Avingtrans

PINPOINT-INVEST-EXIT

2018 Annual Report

About

Avingtrans plc has a proven strategy of “buy and build” in highly regulated engineering markets, a strategy it has named “Pinpoint-Invest-Exit”. Significant shareholder value is delivered through a clear strategy, a strong balance sheet and an agile and experienced management team.

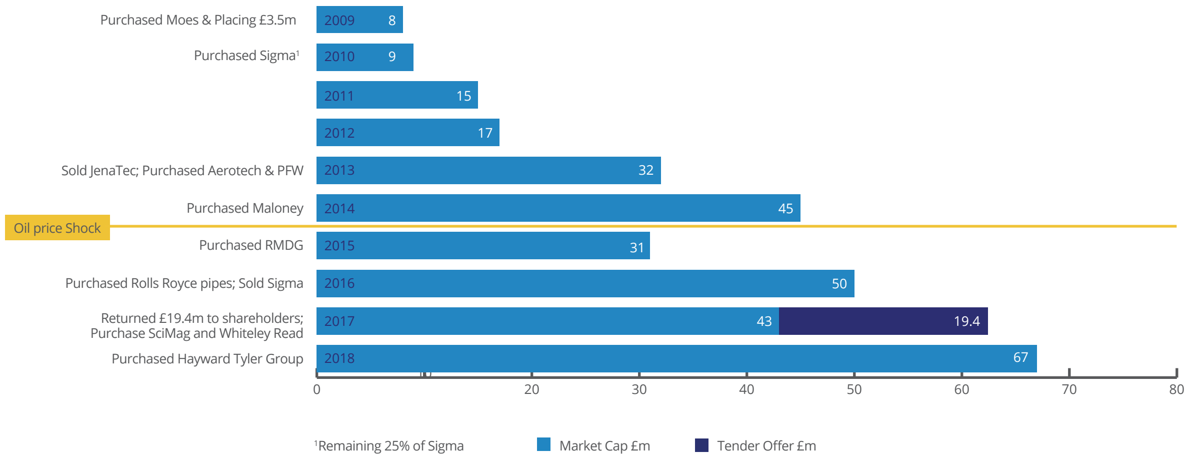
www.avingtrans.plc.uk

About us

Delivering shareholder value through a proven strategy of Pinpoint-Invest-Exit in highly regulated global engineering markets

The Group has a proven track record in delivering shareholder value through PIE:

- Identifying and executing prudent deals with precision and speed
- Building strong brands and value from constituent parts
- Crystallising these gains with periodic sales of businesses at advantageous valuations
- Returning the proceeds to shareholders



Timeline

2010 (38 GBp)

Development of the aerospace and precision components businesses

2012 (98 GBp)

Precision instruments business, JenaTec, sold for £13.5m

2014 (148 GBp)

Mature growth of aerospace and the initial development of energy and medical

2016 (180 GBp)

The Aerospace Division, Sigma Components, sold for £65m

2017 (235 GBp)

Acquisition of the Hayward Tyler Group for £29.4m and creation of Energy and Medical Divisions

Energy Division

Performance
critical solutions for
energy systems

Engineered Pumps and Motors (EPM) Division

The EPM division is built on one brand, Hayward Tyler. Established in 1815, Hayward Tyler designs, manufactures and services performance-critical electric motors and pumps to meet the most demanding of applications for the global energy industry, as both an OEM supplier and a trusted through life support partner.

Process Solutions and Rotating Equipment (PSRE) Division

The PSRE division comprises a number of established brands with expertise across the global energy market. The brands specialise in the design, manufacture, integration and servicing of an extensive product and service offering including steam turbines, gas compressors, pressure vessels, containers and skidded systems.

Medical Division

Innovative solutions
for medical systems
and research

Medical

The medical division has special expertise in the design and manufacture of innovative equipment for the medical, science and research communities. Including cutting-edge products for medical diagnostic equipment; high performance pressure, vacuum vessels and composite materials for research organisations; superconducting magnets and helium-free cryogenic systems.

Commenting on the results, Roger McDowell, Chairman, said:

"It has been an exciting year, during which, the Group continued to execute its Pinpoint-Invest-Exit strategy (PIE) through the acquisitions of Hayward Tyler Group (HTG) and also Ormandy Group. With an eye on eventual exits, we have restructured the Group into two separate energy divisions and an incubator medical division. A highlight of FY2018 was the speedy and successful integration of the substantial Hayward Tyler Group acquisition. The new Energy divisional structures and management teams have become effective quickly and their focus is clearly on growth, to build two formidable and valuable divisions. The nascent medical division made slower progress, though we have galvanised our strategic path by partnering on service with MR Resources Inc.

We are nurturing an unswerving focus on aftermarket opportunities, as we service end-user customers with fast, local and flexible solutions, resulting in strong growth prospects. Nuclear life extension and decommissioning markets also continue to provide fertile ground for growth, underpinned by contract wins in the UK, USA, South Korea and mainland Europe. However, we are mindful of avoiding over-dependence on nuclear and thus, we are developing into new markets, such as renewables with (eg) funding from the DoE in the USA for future generation solar plants. Exciting times lie ahead."

Financial highlights

- Revenue increased by 247% to £78.9m (2017: £22.7m), driven by HTG acquisition
- Underlying revenue growth, excluding acquisitions was 10.9%.
- Improved Gross Margins 25.5% (2017: 17.9%)
- Adjusted EBITDA increased by 690%, to £5.7m (2017: £0.7m)
- Adjusted Profit before Tax increased by 820%, to £2.4m (2017: £0.3m)
- Adjusted Diluted earnings per share increased to 8.4p (2017: 1.1p)
- Cash outflow from operating activities £6.9m (2017: £3.3m)
- Net Debt was £7.1m (31 May 2017, net cash of £26.4m)
- Increased final dividend of 2.3p per share. Full year 3.6p (2017: Final 2.2p, Total 3.4p)

Operational highlights – Energy

- Revenues up to £68.4m (2017: £12.6m) driven by the HTG acquisition
- Restructuring and integration of HTG complete
- Ormandy acquisition completed for £0.1m. Integration proceeding to plan
- Sellafield pre-production phase completed. Now moving into ramp-up phase
- Prestigious award for SME skills investment at Metalcraft

Operational highlights – Medical

- Revenues broadly flat at £10.4m (2017: £10.1m), transitioning to new markets
- Siemens shipments remained steady in the UK and China
- Scientific Magnetics secured first service contracts with partner MR Resources Inc.
- Expansion of relationship with QOne NMR Instruments in Wuhan, China
- Rapiscan relationship with Composite Products continues to build positively

Post Period End Highlights

- £5m UK government contract won by Peter Brotherhood
- DOE Funding secured for innovative renewable solar technologies

Company Information

For the year ended 31 May 2018

Company registration number:	01968354	
Registered office:	Chatteris Business Park Chatteris Cambridgeshire PE16 6SA	
Directors:	R S McDowell (Non-executive Chairman) S McQuillan (Chief Executive Officer) S M King (Chief Financial Officer) G K Thornton (Non-executive Director) L J Thomas (Non-executive Director) E Lloyd-Baker (Non-executive Director appointed 1 September 2017) J Clarke (Non-executive Director appointed 22 February 2018)	
Website:	www.avingtrans.plc.uk	
Secretary:	S M King	
Bankers:	HSBC Bank plc PO Box 68 130 New Street Birmingham B2 4JU	Royal Bank of Scotland 2 St Philips Place Birmingham B3 2RB
Registrars:	Link Asset Services Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA	
Nominated advisor and broker:	Nplus1 Singer Advisory LLP 1 Bartholomew Lane London EC2N 2AX	
Solicitors:	Shakespeare Martineau LLP No1 Colmore Square Birmingham B4 6AA	
Independent Auditor:	Grant Thornton UK LLP Statutory Auditor Chartered Accountants The Colmore Building 20 Colmore Circus Birmingham B4 6AT	

Index

Chairman’s Statement

In an exciting year of execution and delivery for Avingtrans, it is pleasing to report an improved overall performance for FY2018, which saw significant acquisition activity and investment as the Group continued to execute its Pinpoint-Invest-Exit strategy (PIE).

The main highlight of our financial year was the successful integration of the substantial Hayward Tyler Group (HTG) acquisition, completed ahead of schedule. The Board are pleased to report that in integrating HTG, it has been able to achieve its targeted cost savings and the combined businesses are demonstrating the anticipated synergies, with an invigorated combined sales force and operational efficiencies. Avingtrans also completed the acquisition of the assets of Ormandy Group in the year; a leading provider of offsite heat exchange solutions, which now forms part of the Maloney Metalcraft business.

With one eye on eventual exits, we have restructured the Group into two separate energy divisions and an incubator medical division; Process Solutions and Rotating Equipment (PSRE), Engineered Pumps and Motors (EPM) and Medical and Industrial Imaging (MII).

The new Energy divisional structures and management teams have become effective in short order and with two solid platforms displaying good global reach, product and service diversity, their focus is now clearly on growing into formidable and valuable businesses.

From Avingtrans’ existing assets and the Board’s ongoing strategy of shrewd acquisitions, the Group has laid the foundations to create a new medical and industrial imaging division, which promises to produce a unique market offering.

Common across all three divisions is a strategic aim to develop robust value propositions, including aftermarket services to support OEM and end-user customers, who are either operating Group products or systems, or who have operational problems that the Group can solve with its combined capabilities. This improved end-user model not only drives profitability and gives a more predictable and repeatable pipeline, but also boosts product and service development and innovation, given the deep knowledge of customer risks and issues that is developed. We are particularly keen to maximise the revenue opportunities arising from the aftermarket access afforded by recent acquisitions and partnerships.

The Process Solutions and Rotating Equipment (PSRE) division recently added the assets of Ormandy to its portfolio and in parallel is continuing to refine its offering to the UK nuclear decommissioning market – especially to Sellafield – whilst also using this capability to position for longer term new nuclear technologies. The Engineered Pumps and Motors (EPM) division bolstered its capability in India with a new motor rewind centre and has now opened a new 4000 square metres facility in Kunshan, China. Both of these enhanced capabilities will help secure the end-user business in the region, including the valuable aftermarket. These facilities also act as operational hubs for sale of original equipment, cost effective sourcing, engineering and tendering, as the shift for EPM to become a seamless global operation takes shape. We are also considering the options to maximise the site utilisation at Luton, UK, given this evolving strategy.

The Medical and Industrial Imaging (MII) division continues to show modest revenue growth, with both the UK and Chinese businesses establishing their positions in the supply chain. As the new equipment business develops into growing niche markets, the addition of Scientific Magnetics Ltd and the MR Resources Inc. pan-European partnership – to bring Nuclear Magnetic Resonance (NMR) system support, servicing and service contracts to European NMR users – will underpin the significant investment in this division.

For the seventh successive year, the Board has declared an increased final dividend of 2.3 pence per share, producing a full year total of 3.6 pence per share, underlining our commitment to long term shareholder returns and our positive view about the short and longer-term prospects for the Group.

Finally, during the year, Ewan Lloyd-Baker (formerly CEO, HTG) and John Clarke (formerly CEO of the Nuclear Decommissioning Authority) joined the Board as NEDs. I warmly welcome them and all of the HTG and Ormandy staff to Avingtrans. Their passionate and energetic efforts to create world class engineering enterprises will enrich the Group. On behalf of the shareholders, I thank them and all Avingtrans employees for their hard work and commitment to the Group during the past 12 months, as we look forward with relish to FY2019.

Roger McDowell
Chairman
2 October 2018

Strategic Report

Group Performance

Strategy and business summary

Group Strategy

Our core strategy is to buy and build engineering companies in niche markets where we see consolidation opportunities; a strategy we call Pinpoint-Invest-Exit ("PIE"). We have had a strong track record in returning significant shareholder value over the past decade and 2018 was another successful year; further demonstrable proof of execution and transition into the global energy space through the successful acquisition and effective integration of the HTG business.

With an increased presence in the market place, strength in depth of the management team and a lean central structure with a focus on its divisions, the Group is poised to continue this growth and the Board has renewed its focus on seeking valuable additions to the Avingtrans proposition.

