50	50
Allotted and fully paid		
50,000 (2017: 50,000) ordinary shares of £1 each	50	50

There have been no changes during the year.

19 Capital and other financial commitments

Plant, fixtures and equipment	2018 £'000	2017 £'000
Capital expenditure authorised and contracted for	3,762	619

20 Leasing commitments

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

Land and buildings	2018 £'000	2017 £'000
Within one year	37	37
Between two to five years	106	123
After five years	787	807
	930	967

**Notes to the financial statements
for the year ended 31 December 2018 - continued****21 Pension commitments**

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

Outstanding contributions payable to the schemes by the company are included in the pension cost charge in respect of the year and amount to £95,279 (2017: £56,927).

22 Related party transactions and balances

AESSEAL plc had the following transactions and balances with related parties that were not wholly owned subsidiaries or wholly owned by a member of the AES Engineering Limited group.

Sales and purchases	2018	2017
	£'000	£'000
Sales	9,407	8,851
Purchases	552	630
Year end balances		
Amounts due to	53	135
Amounts due from	1,477	1,701

23 Contingent liability

Along with the other group undertakings based in the United Kingdom, the company has given security in favour of HSBC Bank plc against group borrowings by way of an unlimited multilateral company guarantee to secure all liabilities of each other, and a debenture giving fixed and floating charges over assets of the company. At 31st December 2018 the net HSBC overdraft balance in the company was £nil (2017: £3.0m). The gross overdraft balance in the other companies covered by the multilateral guaranteed was £nil (2017: £nil).

In the opinion of the directors, no loss will arise in respect of this matter.

**Notes to the financial statements
for the year ended 31 December 2018 - continued**

24 Parent undertaking and ultimate controlling party

The ultimate parent undertaking, and the largest and smallest group in which the results of the company are consolidated, is AES Engineering Limited, a company incorporated in Great Britain.

Copies of the consolidated 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.

The ultimate controlling party is considered to be Mr C J Rea OBE DL, by virtue of his shareholding in AES Engineering Limited.