



EXPERIENCE THE EXCEPTIONAL

2018

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



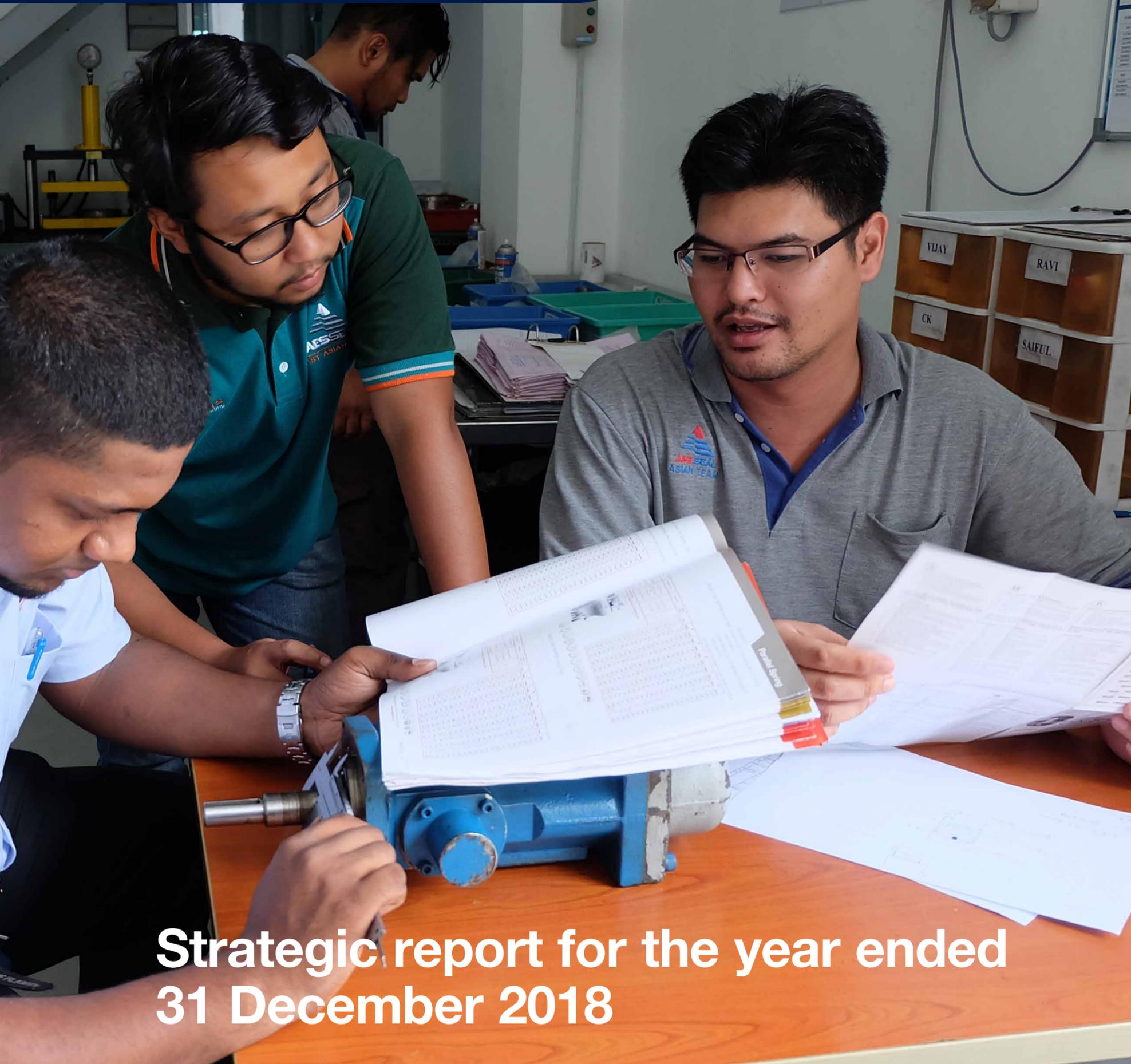
The Lord Mayor's Dragon Award
**Business of Trust
Champion***

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

*See page 13 or visit www.aesseal.com for more details



Strategic report for the year ended 31 December 2018



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

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 2019 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 6.3% to £181.3m (2017: £170.6m), on a basis adjusted for acquisitions and currency fluctuations in the year organic sales growth was 8%. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased 15.7% to £34.7m (2017: £30.0m). On a currency adjusted basis the percentage increase was 17.4%.