All of the Group's key financial metrics showing positive growth in what continued to be challenging market conditions in some areas (e.g. Oil and Gas) and despite a period of restructuring for the Group; the successful and swift integration of HTG was executed efficiently and effectively.

The three new divisions are fully operational and the business is focused on the global Energy and Medical markets. Both of these markets play into some of the world's mega-trends, including continued urbanisation and general prosperity, an ageing population and a transition towards a cleaner and healthier planet. For example, world GDP is expected to more than double by 2040, driven by increasing prosperity in emerging economies, as more than 2.5 billion people are lifted from low incomes.

Divisional Strategies

Engineered Pumps and Motors (EPM, Energy): EPM continues to develop its nuclear installed base (civil and defence) – notably for life extension applications – and its offering to the fossil fuels market sectors. In addition, the EPM business is developing solutions for new nuclear technologies and other low carbon energy sources, concentrated solar for example, to capitalise on the global energy supply transition.

Process Solutions and Rotating Equipment (PSRE, Energy): The primary strategy is developing a comprehensive offering to the nuclear decommissioning and reprocessing markets, building on the long-term contracts to build nuclear waste storage containers and the installed base of equipment across the vast Sellafield site. In parallel, continuing to support the nuclear submarine fleet and facilities for the UK MOD and targeted opportunities in the equally highly regulated offshore Oil & Gas markets.

Medical and Industrial Imaging (MII, Medical): The focus for the medical division is to become a niche market leader in the production of high integrity components and systems for medical and scientific equipment manufacturers including MRI, proton therapy and Nuclear Magnetic Resonance (NMR).

One common theme we are looking to exploit across energy and medical, is the continued pressure on aftermarket expenditure, especially in OECD countries, where operational efficiency, reliability and safety are paramount and operators are looking to their supply chain partners to provide long term support of aging infrastructure and legacy installations. Connecting with end-users and understanding and solving operational problems for the present and the future has the added benefit of focusing the front end development work on products and services that strengthen the Group's position as a through-life / aftermarket partner in its chosen end markets.

As energy capital goods markets continue to recover, M&A activity remains strong and businesses like ours are commanding high valuations. Avingtrans remains confident about the current strategic direction and potential future opportunities across all of its chosen markets.

Markets – Energy

The global demand for energy continues to rise steadily, driven primarily by population increase and continued urbanisation and improved prosperity. In the longer term, the latest estimates show that overall demand may slow, due to increased efficiency and decarbonisation, but for the time being the global energy compound annual growth rate (CAGR) can be assumed to be of the order of 2%.

The energy market can be dissected by use, by region and by fuel with some general observations as follows:

- **End Use** – industry remains the prime user with over 50% demand, the other 50% is split mostly between transport and buildings, with transport seeing a slight future reduction due mainly to efficiencies and vehicle electrification.
- **End Region** – almost all of the growth in energy demand comes from fast-growing developing economies. China, India and other emerging Asian countries account for around two-thirds of the growth.

Strategic Report (Continued)

Markets – Energy (continued)

- **Fuel Type** – the energy mix by fuel continues to diversify, with the fastest growing being renewables, but also with gas growing faster than coal and oil. The transition is still slow however and coal as a fuel for generating electricity will remain the number one choice throughout the next decade, even though the introduction of new plants is in long term decline.

End User/Aftermarket

As the overall energy landscape continues to evolve, the demand for best in class through-life support to operators and end-users continues to be paramount. Increasing mean time between failures, improving the predictability of equipment performance and increasing efficiency and ultimately operator and public safety are consistent market drivers across all the energy markets.

Operators and end-users are demanding a blend of quick response through local support with an overarching requirement to drive improvements through equipment upgrades and modernisation. In the West, where facilities are being operated for longer than their intended design lives – and often a drive for increased capacity alongside tougher regulations – there is a strong demand for true solution providers in the supply chain to partner with end-users for the longer term.

The Avingtrans energy divisions are well positioned to grow in this end-user market space. With increased relevance and global reach, balanced alongside heritage and renowned expertise, they can find niche positions and value propositions alongside the huge global players and the local independents.

Nuclear

Nuclear energy as a low carbon, baseload power source for the future remains an uncertain market place with respect to future growth. Almost all the 1GW+ new build opportunities are currently in Asia, with the exception of the UK programme, and as the market develops the Asian developers, alongside the Russians, with their ability to fund projects, are dominating this section of the market.

However, we still foresee buoyant market segments supporting the operational fleet, continued safe operation and life extensions, the back end of the fuel cycle, decommissioning and reprocessing, and the development of the next generation of technologies ie Small Modular (SMR) or Advanced Generation IV Reactors. In addition they all have the backdrop of a dwindling supply chain and expert knowledge which plays directly to the Avingtrans capability.

The USA still operates the biggest civil nuclear fleet in the world, 99 reactors generating more than 30% of the world's nuclear electricity. When coupled with the heritage Westinghouse technology operating in Europe and Asia, the EPM division's long-standing position in this market place is fertile ground for further growth. Obsolescence is a key issue globally for nuclear operators and the Avingtrans Energy Divisions are well positioned to support operators with this key operational issue.

The UK remains dominant when it comes to decommissioning and reprocessing, both in terms of innovative technology and overall spend. The Group is embedded in the future manufacture of waste containers for Sellafield and with an installed base and experience across this market, will continue to expand its presence in the UK and globally in the longer term.

The development of new nuclear technologies is ongoing, with pockets of development in the USA, UK, China, Russia and South Korea. The USA and China are dominating activity and the group views these new technologies as an attractive route forwards for nuclear and, with its increased presence and product offering, is positioned well to develop as an industry partner.

Power Generation

The world continues to electrify, with an ever increasing amount of primary energy going to the power sector which remains a key focus across the Group's energy divisions. Aside nuclear, discussed in the previous section, the main sub-sectors are as follows:

- **Coal** – The Group continues to see good aftermarket from coal fired power stations even though the demand for new power stations is in decline. Opportunities still exist in India, China, South East Asia, Eastern Europe and the Middle East and EPM is optimising its product line to take market share and to create tomorrow's aftermarket.
- **Gas** – Natural gas, primarily in the form of combined cycle gas turbine power plants is a growing market space, primarily in the West. Still not dominated by Asian EPCs and equipment suppliers, the Group is moving into this market space with both existing and new product lines.
- **Renewables** – renewable technologies and their supporting infrastructure are a growing market globally. The Group has a broad range of products that can be applied directly to this market and also expertise that can be used to develop new products for niche parts of this market such as molten salt for concentrated solar applications. With biomass and waste to energy being developed slowly in Europe and concentrated solar being driven by China and the USA, the Group is well positioned to exploit this growing market from across its entire energy portfolio.

Strategic Report (Continued)

Markets – Energy (continued)

Oil & Gas

After several years of oversupply, the industry feels much healthier than it did 12 months ago and the price of oil has rebounded with Brent crude now trading above $70 a barrel. The industry is recovering from the recent years of weak prices, low capital expenditure, portfolio realignments, and productivity efficiencies and the effect is starting to be seen across the Oil & Gas sector.

- **Upstream** – Investment in exploration is now increasing 6% year on year, which although still only half what it was at the beginning of the decade, marks a massive change over recent years. Operating expenditure is now being released to secure current operations, resulting in capex beginning to be slowly released for major new projects. The Group is witnessing the front end of this activity through increased bidding and is optimistic regarding future projects. The ongoing investments in disruptive technologies such as the subsea boosting technology from F-Subsea that EPM is an exclusive partner to, are now poised to move through the development phase to full deployment, as the market reopens.
- **Midstream** – The longer term midstream trend of interest to the Group, is the evolving liquefied natural gas (LNG) market, for which there is a growing demand and a continual import export transition developing. However, although the market predictions for FLNG and FRSU vessels remain bullish, in reality activity in the supply chain remains stagnant. The Group maintains a close eye on developments and supports projects at the appropriate level from early engineering ("FEED") studies. Timing remains challenging, but the Group is confident of securing some projects.
- **Downstream** – Slower growth in liquids demand combined with continued growth of LNG and biofuels continues to put pressure on global refining. New refinery projects which are already planned or under construction for the next five years are judged to be sufficient to meet new capacity. However, the Group's equipment is installed in critical systems on existing plants where continued operation is key, so aftermarket opportunities are strong. In some cases, such as the UK, where the supply chain companies are reducing in number, the Group is well positioned to adopt long term service partnerships across a range of systems and rotating equipment.

Digitalisation

Companies across the energy market continue to invest in digital technologies to improve productivity, efficiency and predictability in the field. At equipment level this translates to a series of devices, sensors and databases that can both predict breakdowns before they occur and ensure equipment is running at its optimum performance. The Group has successfully launched its first monitoring product, DataHawkTM, for Boiler Circulating Pumps and will build off this success to add this capability to both a wider set of original equipment and its aftermarket service offering.

Markets – Medical

The Diagnostic (medical) and molecular imaging markets are large global sectors, dominated by a few large systems manufacturers. The total Diagnostic Imaging Market is c$34bn (2016) and expected to grow at 5% per annum over the next 10 years.

The largest market is the USA (25%), followed by Europe (19%) and Japan (17%). China (12%) and India (3%) are the fastest growing markets. Three companies (Siemens, GE and Philips) account for an estimated 78% of revenue in the market.

The Avingtrans medical division is primarily targeting the Magnetic Resonance Imaging (MRI) and Nuclear Magnetic Resonance (NMR) segments of these markets, due to the common thread requirements for superconducting magnets and cryogenics. These two segments account for approximately 85% of our business in the medical division. Market drivers for these segments include ageing populations worldwide and the global pharmaceutical industry's research needs. MRI is approximately 16% by value of the total diagnostic Imaging market and projected to grow at 5% p.a. NMR is a smaller market, currently estimated at $650m p.a. and growing also at 5% p.a, with Bruker enjoying a current market share of over 80%.

End User/Aftermarket

The MRI market segment is dominated by a handful of global manufacturers, including GE, Siemens and Philips. These players also dominate the aftermarket, though there are a few independent MRI service businesses in existence. Avingtrans is not present in the MRI aftermarket at this time.

The NMR market is similar, currently dominated by Bruker (CH/DE) and Jeol (JA). Avingtrans is now closely aligned MR Resources Inc, a well-established US business, which services the NMR aftermarket. The Avingtrans medical division is well positioned in this end-user market space and has now started to win service contracts with European NMR users, following our recent partnership agreement with MR Resources.

Strategic Report (Continued)

Markets – Medical (continued)

MRI

As noted above, the MRI market segment is dominated by a handful of global manufacturers. For component and sub-system supply, Avingtrans is most aligned to the market leader, Siemens and also to Canon, which acquired the Toshiba MRI business in recent years. As far as full system supply is concerned, we are currently investigating a number of niche MRI applications (eg veterinary imaging) and their associated routes to market, with the intention of pinpointing the most promising of these for future investment.

NMR

The previous attempts by Avingtrans to align with the market leader Bruker were unfruitful, so we have pivoted to align with new market entrant Q One Instruments of Wuhan, China and also with MR Resources of the USA, as noted above. Together, we form an alliance to challenge the dominance of the existing players and to provide the customers with an additional source for NMR products, service and support. Former NMR customers of Agilent (formerly Varian) are also being given much needed support. Whilst early days for this initiative, we are already seeing success in winning support contracts for end users and the prospect list for Q One Instruments is promising.

Operations

The two energy divisions are now fully restructured and the necessary right-sizing of both Hayward Tyler and Peter Brotherhood was completed quickly and effectively, being assisted by a common IT platform.

Operational Key Performance Indicators (KPIs)

	2018	*2017*
• Customer Quality – defect free deliveries (%)	**97.3**	99.2
• Customer on time in-full deliveries (%)	**84.2**	99.7
• Annualised staff turnover including restructuring (%)	**17.3**	10.2
• Health, Safety and Environment incidents per head per annum	**0.14**	0.13

Customer quality and on-time deliveries were adversely affected this year – mainly due to lower performance in HTG, which was struggling with deliveries, as a result of cash flow issues and a resulting creditor overhang. These statistics have been gradually improving since the acquisition. Staff turnover was also impacted by the substantial restructuring of HTG in the period. Pleasingly, HSE statistics were similar between the businesses.

