

2017

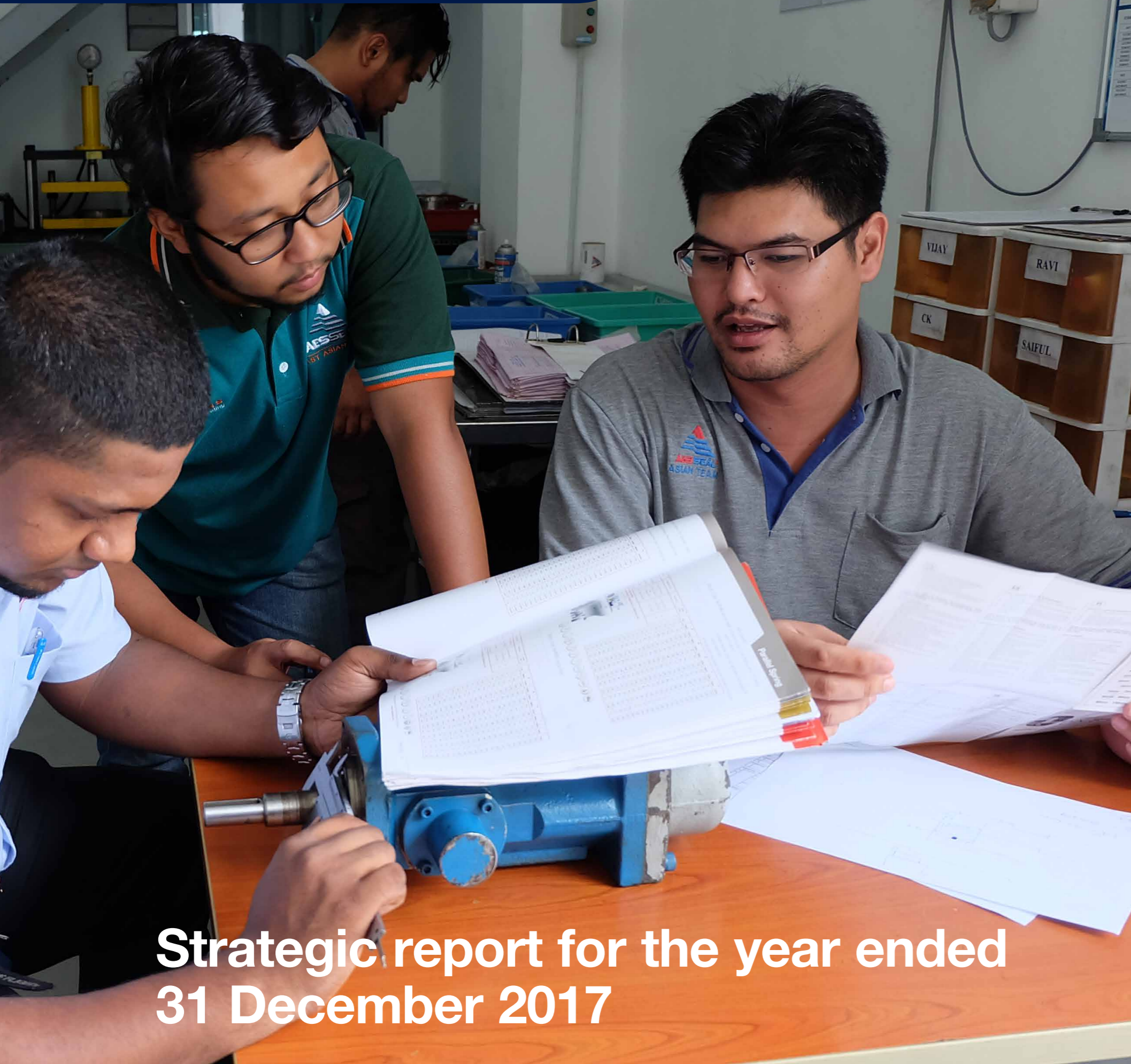
A.E.S. Engineering Limited
Summary of Annual Report



Reliability - it's in our DNA

A.E.S. Engineering Limited is the holding company of the AESSEAL group of companies, AV Technology Ltd, AVTPump Ltd, First4Seals, ProPack Dichtungen und Packungen AG and others.

Full details can be found in our published accounts



Strategic report for the year ended 31 December 2017



The directors present their strategic report on the company and the group for the year ended 31 December 2017.

Principal Activities

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

Our Purpose

The group's purpose is to put customers at the heart of our business through providing exceptional customer service. Our customers have supported the expansion of our products, processes and the globalisation of our business. We believe that our growth will continue in 2018 and beyond, as long as we continuously improve every aspect of our business that brings a benefit to our customers.



Review of the business and future developments

Sales increased by 12.5% to £170.6m (2016: £151.7m), on a basis adjusted for acquisitions and currency fluctuations in the year organic sales growth was 6.7%. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased 13.6% to £30.0m (2016: £26.4m). On a currency adjusted basis the percentage increase was 9.1%.