Group net assets as at 31 December 2018 were £122.8m (2017: £103.5m), an increase of 18.6% on the 2017 year end. Strong cash performance means that the group held a positive cash balance of £16.5 million at the year end, after increasing capital expenditure, which included investment in additional 9 and 11 axis machining capacity. This further investment is not only to service increased demand but also to support the group'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 2018 and is confident of progressing positively into 2019 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 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 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.





AESSEAL® is a UK leader in customer satisfaction, according to UK's largest independent customer satisfaction survey UKCSI, earning top scores and beating giants including Amazon, John Lewis, Apple and IKEA.



Key competitive advantage

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

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

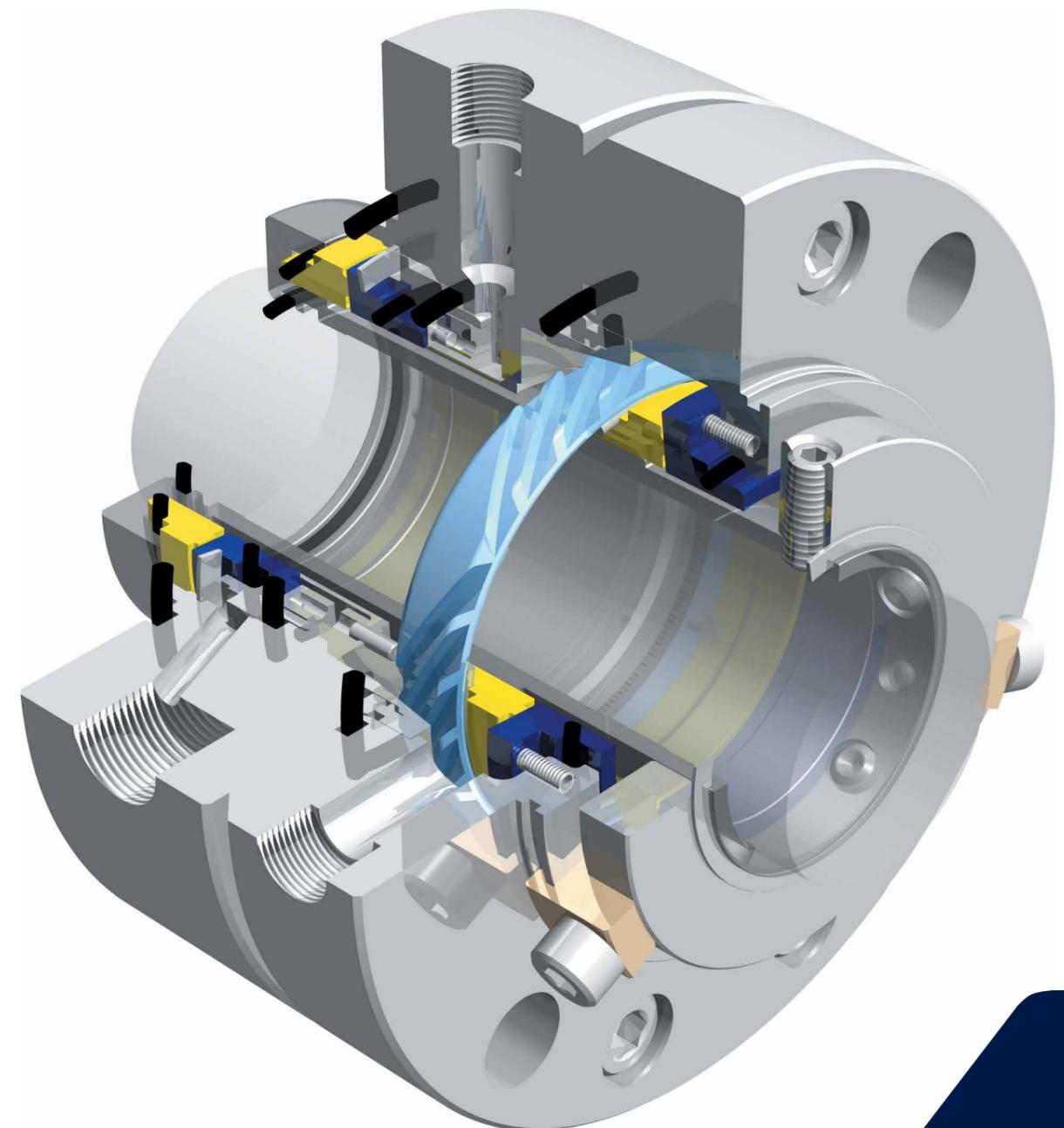
of Vertical Integration (VI) for Customer Service, which leads to a Lean (L) business model that does not exist in any other global mechanical seal manufacturer and which cannot easily be replicated and provides a key and sustainable competitive advantage.