EPM Division – Energy

The EPM division, which represents the bulk of the legacy Hayward Tyler companies (excluding East Kilbride) has an enviable installed base across the globe and strong brand recognition. Coupled with its strong domain knowledge across the energy market and its core competencies in wet wound electrical motors, canned motor pumps and nuclear codes and standards, the division continues to expand its end-user offering.

The division finds itself in a relatively strong position, since it is more agile than some of its bigger competitors, has a respected OEM brand unlike the local independents and is able to offer a strong solution- based offering for its own installed base as well as other Original Equipment Manufacturers.

With a fully developed presence in Europe and North America, the division has now completed the opening of its delayed new China facility and the new motor rewind centre in India. The integration of these regional centres alongside other regional partners in key territories will give the division expanded global reach, capability and the platform to expand its end-user business.

In the UK, EPM has recently signed an Authorised Channel and Service Partner agreement with Baker Hughes, a GE company (BHGE), which has significant installed base in the UK, but no effective local facility to service, overhaul and upgrade their equipment. Customers are demanding a quicker, more local response and, between EPM and BHGE, both respected but non-competing OEMs, this partnership will provide both incremental growth and also a template for other such opportunities around the world.

In addition to the drive for improved end-user business, EPM is also addressing the shift towards a low carbon energy future. Its experience and product knowledge have allowed it to gain its first order from a Gen IV nuclear developer in the USA for a future molten salt technology and also funding from the US Department of Energy to develop molten salt pump technology for advanced concentrated solar applications. With its new range of pumps and its optimised seal-less circulating pumps for natural gas and a range of renewable technologies, EPM is slowly but surely reducing its reliance on coal fired power stations.

Strategic Report (Continued)

Operations (continued)

PSRE Division – Energy

Following the roll out of the new divisional structure, PSRE acquired the trade and assets of Ormandy Ltd for £0.1m. The Ormandy Group manufactures off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products and the synergies that exist between the Ormandy Group and the PSRE businesses will allow Ormandy to re-establish its presence in an improving market space.

The Hayward Tyler fluid handling business in East Kilbride, Scotland was moved into the PSRE division, to expand its capability and capacity to support the nuclear decommissioning and reprocessing market in the UK. This further strengthened the division's strategic relationship with Sellafield Limited and the Nuclear Decommissioning Authority. Given the addition of John Clarke as a NED, this active market place clearly remains a key focus for us.

In parallel to the end-of-fuel-cycle nuclear market above – and with the addition of the Peter Brotherhood capability – the Group also has a keen interest in both the UK nuclear submarine fleet and associated facilities, as well as developing new nuclear technologies like SMRs (Small Modular Reactors). The division has a good installed base on the UK submarine fleet, is the chosen manufacturing partner for the Astute steam turbines and through this experience has the right capability, nuclear culture and experience to support longer term nuclear technologies.

Away from nuclear, the divisional brands also have a strong presence in the Oil and Gas market place through the likes of Peter Brotherhood and Maloney Metalcraft. This market remains challenging, but activity is increasing and with the global demand for LNG still predicted to grow significantly, the Group is quietly confident about future opportunities that play to its strengths in high quality, highly engineered, highly regulated engineering solutions.

Aligned with the overall Group strategy to focus on end-user business, the division has seen an increase in the ratio of end-user to OEM sales. In particular Peter Brotherhood saw increased aftermarket sales across its installed base, including on one occasion an entire replacement steam turbine. End user service arrangements have been signed to gain better access to the reciprocating compressor installed base and a refresh of the channel partners and agents has been concluded, to allow complete focus on this aspect of the business. The business has a well-developed end-user value proposition and with improved agility and customer relevance, is confident of further growth.

Finally, the Crown business remains a small but solid performer in the division with new applications becoming apparent for its "smart" pole solutions. The first of these was the previously won contract for Fluor, for flame-detector masts. These masts are being deployed in a large-scale petrochemical plant, to improve overall site safety.

MII Division – Medical

Strategic progress at Scientific Magnetics is promising, but the expected resulting orders have been slower to materialise than originally thought and this business made a loss for the year, as anticipated at the half year. However, we have continued to invest in the business for the longer term and, early in 2018, we launched a Europe-wide Nuclear Magnetic Resonance (NMR) service and support offering with our US partner, MR Resources Inc. This potentially exciting development will only start to bear fruit in the current financial year, but this new service offering means that all three divisions now have access to a solid aftermarket revenue stream.

Metalcraft UK's business with Siemens for MRI components continues to be steady, but progress in China with other vacuum vessel customers – e.g. Alltech – was somewhat slower in ramping up and was behind plan overall for the year. Composite Products had a solid year, with deliveries to Rapiscan improving steadily and showing promise for next year. Other smaller accounts also supported revenues at this unit and a return to profit.

Financial Performance

Key Performance Indicators

The Group uses a number of financial key performance indicators to monitor the business, as set out below.

Revenue: HTG acquisition drives growth

Overall Group revenue increased to £78.9m (2017: £22.7m), primarily driven by the effect of the HTG acquisition. Underlying revenue growth, excluding acquisitions was 10.9%.

Profit margin: results skewed positively by acquisition effects

Adjusted EBITDA (note 4) increased by 690% to £5.7m (2017: £0.7m) with HTG contributing £5.1m in the 9 months following acquisition. Operating loss increased to £3.8m (2017: £0.5m) mainly due to the significant HTG exceptional costs which were incurred in the period, initially for the acquisitions (£1.6m), subsequently for right-sizing and restructuring £1.7m and the

Strategic Report (Continued)

Financial Performance (continued)

amortisation of intangibles from business combinations (£3.3m). Of this £1.9m EBIT related to HTG (note 36) and £2.6m (note 2) from central costs including the direct costs of the HTG acquisition £1.5m (note 36).

Gross margin

Improved to 25.5% (2017: 17.9%) helped by higher HTG gross margin, whilst margins excluding HTG were slightly down at 15.2%, due to completion of a few legacy loss-making contracts following the Ormandy acquisition and underutilisation at Scientific Magnetics, as it undergoes a transition to new markets.

Tax: potential US upside to come next year

The effective rate of taxation at Group level was a 0.3% tax credit primarily due to a deferred tax credit arising from the amortisation of business intangibles offsetting the US tax charge, whereas FY17 was a 3.9% tax charge. Following the acquisition of HTG, we have a US business historically paying 39% tax which reduced to c.27% following the recent US announcements from January 2018. The effective tax charge for the Group is also impacted by the non-allowable transaction costs in the current year and not recognising all the trading tax losses in the UK. The tax position will be aided in the coming years, not only through the reduced US rate, but also as we utilise elements of the UK and China tax losses.

Adjusted Earnings per Share (EPS):

Adjusted diluted earnings per share for continuing operations improved to 8.4p (2017: 1.1p).

Funding and Liquidity: Net Debt post acquisition remains low

Net Debt was £7.1m (31 May 2017: Net cash: £26.4m). HTG's higher cost debt (£11.5m) elements were repaid at acquisition and a further £10.7m absorbed, with HTG costs of £3.7m also being incurred and paid. During the period, £3m was removed from the HTG creditor overhang at the time of acquisition, with further right-sizing restructuring costs of £1.7m and Avingtrans acquisition costs of £1.6m also being paid alongside a further working capital investment of £4.4m, principally HTG post acquisition. Following the acquisition of Ormandy, it has been trading out a few remaining loss-making contracts and rebuilding its business to be in a profitable position. However, this has required a cash investment for working capital and initial underutilisation, which has since improved. Notwithstanding this significant cash investment in the acquisitions during the year, the Directors consider the Group to have sufficient financial resources (note 23) to deliver its short term strategic objectives and maintain a strong relationship with its banking partners.

Dividend: steady progress continues

The Board again proposes to underpin our progressive dividend policy. We are pleased to be able to recommend an improved final dividend of 2.3 pence per share (2017: 2.2 pence per share). We intend to continue on this progressive path, subject to the outcome of acquisition activities in the coming years. The dividend will be paid on 7 December 2018, to shareholders on the register at 26 October 2018.

Acquisition: fair value review

The fair value of the assets and liabilities of the acquisitions (note 36) were reviewed including as assessment of the carrying value in use of the properties which resulted in an impairment of the Luton facility of £4.5m.

Principal risks and uncertainties facing the Group

Managing Risk

The Group is exposed to risks and uncertainties that could have a material impact on its performance and financial position. Identifying, assessing and managing risk is the responsibility of the Board. Our approach to risk is intended to protect the interests of our shareholders and other stakeholders whilst allowing the business to develop. Our risk appetite depends on the nature of an individual risk and it is considered in Board discussions and also as part of our risk review process in the Audit Committee. From time to time, we obtain advice from third party experts in a cost-effective manner, to complement in-house knowledge.

The long-term success of the Group relies, in part, on managing the risks to our business. Whilst the Group has risk management policies and practices in place, which address and monitor risk, we seek to improve those practices each year. The Chief Financial Officer is responsible for risk management on behalf of the Board and the Audit Committee reviews the risk register on a regular basis. Ultimately our aim is to ensure that risk management is embedded within the core processes of our business units.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

Risk Management Process

The Group uses a risk register to help coordinate its risk management process. The risk register identifies the key business risks and documents the policies and practices in place to mitigate those risks.

Principal Risks

We classify the risks to the business into three groups, namely, strategic risk, operational risk and financial risk. The principal risks identified by the Directors under these groups are set out in the table below. The risks considered during the Group-wide risk management process cover a wider range of issues than the key risks that are listed in this table.

Risk	Potential Impact	Mitigation
Strategic Risk		
A. Growth Strategy	A fundamental part of the Group's strategy is growth from both Original Equipment and Aftermarket sales. The growth is reliant on our markets. These markets demonstrate long-term growth, but remain highly competitive and can be cyclic. Failure to generate sufficient order intake and revenue to cover the fixed cost base could give rise to lower profit and cash generation that constrains the Group. Failure to keep-up with technological change could give rise to the Group's products, services and technologies becoming less competitive.	The Group providing niche engineering solutions for the global energy and medical sectors. It has an excellent market profile (quality, reliability and customer relationships), which results in inclusion on sector bid/quote opportunities. The Group has invested, and is investing, in key aspects to maintain and improve the Group's competitive position including: ▪ employees (see E below); ▪ supply chain (see F below); ▪ developing and maintaining strong relationships with key customers; ▪ capital expenditure on plant and equipment; ▪ research and development of products and processes and ▪ aftermarket initiatives including supporting end-of-life extension programmes.
B. PIE Strategy mergers, acquisitions and disposals	The Group makes regular acquisitions and disposals under its PIE strategy. On 1 September 2017, it acquired Hayward Tyler Group and on 19 February 2018, it acquired certain assets of The Ormandy Group. Failure to re-establish and rebuild these businesses could (1) absorb a disproportionate part of management resource at the expense of other parts of the Group (2) reduce the Group's profitability and (3) delay the cycle of the planned positive outcome of the PIE strategy.	The Group carefully plans acquisition actions to mitigate this risk: ▪ extensive pre-deal due diligence; ▪ achieving a balance between attractive purchase prices and business purchase agreement terms and conditions; ▪ post-acquisition integration planning ▪ rapid business restructuring as required ▪ appropriate funding of the acquisitions and on-going businesses followed by de-leveraging the business; ▪ establishing senior management teams, complemented by experienced executives from Avingtrans and externally, if required; ▪ development of incoming employees; ▪ focusing on marketing and sales including growing aftermarket businesses; and ▪ investing in the businesses as necessary for a successful outcome to the PIE strategy.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

<table>
<tr><th>Risk</th><th>Potential Impact</th><th>Mitigation</th></tr>
<tr><td colspan="3">Strategic Risk</td></tr>
<tr><td>C. Execution</td><td>The Group designs, manufactures and services highly technical products that are mission critical to the end user.