Group net assets as at 31 December 2017 were £103.5m (2016: £90.6m), an increase of 14.2% on the 2016 year end. Strong cash performance means that the group held a positive cash balance of £17.4 million at the year end, after increasing capital expenditure, which included investment of £6.8m in additional 9 and 11 axis machining capacity. This further investment is not only to service increased demand but also to support the group's stride to take advantage of digitalisation and the internet of things.

Despite a climate of continuing political and economic uncertainty, the AES group has delivered a strong result for 2017 and is confident of progressing positively into 2018 and beyond. Our confidence for the future is built on the excellence of our product and service offering, and the business model and value proposition of the group, which is unique in the industry sector. These attributes will ensure the sustainability of the existing business with its highly valued existing customers and are increasingly attractive for new customers.

Research and development

Following thirty 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, Extreme Pressure and Temperature Autoclave and Dry Gas Compressor Seals.

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





Key competitive advantage

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

All product ranges from Component (Single) Seals to Gas Seals have now been developed in strict accordance with DCVIL principles. Product and process Design (D) for Configured (C) assembly to order, with a high level

of Vertical Integration (VI) for Customer Service, which leads to a Lean (L) business model that does not exist in any other global mechanical seal manufacturer and which cannot easily be replicated and provides a key and sustainable competitive advantage.

Major productivity improvement

The group has embarked on an initiative to automate all design, Computer Aided Manufacturing and Co-ordinate Measuring activities which has been made possible as products have been designed in accordance with the DCVIL principle and rules based technology tasks are better performed by Smart computing technology. This 2 year 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 people do better.

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





The Integration of **Mechanical, Electrical and Software Engineering**

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

The business believes that it is at the forefront of our industry in the provision of web based software driven analysis and reporting for many frequently occurring and preventable equipment failures, with the attendant reduction in plant reliability. The group has developed and introduced to the market Machine Sentry Mobile, the world's lowest cost professional reliability mobile data collector, which was added to by the introduction of an ATEX version. Fixed data collectors and devices for use in mechanical seals and support systems are all under development.

The directors of the company firmly believe, however,

that the real value is in the Software Suite and the 30 years of data which is available on a secure Web Portal and includes millions of measurements collected on rotating equipment dimensions and running conditions.

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

Global Footprint and Customer Service Excellence

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

Our determination to work to the very highest standards is exemplified by the certifications we hold

at ISO9001 and 29001 (Quality Management), 14001 (Environmental Management), 18001 (Health and Safety), 20001 (IT Systems Management), and 50001 (Energy Management). Our detailed understanding of equipment reliability enables us to add value, not only as suppliers of product but as equipment reliability consultants to our customers, and we will continue to work with uncompromising integrity in each of the 104 countries where we provide products and services.



Group profit and loss account for the year ended 31 December 2017

	2017 £000	2016 £000
Turnover - continuing operations	170,100	151,726
Turnover - acquisitions	459	-
Turnover	170,559	151,726
Change in stocks of finished goods	1,608	2,846
Other operating income	620	508
	172,787	155,080
Raw materials and consumables	(59,636)	(54,177)
Staff costs	(61,010)	(57,023)
Depreciation and amortisation	(6,098)	(5,642)
Other operating charges	(22,063)	(17,532)
Exceptional operating items	-	(873)
	(148,807)	(135,247)
Operating profit - continuing operations	23,922	19,833
Operating profit - acquisitions	58	-
Operating profit	23,980	19,833
Share of operating (loss)/profit of joint ventures	(54)	65
Profit on ordinary activities before interest and taxation	23,926	19,898
Net interest payable and similar charges	(126)	(175)
Profit on ordinary activities before taxation	23,800	19,723
Tax on profit on ordinary activities	(6,303)	(5,187)
Profit on ordinary activities after taxation	17,497	14,536
Minority interests (all equity)	(1,371)	(1,256)
Profit for the financial year	16,126	13,280

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

Group balance sheet as at 31 December 2017

	2017 £000	2016 £000
Fixed assets		
Intangible assets	13,949	13,318
Tangible assets	37,435	34,258
	51,384	47,576
Current assets		
Stocks	28,370	26,387
Debtors	38,809	35,582
Derivative financial assets	368	446
Cash at bank and in hand	17,378	12,505
	84,925	74,920
Creditors: amounts falling due within one year	(28,600)	(23,304)
Net current assets	56,325	51,616
Total assets less current liabilities	107,709	99,192
Creditors: amounts falling due after more than one year	(1,597)	(1,738)
Derivative financial liabilities	(2,623)	(6,812)
Net assets	103,489	90,642
Capital and reserves		
Called up share capital	1,521	1,524
Share premium account	7,035	7,035
Capital redemption reserve	3,003	3,000
Cash flow hedge reserve	(2,255)	(6,366)
Retained earnings	87,445	80,702
Total shareholders' funds	96,749	85,895
Minority interests (all equity)	6,740	4,747
Capital employed	103,489	90,642