Major productivity improvement

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

decision making that can only be performed by a human being.

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





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

It is the view of the directors of the 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 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.





Developing Tomorrow's Engineers

It is widely recognised that the future growth of our business is highly dependent on our ability to attract and retain the best talent across all of the disciplines required to operate.

Engineering outreach and engagement is not a 'programme' – it's a culture which is embedded in our working day and is supported formally and informally by colleagues in every discipline and at every level.

AESSEAL® work to engage young people in science, technology, engineering and mathematics (STEM) subjects and promote careers in engineering permeates the daily working life of the team. Key activities in 2018

included: more than 300 hours spent with pupils in local schools, donated a further £50,000 to Sheffield University to help attract more women into engineering, supported a maths program and funded school libraries in the townships around Johannesburg, South Africa.

The award winning apprenticeship scheme saw the recruitment of 40 apprentices across all aspects of the business operations ensuring the development of talent for the future.

“AESSEAL® is the World's Largest Homogeneous Mechanical Seal Manufacturer.”



2018: Year of Awards

Over the history of AESSEAL® the business has won many awards and 2018 was no exception. In May AESSEAL® won the Made In Sheffield Apprenticeship/ Training Scheme of the Year and on the same evening the International Trade Award at the Yorkshire Business Masters. AESSEAL® were awarded the Princess Royal Training Award, this prestigious award was in recognition of its outstanding training and development programme. For its work in encouraging young people into engineering AESSEAL® won the Engineering Ambassador of the Year at the British Engineering Excellence Awards. At the same event the company was made the overall winner beating competition from giants

such as Jaguar Landrover and RS Components.

Our commitment to ethical business practice was recognised, as the company was proud to awarded the inaugural Business of Trust Champion at the Lord Mayor's Dragon Awards in September.

In recognition of many outstanding individuals in the business, apprentices Amber Nicholson, Nathan Wall and Ryan Morris won Apprentice of the Year awards in their respective regions. Managing Director Chris Rea was presented with a lifetime achievement award for his outstanding contribution to the pump industry at the Pump Industry Awards.