Failure to satisfy contractual obligations could give rise to significant losses (e.g. warranty claims, liquidated damages, etc), cash constraints, lost future orders and adverse impact on the Group’s reputation.</td><td>The Group continues to invest consistently in its people, processes and products to maintain and improve lead times and product innovation. These steps include: enhanced customer relationship management, sales and operational planning, process flow mapping, research and development, product standardisation and enhancing process capability.

The Group also seeks to minimise the impact of execution risk through its terms of trade such as (1) limiting the undertakings it gives to pay liquidated damages and (2) avoiding consequential damages altogether.</td></tr>
<tr><td>D. Global Economic Activity and political uncertainties including Brexit</td><td>The Group operates in global energy, industrial, defence and medical markets. A slowdown in those markets including the possible impact from on-going economic and political uncertainty may adversely impact order intake, liquidity needs, and terms of trade and the financial performance of the Group.

Political uncertainty such as the impact of Brexit and other overseas trade issues – eg US trade tariffs can affect decisions by our customers to invest and therefore impact on our trading.</td><td>The Group has a diversified geographical and sector spread that reduces the impact of localised economic trends and activities. In addition, the Group is investing in research and development, to develop new products or adapt existing products for use in other applications in order to broaden its product offering, to reduce the risk. Increasing aftermarket activities also provide the Group with a partial cushion to defend against cyclical downturns in original equipment purchasing.

We continue to review and assess the potential impacts of US tariffs and Brexit as more information becomes available and we are engaged with trade associations which are in contact with government and can assist our decision making and action plans.

The Group will be able to continue to trade with EU member states and will take guidance on any new trading regulations when the UK exits the EU. As the Group also operates in countries which are outside of the EU this should help lessen any impact of disruption caused by an exit.</td></tr>
<tr><td>E. Employees</td><td>Attracting and retaining talented people is a Group priority to ensure our continued success. The Group has numerous skilled and highly trained and qualified employees who demonstrate their commitment to the Group through the continuous improvement of our products, processes and procedures which impacts on the Group’s performance.

Failure to attract the right talent, could inhibit the rate of product and process development as well as impact on the Group’s performance.</td><td>Recruitment and retention of employees is a key focus for the Group to ensure its continued success.

Group mitigating actions include:
▪ continuing the significant investment in training and development;
▪ personal development reviews;
▪ succession planning;
▪ promotion from within where possible
▪ outreach to Universities, Colleges and Local Schools;
▪ monitoring pay and benchmarking;
▪ maintaining the successful graduate and apprentice programmes;
▪ improving overall employee engagement;
▪ utilisation of external and Group resource to offset any temporary gaps in key personnel.</td></tr>
</table>

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

Risk	Potential Impact	Mitigation
Operational Risk		
F. Supply Chain	The Group is reliant on its supply chain as part of its aim to improve throughout and optimise stock-holding. Failure of that supply chain can result in operational disruption and delays to shipments to customers, leading to potential loss of profit and damage to customer relationships.	Each division has its own sourcing policy. Where appropriate and efficient, divisions cooperate on sourcing. Mitigating actions include: ▪ sourcing strategies to avoid single point dependence for any key commodity and standardisation to support possible stock holdings; ▪ identifying in-house capability and focused investment in related capital expenditure; ▪ exception reporting, operational planning and review processes support the early identification of risks; ▪ monitoring of supplier performance; ▪ an optimum number of suppliers with strategic, long-term partnerships on key components; ▪ strengthening of supply chain teams; and ▪ supply chain benchmarking and development.
Financial Risk		
G. Funding	The Group is dependent on its ability to service its debts and refinance existing borrowings when they fall due as well as to fund working capital, capital expenditure, and research and development. If the Group fails to generate profits and cash it could face funding constraints that impact the business cycle.	The Group manages its capital to continue as a going concern and maintain its liquidity. The Group continually reforecasts its borrowing requirements, which include: ▪ a 13-week cash flow forecast produced each month; ▪ a 12-month rolling profit and loss, balance sheet and cash flow forecast each quarter to ensure that funding is available to support its operations and its compliance with borrowing covenants. The Group maintains committed UK and US bank credit facilities augmented by specific funding to support investment globally and a bonding facility. In addition, the Group maintains an active bank relationship programme and a relationship with UK Export Finance to safeguard its funding ability. New funding arrangements were established during FY18 to support the Group's working capital needs, including reshaped facilities with RBS on the acquisition of HTG.
H. Working Capital	As a fundamental part of the Group's strategy is growth the Group is exposed to a potential increase in its working capital requirement that absorbs cash. If the Group fails to keep this increase under control it could face cash constraints that impact the business cycle.	The Group is seeking to mitigate this risk through the following means: ▪ standard terms and conditions of manufacturing contracts require customers to make stage payments to fund working capital on the contract. Where stage payments cannot be achieved by the Group, it may be possible to augment borrowing and bonding lines through use of the short-term funding schemes – eg via UK Export Finance; ▪ an on-going initiative to optimise stock; ▪ minimising lead times, to reduce working capital requirements per unit of revenue; ▪ active management of accounts receivable and accounts payable; and ▪ linking employee remuneration to cash.

Strategic Report (Continued)

Principal risks and uncertainties facing the Group (continued)

Risk	Potential Impact	Mitigation
Financial Risk		
I. Currency	The Group operates and sells in overseas markets that may utilise currencies other than those in which its principal costs are denominated. The exposure to foreign exchange rate fluctuations may, as a result, affect the Group's cash flow. The principal risk at present is US Dollar income.	The Group's policy is to hedge its transaction exposures (i.e. cash flows) where a significant commitment has been made and a level of cover for non-contracted flows in the 12 to 24-month period. As at 31 May 2018, 66% of estimated USD net inflows into the UK over the following 12 months were hedged. Currency hedging lines are available from two providers.
J. Pension Scheme	The Group maintains a defined benefit pension scheme related to the Hayward Tyler businesses. The Group could be required to increase its contributions to cover funding shortfalls caused by poor investment performance of scheme assets, a deterioration in the discount rate or inflation rate applied and changes in life expectancy of members of the scheme.	The scheme is closed to new members and to future benefit improvements. The performance of the investment advisers is monitored closely by the Company and pension trustees and action taken where that is not satisfactory. The assumptions used to determine the pension deficit/surplus are based on recommendations of the actuary to the scheme. The Directors discuss the pension scheme regularly and there is frequent contact with the pension fund trustees. The aim is to strengthen the financial position of the Group, through its underlying performance, which assures stakeholders and helps to maintain or reduce contributions to cover any eventual funding shortfall. The plan trustees have selected a liability driven investment strategy aimed at reducing interest and inflation rate risks and providing a return that matches or exceeds the growth in projected pension plan liabilities.
K. Customer Credit Exposure	The group may offer credit terms to its customers which allow payment of the debt after delivery of the goods or services. The group is at risk to the extent that a customer may be unable to pay the debt on the specified due date.	This risk is mitigated by the strong on-going customer relationships.

Strategic Report (Continued)

People

At Board level, Ewan Lloyd-Baker was formally admitted to the Board upon completion of the acquisition of HTG. John Clarke, formerly the CEO of the Nuclear Decommissioning Authority (NDA), also joined the Board as a non-executive director. Within the Group structure, Colin Elcoate was confirmed as the Chief Commercial Officer for Avingtrans. The new divisional structure has driven other top management changes, as follows:

- Mike Turmelle was promoted to Divisional Managing Director of the EPM division
- Austen Adams continued as Divisional Managing Director of the expanded PSRE division
- Austen Adams is also Acting Divisional Managing Director of the MII division and will continue in this role until the medical businesses fully separate from our energy assets and a full senior team is in place.

The management teams in the three divisions continue to be strengthened, with a number key appointments being made in the year and with emphasis on the importance of the aftermarket opportunities. Skills availability is always challenging, but we do not expect to be unduly constrained by shortages. Avingtrans continues to invest significant effort in developing skills, both through structured apprenticeship programmes and also graduate development plans. The Group continues to be recognised nationally for the strength of its apprenticeship and graduate training schemes. Metalcraft recently won the top accolade for 'SME Investment in Skills' at the SEMTA (Scientific, Engineering, Manufacturing & Technology Alliance) 2018 Awards.

Our global workforce is now becoming more integrated and this provides additional capability, capacity and innovative thinking around the clock, to support to our global blue-chip customer base.

Health, Safety and Environment (HSE)

The Group takes HSE matters and its related responsibilities very seriously.

As regular acquirers of businesses, we find different levels of capability and knowledge in different businesses. Often, a key investment need in smaller acquisitions is to spread HSE best practice from other Group businesses and bring local processes up to required standards. Larger acquisitions like HTG have well developed HSE practices and we seek to learn from these in other business units.

Health and Safety incident reporting has improved across the Group and incident trends have generally been improving over recent years. Near miss reporting and knowledge exchange is also positively encouraged, to facilitate learning and improvement. At Board level, Les Thomas has HSE oversight and he conducts inspections with local management as appropriate.

The Group's environmental policy is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business.

During the period covered by this report, the Group has not incurred any significant fines or penalties, or been investigated for any significant breach of HSE regulations.

Social Responsibility

It is paramount that the Group maintains the highest ethical and professional standards across all of its activities and that social responsibility should be embedded in operations and decision making. We understand the importance of managing the impact that the business can have on employees, customers, suppliers and other stakeholders. The impact is regularly reviewed to sustain improvements, which in turn support the long-term performance of the business.

Our focus is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

Employees

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them directly and on financial and broader economic factors affecting the Group. The Group regularly reviews its employment policies. The Group is committed to a global policy of equality, providing a working environment that maintains a culture of respect and reflects the diversity of our employees. We are committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability.

We believe that employees should be able to work safely in a healthy workplace, without fear of any form of discrimination, bullying or harassment. We believe that the Group should demonstrate a fair gender mix across all levels of our business, whilst recognising that the demographics of precision engineering and manufacturing remain predominantly male, which is largely beyond our control.

Strategic Report (Continued)

Social Responsibility (continued)

Ethical policy

The Group complies with the Bribery Act 2010. We do not tolerate bribery, corruption or other unethical behaviour on the part of any of our businesses or business partners in any part of the world. Employee training has been completed in all areas of the business to ensure that the Act is complied with.

Outlook

Avingtrans is a niche engineering market leader in the Energy and Medical sectors. Recent acquisitions (particularly that of HTG) will afford investors another opportunity to build enduring value with us in a rich seam of engineering market niches. We will continue to be frugal and seek to crystallise value and return capital when the timing is right, as part of our successful PIE strategy.

The Group is now focused on investing in its three new divisions in the global energy and medical markets, to position them for maximum shareholder value via eventual exits in the years to come. To this end, it was essential that the integration and restructuring following the acquisition of HTG was both quick and clinical, allowing the management team to concentrate on profitable future growth.

The energy divisions have a strong emphasis on both the nuclear and off shore Oil & Gas markets, both of which are showing signs of regeneration. The medical division continues to focus on high integrity components and systems for leading medical, industrial and scientific equipment manufacturers.

To drive short term profitability and market engagement, all divisions have clear strategies to support end-user aftermarket operations, whether by servicing their own equipment or that of third parties, to capitalise on the continued drive for efficient, reliable and safe facilities.

We are not unduly concerned by Brexit, since our direct EU exposure is rather limited and we have taken some initial evasive action in our supply chains, with likely further such actions to follow, depending on the exact nature of the Brexit deal. Similarly, US government tariff change risks have been largely mitigated by an agile supply chain response and we will continue to monitor this situation closely.

As markets continue to recover, M&A activity remains strong and businesses like ours can command high valuations at the point of disposal, as was perfectly exemplified by the Sigma sale previously. At Avingtrans, we are confident about the current strategic direction and potential future opportunities across our markets and sphere of influence. We will continue to hone our business by pinpointing specific additional acquisitions as the opportunities arise, to invest and build businesses that we expect to attract premium valuations.

The Strategic Report was approved by the Board on 2 October 2018 and signed on its behalf by:

Roger McDowell
Chairman
2 October 2018

Steve McQuillan
Chief Executive Officer
2 October 2018

Stephen King
Chief Financial Officer
October 2018

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 May 2018.