AESSEAL (MCK) Limited (Belfast)
 AESSEAL Malaysia Sdn Bhd (Asian Regional HQ)
 AESSEAL Malaysia Sdn Bhd (East Coast Branch)
 AESSEAL Malaysia Sdn Bhd (Northern Branch)
 AESSEAL Malaysia Sdn Bhd (Singapore Branch)
 AESSEAL Argentina SA
 AESSEAL Australia Pty Ltd (Adelaide Branch)
 AESSEAL Australia Pty Ltd (Brisbane Head Office)
 AESSEAL Australia Pty Ltd (Perth Branch)
 AESSEAL Australia Pty Ltd (Sydney Branch)
 AESSEAL Benelux BV
 AESSEAL Botswana Pty Limited
 AESSEAL Brasil Ltda
 AESSEAL Canada Inc.
 AESSEAL Caribbean Limited (Trinidad)
 AESSEAL Chile SA
 AESSEAL China Ltd (Dalian)
 AESSEAL China Ltd (Jinan)
 AESSEAL China Ltd (Nanjing)
 AESSEAL China Ltd. (Ningbo)
 AESSEAL China Ltd (Shanghai)
 AESSEAL China Ltd (Wuhan)
 AESSEAL Coj SARL (Algeria)
 AESSEAL Colombia SA
 AESSEAL Czech s.r.o.
 AESSEAL Denmark A-S
 AESSEAL Deutschland GmbH
 AESPUMP GmbH
 AESSEAL Finland Oy
 AESSEAL France SAS
 AESSEAL Iberica S.L. (Spain)
 AESSEAL Inc. (Kingsport Office)
 AESSEAL Inc. (Tennessee, Main Office)
 AESSEAL Inc. (MW Division)
 AESSEAL Inc. (NE Division)
 AESSEAL Inc. (NW Division)
 AESSEAL India Private Limited (Pune)
 AESSEAL India Private Limited (Chennai)
 AESSEAL Ireland Limited
 AESSEAL Italia s.r.l.
 AESSEAL Madagascar
 AESSEAL Mexico S. DE R.L. DE C.V. (Coatzacoalcos)

AESSEAL Mexico S. DE R.L. DE C.V. (Tampico)
 AESSEAL Middle East FZE
 AESSEAL Namibia (Pty) Limited
 AESSEAL Nordic (Norway) AS
 AESSEAL Nordic (Sweden) AB
 AESSEAL Oryx LLC (Qatar)
 AESSEAL plc (Bradford, UK)
 AESSEAL plc (Derby, UK)
 AESSEAL plc (Rotherham, UK Head Office)
 AESSEAL plc (Middlesbrough, UK)
 AESSEAL plc (Port Talbot, UK)
 AESSEAL plc (Upminster, UK)
 AESSEAL plc Austria
 AESSEAL plc (Rhône Alpes, Switzerland)
 AESSEAL Polska Sp. z o.o.
 AESSEAL Pty Ltd (Cape Town)
 AESSEAL Pty Ltd (Durban)
 AESSEAL Pty Ltd (Johannesburg)
 AESSEAL Pty Ltd (Kuruman)
 AESSEAL Pty Ltd (Port Elizabeth)
 AESSEAL Pty Ltd (Richards Bay)
 AESSEAL Pty Ltd (Sasolburg)
 AESSEAL Pty Ltd (Swakopmund)
 AESSEAL Pty Ltd (Secunda)
 AESPUMP Pty Ltd (Secunda)
 AESSEAL Russia
 AESSEAL Saudi Arabia Co. Ltd.
 AESSEAL Singapore PTE. Ltd
 AESSEAL Sızdermazlık Sistermleri Ticaret Limited Sirketi (Turkey)
 AESSEAL Taiwan co., ltd (Mai Liao)
 AESSEAL Taiwan co., ltd (Ren Wu)
 AESSEAL Univeda LDA (Portugal)
 Sealtec PLC SA (Uruguay)
 AVTPUMP Ltd (Warrington, UK)
 AVTPUMP Ltd (Grangemouth, UK)
 AVTPUMP Ltd (Gloucester, UK)
 AV Technology Limited (Warrington, UK Head office)
 AV Technology Limited (Kirkcaldy, UK)
 AVT Reliability Ireland Limited (Cork, Ireland)
 AVT Reliability BV (Breda, The Netherlands)

Registered office

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 Global Technology Centre
 Mill Close,
 Rotherham S60 1BZ

Tel: +44 (0)1709 369966



*Business Dependent Externally Verified Excellence Credentials



2016
 Sword of Honour



2006
 Business of the Year in the National Chambers of Commerce Awards



2005-2012
 Platinum Status in the Environment Index and Climate Change Champion



2009
 UK Excellence Award



2009
 BVCA Award for "Best Corporate & Environmental Responsibility"



2006 & 2011
 Overall Winner of the Manufacturing Excellence Awards



2016
 Winners of 13 Queen's Awards for Industry, Sustainable Development and Innovation



2016
 Globe of Honour