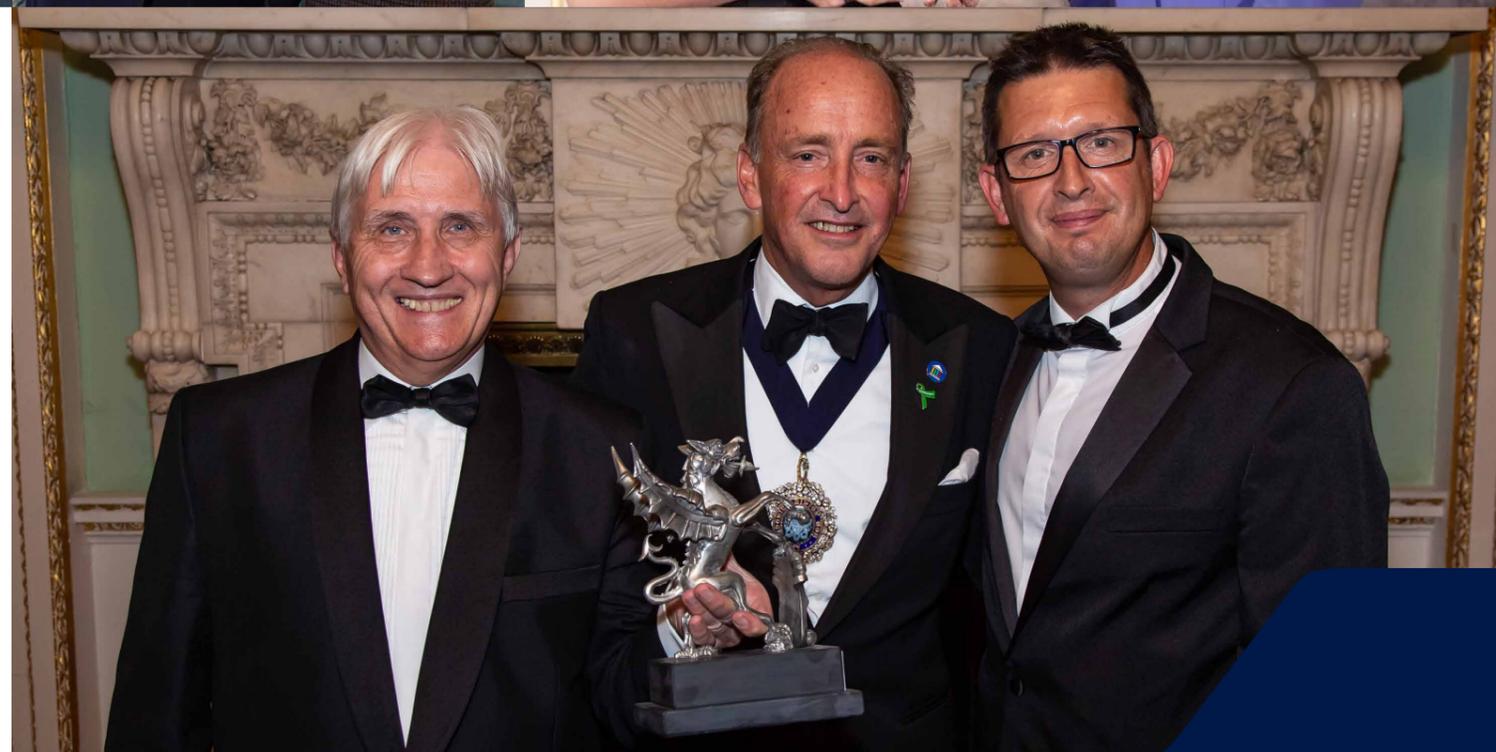


Conducting Business Responsibly

At AESSEAL® we recognize the need to protect the natural environment, ensure the health and safety of our people and commit to sustainability. An embedded and comprehensive Corporate Social Responsibility Strategy underpins our global business ethos and our operational practices. As a matter of policy we are dedicated to surpassing expectations.

We recognise the individual requirements of all stakeholders; our customers, employees, neighbours, partners and the community alike.

In the UK, through the AESSEAL® Charitable Trust we provide ongoing support for South Yorkshire's community organisations. The Trust which is managed by the South Yorkshire Community Foundation provides grants to a wide range of organisations each year. In 2018 the Group gave £146,000 for charitable purposes, beneficiaries included: Youth Social Action, United Multicultural Centre, Active Regen Community Foundation and many more. Overseas key activities included supporting: maths programs and school libraries in South Africa, school sports teams, under privileged children and veterans in the USA.