Matters included in the strategic report

The Directors' consideration of likely future developments in the business, risks and KPI's have been included in the Strategic Report.

Going concern

During the year the Group has managed its working capital and cash flows resulting in an operating cash outflow of £6.9m for the year. At 31 May 2018 the Group has net debt of £7.1m as detailed in note 25 (2017: Net cash £26.4m) and net assets of £69.1m (2017: £44.9m). The completion of the acquisition of the Hayward Tyler Group plc on 1 September 2017 resulted in £11.5m of its facilities being repaid, the assumption of a further £10.9m of debt and £5m of associated transaction costs being incurred. As discussed in more detail in the Chairman's statement and Strategic report, looking into 2018/19 and beyond, the Group has a number of exciting opportunities across all of its operations that should deliver growth and shareholder value.

The Directors have prepared detailed cash flow forecasts for the Group for the period extending to 31 December 2019, alongside three-year budgets which indicate that the Group expects to have adequate financial resources to continue in business and work within its current banking arrangements to deliver on its short-term strategic objectives. Coupled with an ongoing supportive relationship with the Group's principal bankers, HSBC, the Directors continue to adopt the going concern basis in preparing the Annual Report and accounts.

Results and dividends

The Group's loss for the year before tax from continuing operations amounted to £4,498,000 (2017: loss of £285,000) for continuing operations. A final dividend of 2.3 pence is proposed for the year ended 31 May 2018 (2017: 2.2 pence), taking the total dividend for the year to 3.6p pence (2017: total 3.4 pence).

Substantial shareholdings

As at 2 October 2018, the following had notified the Company that they held or were beneficially interested in 3% or more of the Company's issued ordinary share capital:

	Number of shares '000	***Percentage of issued share capital owned***
Nigel Wray	3,020	9.7%
Funds managed by Unicorn Asset Management Limited	1,946	6.3%
Harwood Capital	1,850	6.0%
Funds managed by RBC Trustees Limited	1,723	5.5%
Funds managed by BlackRock	1,580	5.1%
R S McDowell's Pension Fund	1,406	4.5%
P McDowell's Pension Fund	1,213	3.9%
Funds managed by LGT Bank	1,017	3.3%

Directors and their interests

The present Directors of the Company and those that served during the year are set out on page 1. Their interests in the share capital of the Company are set out below.

	Ordinary shares of 5p each	
	31 May 2018	*31 May 2017*
R S McDowell	**1,406,409**	1,406,409
S McQuillan	**243,500**	225,000
S M King	**180,248**	180,248
G K Thornton	**–**	20,000
L J Thomas	**16,000**	–
EW Lloyd-Baker	**475,993**	–

Report of the Directors (Continued)

Share options

The Directors' interests with respect to options to acquire ordinary shares are detailed in the Report of the Directors on Remuneration.

Interests in contracts

No Director was materially interested in any contract during the year.

Financial instruments

The Group's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, funding, working capital, pension scheme, credit risk and liquidity risk.

The Group's principal financial instruments comprise cash and bank deposits, bank loans and overdrafts and obligations under finance leases together with trade receivables and trade payables that arise directly from its operations. The Group has entered into derivative transactions where it has certainty of the outcome. Information about the use of financial instruments by the Group and the Group's financial risk management objectives and policy disclosures is given in note 25 to the financial statements.

Research and development

During the year £681,000 (2017: £625,000) of development costs (per note 13) were capitalised as intangible assets. This was predominately at Metalcraft in relation to new customer's MRI designs and waste storage equipment and Maloney relating to the nuclear life extension development.

Disabled persons

The Group gives full and fair consideration to applications for employment from disabled persons, where they have the necessary abilities and skills for that position, and wherever possible will retrain employees who become disabled, so that they can continue their employment in another position. The Group engages, promotes, and trains staff on the basis of their capabilities, qualifications and experience, without discrimination, giving all employees an equal opportunity to progress.

Directors' indemnities

The Company has taken out directors' and officers' liability insurance for the benefit of its Directors during the year which remains in force at the date of this report.

Employee involvement

It is the policy of the Group to communicate with employees by employee representation on works and staff committees and by briefing meetings conducted by senior management. Career development is encouraged through suitable training Statement of Directors' responsibilities for the financial statements.

Statement of Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Strategic Report and the Annual 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 to prepare the Parent and Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and the profit or loss of the Group and Parent 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 IFRSs 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 and Group will continue in business.

Report of the Directors (Continued)

Statement of Directors' responsibilities for the financial statements (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group 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. The Directors confirm that:

- so far as each of the Directors is aware there is no relevant audit information of which the Company's and Group's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

Grant Thornton UK LLP ("Grant Thornton") are willing to continue in office in accordance with section 489 of the Companies Act 2006, and a resolution to reappoint them will be proposed at the Annual General Meeting.

The report of the Directors was approved by the Board on 2 October 2018 and signed on its behalf by:

S M King
Director

Corporate Governance

The Group is committed to high standards of corporate governance and the Board is accountable to the Company's shareholders and stakeholders for good corporate governance. The Group aims to move towards full compliance with the 2018 QCA code, this statement describes how the high-level principles have been applied to the Group.

Directors

The Board of Avingtrans plc for the majority of the period comprised two Executive Directors and four Non-Executive Directors. During the year the Board was chaired by R S McDowell and assisted by the Senior Independent Non-executive Director, G K Thornton, who together have primary responsibility for running the Board. E Lloyd-Baker joined the Board as a Non-Executive Director after the acquisition of HTG on 1 September 2017. On 22 February 2018, J Clarke joined the Board as a Non-Executive Director, he will serve on the Audit, Remuneration and Nomination Committees. The Board configuration reviews it has the skills and oversight capability in key markets on a regular basis, strengthening our ability to leverage shareholder value via the PIE strategy.

The Chief Executive, S McQuillan, had executive responsibilities for the operations, results and strategic development of the Group during the year. S M King is Chief Financial Officer and Company Secretary. The Board structure ensures that no individual or group dominates the decision-making process.

The Non-executive Directors are considered to be independent of management and from any business relationship which could materially interfere with their independent judgement. The Senior Independent Non-executive Director is G K Thornton and is available to shareholders if they have concerns.

The Board meets regularly with no less than ten such meetings held in each calendar year. There is a formal schedule of matters specifically reserved to the Board for its decision to enable it to take overall control of the Group's affairs. All Directors have access to the services of the Company Secretary and may take independent professional advice at the Group's expense in the furtherance of their duties. Management has an obligation to provide the Board with appropriate and timely information to enable it to discharge its duties. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.

The Nominations Committee is responsible for monitoring and reviewing the membership and composition of the Board, including the decision to recommend the appointment or re-appointment of a Director. The Board and Committee regularly review the composition of the Board to identify areas where additional experience is required to balance the Board.

The Company's Articles of Association ensure Directors retire at the third Annual General Meeting after the Annual General Meeting at which they were elected and may, if eligible, offer themselves for re-election.

R S McDowell chairs the Nominations Committee, with L J Thomas chairing the Audit Committee and G K Thornton chairing the Remuneration Committee. The Non-executive Directors and the Chairman are members of all the above committees.

Directors' remuneration

The responsibilities of the Remuneration Committee, are set out in the Report of the Directors on Remuneration on pages 21 to 22.

Relations with Stakeholders

The Board attaches a high level of importance to maintaining good relationships with shareholders, whether they are institutions or private investors and all stakeholders.

The Board encourages all Directors to attend shareholder meetings and institutional presentations, where they are available for questions from shareholders. This enables the Board to develop an understanding of the views of shareholders.

The Board regards the Annual General Meeting as an opportunity to communicate directly with private investors and actively encourages participative dialogue.

The Company counts all proxy votes and except where a poll is called, it indicates the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands.

A separate resolution on each substantially separate issue is proposed at the Annual General Meeting. The Chairman of the Board and each of the Chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions at the Annual General Meeting. All Directors are expected to attend the Annual General Meeting.

In 2009 the Company amended its Articles to include electronic communication with its members. The Annual Report and Financial Statements and Interim Report are automatically uploaded to www.avingtrans.plc.uk. All members are given the option to receive a paper copy or an email copy of the Annual Report. Notice of the Annual General Meeting is sent to shareholders at least 20 days before the meeting.

Corporate Governance (Continued)

Relations with Stakeholders (continued)

The Group understand the importance of managing relations with all stakeholders and the impact that the business can have on employees, customers, suppliers, regulators, partners and other stakeholders. The impact is regularly reviewed to sustain improvements and to communicate effectively with all stakeholders which in turn support the long-term performance of the business.

Accountability and Audit

The respective responsibilities of Directors and the Auditor are set out on pages 18 and 31. The Board has established an Audit Committee. The Audit Committee's primary responsibilities include the monitoring of internal control, approving accounting policies, agreeing the treatment of major accounting issues, appointment and remuneration of the external auditor and reviewing the interim and annual financial statements before submission to the Board. It meets twice a year with the external auditor to review their findings. At these meetings the Non-executive Directors have the opportunity to discuss findings with the auditor in the absence of the Executive Directors.

To follow best practice and in accordance with Ethical Standard 1 issued by the Auditing Practices Board, the external auditor has held discussions with the audit committee on the subject of auditor independence and has confirmed their independence in writing.

Internal control

The Directors acknowledge that they are responsible for ensuring that the Group has in place a system of internal control which is both effective and appropriate to the nature and size of the business.

The Board, through the Audit Committee, has reviewed the operation and effectiveness of the system of internal control throughout the accounting year and the period to the date of approval of the financial statements, although it should be understood that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss. The Group's system of control includes:

- a comprehensive budgeting system with annual budgets approved by the Directors
- monthly monitoring of actual results against budget and regular review of variances
- close involvement of Directors who approve all significant transactions
- financial and operating control procedures for all management of the Group
- identification and appraisal by the Board of the major risks affecting the business and the financial controls
- bank facilities and other treasury functions are monitored and policy changes approved by the Board.

The Board has considered the need for an internal audit function and concluded that this would not be appropriate at present due to the size of the Group.

Risk Management, Health, Safety and Environment (HSE) and Social Responsibility

The Groups responsibilities, policies and controls on Risk Management, Health, Safety and Environment (HSE) and Social Responsibility are set in the Strategic Report pages 10 to 15.

S M King
Company Secretary
2 October 2018

Report of the Directors on Remuneration

Composition

The Remuneration Committee during the period comprised G K Thornton (Chairman), R S McDowell, and L J Thomas. EW Lloyd-Baker and JS Clarke joined the Committee 1 September 2017 and 22 February 2018 respectively.

Principal function

The remuneration packages, including contract periods of Executive Directors and senior management, are determined by the Remuneration Committee. It ensures that the remuneration packages are appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group. The remuneration of R S McDowell is determined by the Non-executive Directors.

Base salary and benefits

The Committee sets the salary of each Executive Director by reference to the responsibility of the position held, performance of the individual and external market data. Salaries are reviewed annually.

Annual performance related bonus

The Company operates a bonus scheme for its Directors which enables it to attract and retain high calibre senior management personnel who make a major contribution to the financial performance of the Group. Bonuses paid under the scheme are accrued under the annual bonus plan approved by the Remuneration Committee. The plan is based on various financial metrics around cash and financial performance.

Share options

The Committee is responsible for approving grants of share options to the Executive Directors. Options may be exercised between three and ten years from the date the option is granted but only if certain performance criteria are satisfied, as set out on page 22.

Pensions

The Company is responsible for the contributions to the defined contribution schemes selected by the Executive Directors. Details of contributions provided in the year are set out in note 7 to the financial statements.

Service agreements

R S McDowell, S McQuillan and S M King have service contracts which are terminable on 12 months' notice by either party. The Committee consider that these contracts are in line with the market.

Non-executive Directors

Non-executive Directors' remuneration is reviewed by all members of the Board other than the Non-executive Director under review and takes the form solely of fees. G Thornton, E Lloyd-Baker and L Thomas have a letter of appointment terminable on three months' notice by either party.

Compensation for loss of office

There are no predetermined special provisions for Executive or Non-executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly with the aim not to reward poor performance.

Directors' emoluments

Details of the remuneration of all Directors are set out in note 7 to the financial statements.

Report of the Directors on Remuneration (Continued)

Share options

Details of the share options of all Directors are as follows:

	Date of grant	*At 31 May 2017*	*Granted*	*Exercised*	*At 31 May 2018*	*Weighted average exercise price £*
Executive:						
S McQuillan	22/11/2013	95,000	–	–	95,000	1.760
	10/12/2014	100,000	–	–	100,000	1.110
	21/12/2016	450,000	–	–	450,000	1.930
	15/12/2017	–	140,000	–	140,000	1.815
		645,000	140,000	–	785,000	1.784
S M King	25/09/2010	39,733	–	–	39,733	0.395
	22/11/2013	84,000	–	–	84,000	1.760
	10/12/2014	75,000	–	–	75,000	1.110
	21/12/2016	330,000	–	–	330,000	1.930
	15/12/2017	–	110,000		110,000	1.815
		528,733	110,000	–	638,733	1.696

The share options are exercisable between three and ten years from the date of grant if the growth in adjusted basic earnings per share of Avingtrans plc during the three years between grant date and vesting date is at least equal to the increase in the Retail Price Index during the same period.

G K Thornton
Chairman of the Remuneration Committee
2 October 2018

Independent Auditor's Report to the Members of Avingtrans plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Avingtrans plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 May 2018 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated and Company statements of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 group and the parent 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 as applied to listed entities, 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.

Who we are reporting to

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.

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 group's or the parent 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.

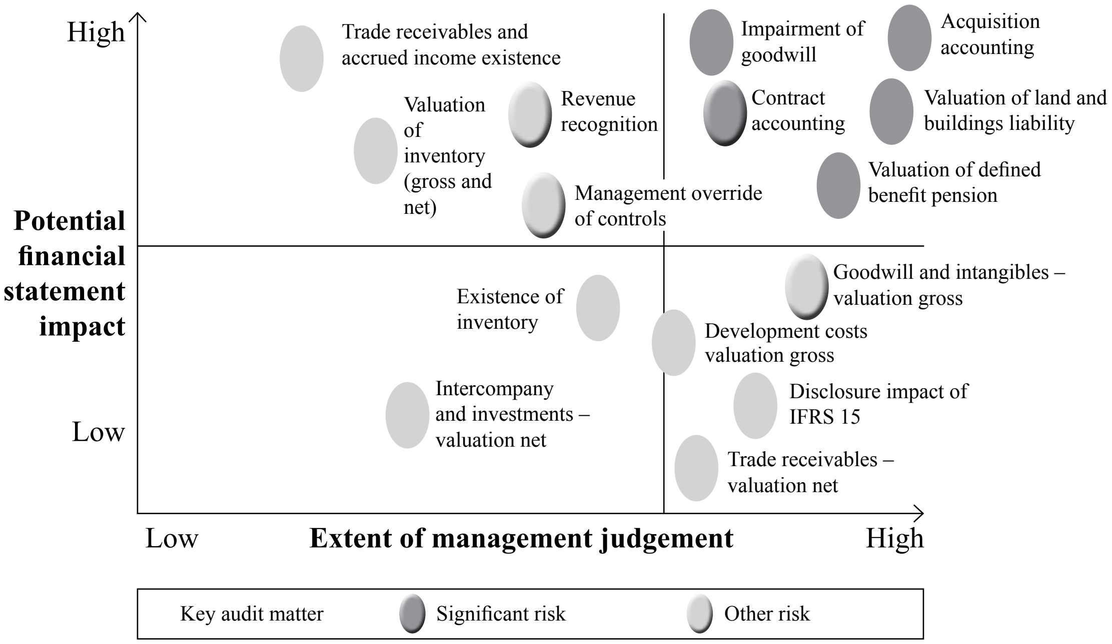
Overview of our audit approach

- Overall materiality: £1,577,000, which represents approximately 2% of the group's revenues;
- Key audit matters were identified as contract accounting, acquisition accounting, impairment of goodwill, valuation of defined benefit pension scheme and valuation of land and buildings;
- We performed full scope audit procedures on the financial statements of all group entities in the United Kingdom. We performed analytical procedures over non-significant components in India and China.

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group

Risk 1 – Contract accounting

Revenue is recognised throughout the group as the fair value of consideration receivable in respect of the performance of contracts and the sale of goods.

Determining the amount of revenue to be recognised from the performance of contracts requires management to make significant judgements and estimates as to the stage of completion, the costs to complete, the impact of any changes in scope of work.

The Directors are also required to make an assessment to determine whether onerous contract provisions are required for loss making contracts.

Due to the significant financial statement impact of the revenue derived from performance of contracts, as well as the high level of estimation required in determining the appropriate accounting treatment, we therefore identified contract accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- documenting our understanding of management's process for evaluating revenue recognition and assessing the design effectiveness of related key controls;
- judgmentally selecting contracts by reference to materiality and other risk factors including loss making contracts and contracts with significant aged work in progress and receivables balances;
- for the above selected samples, assessing whether the revenue and profit recognised are in accordance with the group's accounting policies and International Accounting Standard (IAS) 11 'Construction Contracts' by agreeing inputs to contract terms, re-performing management's calculations and challenging management's assumptions and assertions underpinning their forecast for contracts' future performance by reference to supporting documentation, such as contracts KPIs, historical performance against forecasts and discussions with key contract accounting personnel;

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Key Audit Matter – Group

Risk 1 – Contract accounting (continued)

How the matter was addressed in the audit – Group

- examining those contracts identified as being at risk of incurring future losses during the remaining life of the contract, and challenging management's assumptions and assertions relating to the future results of those contracts by reference to supporting evidence, such as forecast models and post balance sheet contract performance.

The group's accounting policy on long term contracts is shown on page 34.

Key observations

Based on our audit work, we found that the assumptions and judgements used in accounting for contracts were reasonable. We found no significant errors in the underlying calculations.

Key Audit Matter – Group

Risk 2 – Acquisition accounting

During the year the group acquired the entire share capital of Hayward Tyler Group plc (HTG). This acquisition has had a material impact on the financial statements, resulting in the recognition of goodwill and intangible assets on consolidation of HTG into the group.

The group measures goodwill at the acquisition date as being the fair value of consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed. Goodwill of £18.1 million was recognised as a result of the acquisition of HTG.

Intangible assets acquired in a business combination are deemed to have a cost to the group equal to their fair value at the acquisition date. Intangible assets of £16.1 million were recognised as a result of the acquisition of HTG. These intangibles were valued, using input from a third party valuation expert, based on discounted cash flow forecasts, which require judgement by the Directors around key assumptions such as revenue growth, discount rates, brand royalty rates, customer attrition and long term growth rates.

On initial recognition, the assets and liabilities acquired in a business combination are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the group accounting policies. Determining the fair value of certain assets and liabilities requires judgement to be exercised by the Directors, particularly in respect to estimating the fair value of assets acquired and capturing contingent liabilities not previously recognised in the financial statements of HTG.

Due to the significant financial statement impact of the acquisition, as well as the high level of estimation required in determining the appropriate accounting treatment, we therefore identified acquisition accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- documenting our understanding of management's process for evaluating the accounting treatment to be applied to the HTG acquisition and assessing the design effectiveness of related key controls;
- reperforming management's calculation of the fair value of the consideration transferred less the net recognised amount of identifiable assets acquired and liabilities assumed;
- using our internal valuation specialist to evaluate and challenge the assumptions used, including discount rates, growth rates and forecast future trading performance, in the calculation of the fair value of the intangibles recognised;
- testing the completeness and accuracy of the data used in the intangibles valuation by agreeing data to pertinent supporting documentation such as long-term growth forecasts; and
- testing significant fair value adjustments made to the assets and liabilities acquired and challenging management's assumptions in the fair value assigned to certain assets.

The group's accounting policy on acquisition accounting is shown on page 33 and related disclosures are included in note 36.

Key observations

Based on our audit work, we found that the assumptions and judgements used in management's accounting treatment of the HTG business combination was reasonable. We found no errors in the underlying calculations.

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Key Audit Matter – Group

Risk 3 – Impairment of goodwill

The process for assessing whether an impairment exists under International Accounting Standard (IAS) 36 'Impairment of assets' is complex. IAS 36 requires an entity to test goodwill acquired in a business combination for impairment annually. Management have carried out this impairment test at year end and determined that no impairment charge is required.

When carrying out the goodwill impairment review, determining the recoverable amount for each cash-generating unit ("CGU") requires the management to make judgements over certain key inputs in the value in use discounted cash flow models. These include revenue growth, discount rates and long term growth rates.

We therefore identified impairment of goodwill as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- documenting our understanding of management's process for evaluating the impairment of goodwill and assessing the design effectiveness of related key controls;
- testing the methodology applied in the value in use calculation complies with the requirements of IAS 36 'Impairment of Assets';
- testing the mathematical accuracy of management's model;
- testing the key underlying assumptions for the financial year 2019 budget (FY19);
- challenging management on its cash flow forecast and the implied growth rates for FY19 and beyond, corroborating to relevant evidence such as external market data to support these assumptions;
- assessing the discount rates and long-term growth rates used in the forecast including comparison to economic and industry forecasts where appropriate; and
- testing the sensitivity analysis performed by management in respect of the key assumptions, such as discount and growth rates, to ensure there was sufficient headroom in their calculation.

The group's accounting policy on accounting for goodwill impairment is shown on page 35 and related disclosures are included in note 12.

Key observations

Based on our audit work, we found that the assumptions made and estimates used in management's assessment of goodwill impairment were balanced. Note 12 also appropriately discloses the assumptions used in determining at the estimate. We found no errors in the underlying calculations.

Key Audit Matter – Group

Risk 4 – Valuation of defined benefit pension scheme

As part of the acquisition of HTG, the group acquired the 'Hayward Tyler Pension Plan', a defined benefit pension scheme that provides benefits to a number of current and former employees. At 31 May 2018 the defined benefit pension scheme's net surplus was £1.6 million. The gross value of pension scheme assets and liabilities which form the net asset amount to £14.1 million and £12.6 million respectively.

The valuation of the pension liabilities and assets in accordance with IAS 19 'Employee benefits' involves significant judgement and is subject to complex actuarial assumptions. Small variations in those actuarial assumptions can lead to a materially different defined benefit pension

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- documenting our understanding of management's process for evaluating the defined benefit pension scheme and assessing the design effectiveness of related key controls;
- using an internal actuarial specialist to challenge the assumptions used, including discount rates, growth rates, mortality rates and the calculation methods employed in the calculation of the pension liability;
- testing the accuracy of underlying membership data used by the group's actuary for the purpose of calculating the scheme liabilities by selecting a sample of employees and agreeing key member data to source records and by

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

Key Audit Matter – Group

Risk 4 – Valuation of defined benefit pension scheme (continued)

scheme asset or liability being recognised within the group financial statements.

We therefore identified valuation of defined benefit scheme as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

testing a sample of movements in the pension scheme membership;

- directly confirming the existence of pension scheme assets with the entity pension scheme's external asset managers; and
- evaluating management's conclusion that it is appropriate to recognise a pension surplus within the provisions of IFRIC 14.

The group's accounting policy on the defined benefit pension scheme is shown on page 39 and related disclosures are included in note 29.

Key observations

Based on our audit work, we found the valuation methodologies including the inherent actuarial assumptions to be balanced and consistent with the expectation of our actuarial specialists. We consider that the group's disclosures in note 29 are appropriate. We found no errors in calculations.

Key Audit Matter – Group

Risk 5 – Land and buildings impairment

The Luton property acquired as part of the HTG business combination has undergone substantial refurbishment and expansion to meet the specific growth plans of the business. Under IAS 36, management are required to consider at the end of each year whether there are any indicators of impairment.

At the point of acquisition, there was a write down of the value of the land and buildings by £4.7m.