Group profit and loss account for the year ended 31 December 2018

	2018 £000	2017 £000
Turnover - continuing operations	181,274	170,100
Turnover - acquisitions	-	459
Turnover	181,274	170,559
Change in stocks of finished goods	5,770	1,608
Other operating income	563	620
	187,607	172,787
Raw materials and consumables	(64,094)	(59,636)
Staff costs	(65,804)	(61,010)
Depreciation and amortisation	(7,012)	(6,098)
Other operating charges	(23,082)	(22,063)
	(159,992)	(148,807)
Operating profit - continuing operations	27,615	23,922
Operating profit - acquisitions	-	58
Operating profit	27,615	23,980
Share of operating (loss)/profit of joint ventures	5	(54)
Share of operating profit of associates	60	-
Amortisation of associate goodwill	(3)	-
Profit on ordinary activities before interest and taxation	27,677	23,926
Net interest payable and similar charges	1	(126)
Profit on ordinary activities before taxation	27,678	23,800
Tax on profit on ordinary activities	(6,893)	(6,303)
Profit on ordinary activities after taxation	20,785	17,497
Minority interests (all equity)	(1,578)	(1,371)
Profit for the financial year	19,207	16,126

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

Group balance sheet as at 31 December 2018

	2018 £000	2017 £000
Fixed assets		
Intangible assets	14,161	13,949
Tangible assets	40,691	37,435
Investments	608	-
	55,460	51,384
Current assets		
Stocks	34,310	28,370
Debtors	41,615	38,809
Derivative financial assets	254	368
Cash at bank and in hand	16,464	17,378
	93,643	84,925
Creditors: amounts falling due within one year	(23,351)	(28,600)
Net current assets	70,292	56,325
Total assets less current liabilities	125,752	107,709
Creditors: amounts falling due after more than one year	(549)	(1,597)
Derivative financial liabilities	(2,444)	(2,623)
Net assets	122,759	103,489
Capital and reserves		
Called up share capital	1,521	1,521
Share premium account	7,035	7,035
Capital redemption reserve	3,003	3,003
Cash flow hedge reserve	(2,190)	(2,255)
Retained earnings	107,098	87,445
Total shareholders' funds	116,467	96,749
Minority interests (all equity)	6,292	6,740
Capital employed	122,759	103,489

AESSEAL (MCK) Limited (Belfast, UK)
 AESSEAL Malaysia Sdn Bhd (Asian Regional HQ)
 AESSEAL Malaysia Sdn Bhd (East Coast Branch)
 AESSEAL Malaysia Sdn Bhd (Northern 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 Austria GmbH
 AESSEAL Benelux B.V.
 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 Ningbo Limited (China)
 AESSEAL China Ltd (Shanghai)
 AESSEAL China Ltd (Wuhan)
 AESSEAL Coj SARL (Algeria)
 AESSEAL Colombia SA
 AESSEAL Czech s.r.o.
 AESSEAL Danmark A/S
 AESSEAL Deutschland GmbH
 AESPUMP GmbH
 AESSEAL Finland OY
 AESSEAL France SAS
 AESSEAL Iberica S.L. (Spain)
 AESSEAL Inc. (Kingsport, USA)
 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 SARL.
 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 AS (Norway)
 AESSEAL Nordic AB (Sweden)
 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 (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 Rus (Russia)
 AESSEAL Saudi Arabia Co. Ltd.
 AESSEAL Singapore PTE Limited
 AESSEAL Sızdermazlık Sistemleri 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)
 AVT Reliability Limited (Warrington, UK Head office)
 AVT Reliability Limited (Kirkcaldy, UK)
 AVT Reliability (Ireland) Limited (Cork, Ireland)
 AVT Reliability B.V. (Breda, The Netherlands)

Registered office

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***Business Dependent Externally Verified Excellence Credentials**



*All externally verified excellence credentials are business unit specific. Certification that includes the full scope of any approval is available on request.
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