Due to the level of judgement applied in the fair value calculation, we therefore identified land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- documenting our understanding of management's process for evaluating the calculation of land and buildings' impairment and assessing the design effectiveness of related key controls;
- testing the methodology applied in the fair value calculation complies with the requirements of IFRS 13;
- testing the mathematical accuracy of management's model;
- testing the key underlying assumptions for the financial year 2019 budget (FY19);
- challenging management on its cash flow forecast and the implied growth rates for FY19 and beyond; and corroborating to relevant evidence such as external market data to support these assumptions; and
- assessing the discount rates and long term-growth rates used in the forecast including comparison to economic and industry forecasts where appropriate.

The group's accounting policy on asset impairment is shown on page 35.

Key observations

Based on our audit work, we found that the assumptions made and estimates used in management's assessment of land and buildings valuation were balanced. We found no errors in the underlying calculations.

Independent Auditor’s Report to the Members of Avingtrans plc (Continued)

We did not identify any Key Audit Matters relating to the audit of the financial statements of the parent company.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	£1,577,000, which represents approximately 2% of the group’s revenues. This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the group. Revenue is also a consistent basis for determining materiality compared with the previous periods. Materiality for the current year is higher than the level that we determined for the year ended 31 May 2017 as a result of the increased group revenue the current year.	£359,000, which represents approximately 2% of the parent company total assets. The benchmark is considered the most appropriate as it most accurately reflects the parent company’s status as a non-trading holding company. Materiality for the current year is higher than the level that we determined for the period ended 31 May 2017 to reflect the parent company’s increased total assets in the current year.
Performance materiality used to drive the extent of our testing	Based on our risk assessment, including the group’s overall control environment, we determined a performance materiality of 75% of the financial statement materiality.	Based on our risk assessment, including the company’s overall control environment, we determined a performance materiality of 75% of the financial statement materiality.
Specific materiality	We determined a lower level of materiality for directors’ remuneration and related party transactions.	We determined a lower level of materiality for directors’ remuneration and related party transactions.
Communication of misstatements to the audit committee	£78,850 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£18,450 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group’s business, its environment and risk profile. The components of the group were identified by the group audit team based on a measure of materiality, considering each as a percentage of the group’s total assets, revenues and profit before taxation, to assess the significance of the component and determine the planned audit response.

A full scope audit approach for all significant components was determined based on their relative materiality to the group and our assessment of the audit risk. For significant components requiring a full scope approach we evaluated the processes and controls over the financial reporting system identified as part of our risk assessment, reviewed the financial statement production process and addressed critical accounting matters such as those related to the key audit matters as identified above. We then undertook substantive testing on significant transactions and material account balances.

In order to respond to the audit risks identified in our risk assessment, we performed a full scope audit of the financial statements of the parent company, Avingtrans plc (in the United Kingdom), and of all other component entities in the United Kingdom. The significant components represented 96.2 percent of consolidated revenues, 100 percent of the loss before taxation and 95.3 percent of total assets. Statutory audits of subsidiaries, where required by local legislation, were performed to a lower materiality where applicable.

Independent Auditor's Report to the Members of Avingtrans plc (Continued)

An overview of the scope of our audit (continued)

The non-significant group components in India and China were subject to analytical procedures with a focus on the key audit matters as identified above and the significance to the group's balances.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 3 to 22, 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.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the 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 under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 17, 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 group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor’s Report to the Members of Avingtrans plc (continued)

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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
2 October 2018

Principal Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 that are relevant to companies which apply IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with IFRS also, these are presented alongside the Group Disclosures throughout the accounts.

The consolidated financial statements are presented in sterling and all values are rounded the nearest thousand (£'000) except where otherwise indicated.

The following Standards and Interpretations, which are relevant to the Group but have not been applied during the year, were in issue but not yet effective:

Framework	Pronouncement		Effective date
IFRS			**EU**
IFRS	IFRS 17	Insurance contracts	Not yet EU-adopted
IFRS	IFRS 16	Leases	Financial periods commencing on/ after 1 January 2019
IFRS	IFRIC Interpretation 22	Foreign currency transactions and advance considerations	Not yet EU-adopted
IFRS	IFRS 15	Revenue from Contracts with Customers	Financial periods commencing on/ after 1 January 2018
IFRS	IFRS 9	Financial Instruments	Financial periods commencing on/ after 1 January 2018
IFRS	IFRS 14	Regulatory Deferral Accounts	Deferred until final standard released
IFRS	IFRIC Interpretation 23	Uncertainty over Income Tax Treatments	Not yet EU-adopted
IFRS	Annual Improvements to IFRS Standards 2015-2017 Cycle		Not yet EU-adopted
IFRS	Amendments to IAS 19	Plan Amendment, Curtailment or Settlement	Not yet EU-adopted
IFRS	Amendments to IAS 40	Transfers of investment property (issued 8 December 2016)	Financial periods commencing on/ after 1 January 2018
IFRS	Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	Financial periods commencing on/ after 1 January 2016
IFRS	Amendments to IFRS 9	Prepayment features with negative compensation (issued 12 October 2017)	Financial periods commencing on/ after 1 January 2019
IFRS	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (issued 12 October 2017)	Financial periods commencing on/ after 1 January 2019
IFRS	Amendments to IFRS 4	Applying IFRS 9 financial instruments with IFRS 4 Insurance Contracts.	Financial periods commencing on/ after 1 January 2018
IFRS	Amendments to References to the Conceptual Framework in IFRS Standards		Financial periods commencing on/ after 1 January 2020
IFRS	Annual improvements to IFRS 2014-2016 Cycle		Financial periods commencing on/ after 1 January 2018
IFRS	Clarifications to IFRS 15	Revenue from Contracts with Customers	Financial periods commencing on/ after 1 January 2018

Principal Accounting Policies (Continued)

Impact of IFRS 9

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and applies to three aspects of accounting for financial instruments: classification and measurement of financial assets, impairment and hedge accounting. IFRS 9 is effective for reporting periods beginning on or after 1 January 2018. With the exception of hedge accounting, retrospective application is required but provision of comparative information is not compulsory. The Group will adopt IFRS 9 for the reporting period commencing 1 June 2018. The Group is not required to restate 2018 comparative information and is analysing the impact of adoption on its Financial Statements. This standard is not expected to have a material impact.

Impact of IFRS 15

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised, an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a client. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts upon which the Group's current revenue recognition policies are based.

Either a full retrospective application or a modified retrospective application for IFRS 15 is permitted for reporting periods beginning on or after 1 January 2018 with early adoption permitted. Management intend to adopt IFRS 15 for the period commencing 1 June 2018 using the modified retrospective approach.

During the period management performed a detailed review of the impact from IFRS 15. Key impacts are discussed below.

Measurement over time or at a point in time

As per IFRS 15, an entity recognises revenue over time if one of the following criteria is met:

1. the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
2. the entity's performance creates or enhances an asset that the customer controls as the asset is created; or
3. the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Applying these criteria, fewer contracts would qualify for recognition over time under IFRS 15 when compared to our current recognition criteria. As a consequence, revenue will be recognised when the performance conditions are achieved, which typically occurs when the customer takes control of the product.

Products purchased as a series

Often customers will place orders for a number of units of a product which are substantially the same and have the same pattern of transfer. Where this is the case and the criteria to recognise revenue over time has been met, we would treat these units as a single performance obligation.

Warranty

Products sold by the Group come with a warranty period and for certain contracts customers will negotiate an extended warranty period. The current treatment is to recognise the price paid for the extended warranty as part of the price for the product. Under IFRS 15, warranties that the customer has the option to purchase separately give rise to a separate performance obligation, with revenue being recognised as that performance obligation is performed.

Contract modifications

Contract modifications occur regularly across the Group. Common contract modifications include additional products and services, technical modifications to the current products and services, and changes in contract timing. IFRS 15, provides greater clarity on how we should treat contract modifications including when contract modifications should be treated as a distinct contract or whether it should be treated as an amendment to the existing contract.

Variable consideration

Certain contracts with customers have an element of variable consideration in the form of volume rebates or more commonly liquidated damages. Under the new standard, these sums will be included within the total contract price once they can be reasonably estimated and will not result in a 'significant revenue reversal' as defined in IFRS 15.

Management have concluded that the application of IFRS 15 impact on IFRS will be a reduction in opening reserves in the range of £1m to £4m.

Principal Accounting Policies (Continued)

Impact of IFRS 16

There are other standards in issue which are not considered applicable and are not expected to have an impact on the Company and have therefore not been included in the list above. IFRS 16 is expected to require amendments for finance costs and operating leases however management are undertaking an exercise to determine the impact on results and have not yet quantified this for the 2020 accounts.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 May 2018. Subsidiaries are entities over which the Group has the rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group obtains and exercises control of its subsidiaries through voting rights. Employee Benefit Trusts ("EBT") are consolidated on the basis that the parent has control as it bears the risks and rewards of having established the trust, thus the assets and liabilities of the EBT are included on the Group balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

All intra-group transactions have been eliminated on consolidation. Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Business combinations

Business combinations are accounted for by using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the acquired business, at the acquisition date, regardless of whether or not they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group accounting policies.

Goodwill recognised on business combinations is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

Acquisition costs are expensed through the income statement as incurred.

An intangible asset acquired in a business combination is deemed to have a cost to the Group equal to its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair value of the complementary assets are reliably measurable, the Group recognises them as single assets provided the individual assets have similar useful lives.

Goodwill

Goodwill represents the future economic benefits arising from business combinations that are not individually identified and separately recognised. Goodwill is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

There is no re instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

Revenue

Revenue comprises revenue from the sale of goods and the rendering of services.

Revenue is measured at the fair value of consideration received or receivable and represents amounts obtained through trading activities, net of value added tax and trade discounts. The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales or service transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable component by taking into account the relative fair value of each component.

Revenue is recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Group's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described overleaf.

Principal Accounting Policies (Continued)

Revenue (continued)

(a) *Original equipment manufacture*
The Group manufactures a range of equipment original equipment including pumps, motors, turbines, medical imaging equipment and nuclear waste containers.

When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the Group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of the contract costs incurred and to the extent that such costs are recoverable. Contract costs are recognised in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the total expected loss is recognised immediately in profit or loss.

The stage of completion of any contract is assessed by management by taking into consideration all information available at the reporting date. The percentage of completion is calculated by comparing costs incurred to date with the total estimated costs of the contract. The gross amount due from customers for contract work is presented as an asset within "trade and other receivables" for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a liability within "trade and other payables" for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

(b) *Aftermarket*
Revenue comprises the sale of spare parts and other aftermarket services, which is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and services supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods and services.

Long term contracts

Long-term contracts are accounted for in accordance with IAS 11. Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date. The stage of completion of the contract at the balance sheet date is assessed by reference to the value of work done to the balance sheet date as a proportion of the total value of the contract.

Where the outcome of a long-term contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred where it is probable that they will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

In the case of a fixed price contract, the outcome of a construction contract is deemed to be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably
- it is probable that economic benefits associated with the contract will flow to the Group
- both the contract costs to complete the contract and the stage of completion at the balance sheet date can be measured reliably, and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The gross amount due from customers for contract work is presented as an asset for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented as a payments on account for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less losses).

Recognition of losses on all contracts as a result of delays and liquidated damages is made in the year in which the loss is first foreseen and is recognised as a deduction from amounts recoverable from the customer or added to payments on account. This includes recognition of liquidated damages to the extent they expect to be paid in respect of any anticipated delays to the delivery of projects.

Dilapidations

When there is reasonable certainty of the cash outflow in respect of dilapidations this is provided for within accruals in the financial statements. Where there is significant uncertainty in respect of the amount or timing of the payment of dilapidations, this is included within provisions.

Principal Accounting Policies (Continued)

Dividends

Dividends are recognised when the shareholders right to receive payment is established. Dividend distributions payable to equity shareholders are included in "other short-term financial liabilities" when the dividends are approved in general meeting prior to the balance sheet date. Interim dividends are recognised when paid.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale is included in administrative expenses in the income statement.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land by equal annual instalments over their estimated useful economic lives. The rates/periods generally applicable are:

Freehold buildings	2%
Leasehold improvements	Period of lease
Plant and machinery	6.7 - 20%
Equipment and motor vehicles	12.5% - 33%

Material residual value estimates are updated as required, but at least annually.

Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. Discount factors are determined individually for each cash generating unit and reflect current market assessments at the time value of money and asset-specific risk factors.

If the impairment is subsequently reversed, the carrying amount, except for goodwill, is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined had no impairment been recognised. Impairment losses in respect of goodwill are not reversed.

Leased assets

In applying the classification of leases in IAS 17, management considers its leases of equipment as finance lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Property leases are spilt between land and the building to assess whether they are operating or finance leases. Land is almost always an operating lease due to its long life but judgment is required to assess the classification between operating and finance lease for buildings which are assessed individually against the criteria in IAS 17.10.

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of

Principal Accounting Policies (Continued)

Leased assets (continued)

the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement as a finance cost over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Investments

Investments in subsidiary undertakings and participating interests are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Publicly traded investments are stated at cost less any provision to arrive at market value. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

Investment income is recognised on a received basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Interest income

Interest is recognised using the effective interest method, which calculates the amortised cost of a financial asset and allocates 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 financial asset to the net carrying amount of the financial asset.

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and laws that have been enacted or substantially enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if the reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit.

The tax rules in the numerous jurisdictions in which the Group operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. All unused tax losses and credits have been recognised in the year as management believes that use of the deferred tax asset created is probable.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the consolidated income statement, except where they relate to items that are charged or credited to other comprehensive income or directly to equity in which case the related deferred tax is also charged or credited directly to other comprehensive income or equity.

The group has accounted for research and development expenditure tax credit above operating profit.

Principal Accounting Policies (Continued)

Intangible assets

i) *Order book and customer relationships*
Customer lists acquired in a business combination that qualify for separate recognition are recognised as intangible assets at their fair values.

The useful lives for these intangible assets are finite.

These intangible assets are amortised on a straight-line basis over the following periods:

- Order book - Period of order cover
- Customer relationships - Up to 10 years

The amortisation charge is shown within amortisation of intangibles in the income statement.

ii) *Software*
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install the specific software.

The useful lives for these intangible assets are finite.

Software is amortised over three years and the amortisation charge is shown within administrative expenses in the income statement.

iii) *Intellectual property*
Intellectual property is amortised over a period of 20 years and the amortisation charge is shown within administrative expenses in the income statement. The useful lives for these intangible assets are finite.

iv) *Internally generated development costs*
Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Other intangible assets include capitalised development costs incurred in the development of new products and process development. They are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful life. Management assess the useful life of group intangible assets to be in the range of five to ten years.

To distinguish any research-type project phase from the development phase, it is the Group's accounting policy to require a detailed forecast of sales or cost savings expected to be generated by the intangible asset. The forecast is incorporated into the Group's overall budget forecast as the capitalisation of development costs commences. This ensures that managerial accounting, impairment testing procedures and accounting for internally-generated intangible assets is based on the same data.

The Group's management also monitors whether the recognition requirements for development costs continue to be met and an assessment made of its recoverability. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Costs that are directly attributable to the development phase of technology are recognised as an intangible asset, provided they meet the following recognition requirements:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it
- the Group has the ability to use or sell the intangible asset
- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits
- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

For a project meeting these criteria, subsequent costs incurred will be capitalised until the product or process is available for use, at which point amortisation commences on a straight line basis over the product's estimated useful life, generally 3 – 8 years. The useful lives for these intangible assets are finite. Where businesses are in start up or have a specific contract covering the amortisation then a period longer than 8 years could be used. Amortisation costs are shown within administrative expenses.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

Principal Accounting Policies (Continued)

Intangible assets (continued)

The cost of an internally generated development costs comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on project development along with an appropriate portion of relevant overheads.

Borrowing costs

Borrowing costs primarily comprise interest on the Group's borrowings. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits and the costs can be measured reliably. All other borrowing costs are expensed in the period in which they are incurred and reported within "finance costs".

Equity

Share capital represents the nominal value of shares that have been issued.

When the Company purchases its own shares, the consideration is deducted from equity (attributable to the Company's equity holders until the shares are either cancelled or issued) as an investment in own shares reserve. Such shares are held at cost.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Capital redemption reserve represents the nominal value of shares cancelled.

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve.

Merger reserve was created on the acquisition of Hayward Tyler Group PLC (note 36).

Other reserves were created on redemption of preference shares.

Retained earnings include all current and prior period retained profits. It also includes charges related to share-based employee remuneration.

All transactions with owners of the parent are recorded separately within equity.

Financial assets

The Group's financial assets include:

i) trade and other receivables that are classified as loans and receivables
ii) cash and cash equivalents that are classified as loans and receivables
iii) unlisted investments classified as available for sale.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are initially recognised at fair value.

Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for any impairment. Any change to their value through impairment or reversal of impairment is recognised in profit or loss.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated discounted future cash flows.

Available for sale financial assets include non-derivative financial assets that are either designated as such or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are measured at fair value (with movements in fair value recognised through income statement or other comprehensive income as required), unless the fair value cannot be measured reliably and in this case these assets are valued at cost. Gains and losses arising from investments classified as available for sale are recognised in the income statement when they are sold or when the investment is impaired.

In the case of impairment of available for sale assets, any loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but

Principal Accounting Policies (Continued)

Financial assets (continued)

assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Financial liabilities

The Group's financial liabilities include:

i) trade and other payables that are classified as other financial liabilities
ii) borrowings that are classified as other financial liabilities
iii) deferred consideration that is classified as other financial liabilities
iv) derivative financial instruments that are classified as other financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. All other financial liabilities are recorded initially at fair value, net of direct issue costs. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Derivatives are financial assets or financial liabilities classified as held for trading and recorded at fair value through profit and loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held on call with banks and bank overdrafts, and ring fenced cash obtained from EU grants. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Defined contribution pension scheme

The pension costs charged against profits are the contributions payable to the scheme in respect of the accounting period.

Post-employment benefits, short-term employee benefits and share-based employee remuneration

Post-employment benefits

Hayward Tyler Group acquired during the year by the Group provides post-employment benefits through a defined benefit plan, this plan formed part of the business combination.

The Group provides post-employment benefits through defined benefit plans as well as various defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The contributions are recognised as an employee benefit expense when they are due.

Plans that do not meet the definition of a defined contribution plan are defined benefit plans. Under the Group's defined benefit plans, the amount of pension benefit that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The legal obligation for any benefits remains with the Group, even if plan assets for funding the defined benefit plan have been set aside. Plan assets may include assets specifically designated to a long-term benefit fund as well as qualifying insurance policies.

The asset recognised in the statement of financial position for defined benefit plans is the present value of the fair value of plan assets less the defined benefit obligation (DBO) at the reporting date. The net surplus at the end of the year is £1.6 million (On business combination: £1.0 million).

Management estimates the DBO annually with the assistance of independent actuaries. This is based on standard rates of inflation, salary growth rate and mortality. Discount factors are determined close to each year-end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Service cost on the Group's defined benefit plan is included in employee benefits expense. Employee contributions, all of which are independent of the number of years of service, are treated as a reduction of service cost. Net interest expense on the net defined benefit liability is included in finance costs. Gains and losses resulting from remeasurements of the net defined benefit liability are included in other comprehensive income.

Principal Accounting Policies (Continued)

Post-employment benefits, short-term employee benefits and share-based employee remuneration (continued)

Short-term benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

Share-based employee remuneration

The Group operates equity-settled share-based remuneration plans for its key management personnel. None of the Group's plans are cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions.

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to share-based payment reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period.

The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

Foreign currencies

The individual Financial Statements of each Group entity are presented in the currency in the primary economic environment of which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position are presented in sterling (£). Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign exchange gains and losses resulting from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in profit or loss in the period in which they arise. Exchange differences on non-monetary items are recognised in other comprehensive income to the extent that they relate to a gain or loss on that non-monetary item recognised in other comprehensive income, otherwise such gains and losses are recognised in profit or loss.

The assets and liabilities in the financial statements of foreign subsidiaries and related goodwill are translated at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at a rate which is considered to be approximate to the rate prevailing at the date of the transaction. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are recognised in other comprehensive income and accumulated in the "translation reserve" in equity. On disposal of a foreign operation the cumulative translation differences are reclassified from equity to profit or loss when the gain or loss is recognised.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses whose operating results are regularly reviewed by the Chief Executive, who is considered to be the chief operating decision maker. The Chief Executive focuses on information by operating division and the Group has therefore identified reportable operating segments currently are Energy-EPM, Energy-PRSE and Medical.

The Chief Executive also reviews information by geographical area and whilst this is considered supplementary to the operating information, it is disclosed in the financial statements to provide additional information.

Principal Accounting Policies (Continued)

Government grants

A government grant is recognised only when there is reasonable assurance that (a) the Group will comply with any conditions attached to the grant and (b) the grant will be received.

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement by equal annual instalments over the expected useful lives of the relevant assets. Government grants in respect of assistance of a revenue nature are credited to the income statement in the same period as the related expenditure.

Hayward Tyler Limited ("HTL"), based in Luton, UK, was awarded a £3.5 million grant from the Regional Growth Fund ("RGF") pre-acquisition by AVG. The deferred income liability is reduced by grant income that is recognised in the consolidated income statement. This grant income is included in operating charges as a deduction from related research, development and training expenses.

Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has announced the plan's main features to those affected by it.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

The amount recognised for restoration is a management estimate in relation to the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood's Peterborough property.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported annual amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The major areas of estimation within the financial statements are as follows:

Revenue and margin on long term contracts

The Group recognises revenue and gross margin on long-term contracts using the percentage of completion method based on milestones; in addition, when a project review indicates a negative gross margin, the estimated loss at completion is immediately recognised.

Recognised revenue and margin are based on estimates of total expected contract revenue and cost, which are subject to revisions as the contract progresses. Total expected revenue and cost on a contract reflect management's current best estimate of the probable future benefits and obligations associated with the contract. Assumptions to calculate present and future obligations take into account current technology as well as the commercial and contractual positions, assessed on a contract-by-contract basis. The introduction of technologically-advanced products exposes the Group to risks of product failure significantly beyond the terms of standard contractual warranties applicable to suppliers of equipment only.

Obligations on contracts may result in penalties due to late completion of contractual milestones, or unanticipated costs due to project modifications or delays caused by unexpected conditions or events (note 20).

Exceptional items

Exceptional items are identified as such by virtue of their size, and nature of incidence. These items are disclosed on the face of the Income Statement to aid the understanding of the group's performance. Transaction which may give rise to exceptional items are principally acquisition and restructuring costs.

Principal Accounting Policies (Continued)

Critical accounting judgements and key sources of estimation uncertainty (continued)

Fair values at acquisition

Management have made judgments regarding the fair value of assets and liabilities acquired in the period. As part of this review we are required to identify and estimate the fair value of intangible assets. Workings to obtain the fair value of these intangible assets are largely based on management's estimates of attributable cash flows discounted to present their present value. Details of acquired intangibles is presented in note 13.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and to apply a suitable discount rate in order to calculate present value. The assumptions and sensitivities applied by management in determining whether there is any impairment of goodwill are set out in note 12.

Recoverability of WIP, trade receivables and accrued income

Management estimate the recoverable amount of balances relating to ongoing contracts that are incomplete at the date of approval of the financial statements. In particular in relation to claims the Directors prepare a best estimate of the amount expected to be recovered at the balance sheet date by reference to ongoing negotiations the customers. Management periodically revisit the claim and their assessment of the amount expected to be recovered. WIP, trade receivables and accrued income are detailed in note 17.

Warranties

The amount recognised for warranties for which customers are covered for the cost of repairs is estimated based on management's past experience, current knowledge and future expectation that defects may arise. The value of warranty provisions at 31 May 2018 was £1.9 million (note 20).

Dilapidations

The amount recognised for the dilapidation provision is managements estimate in relation to the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood's Peterborough property. The estimate has then been discounted to its present value based on a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability (note 20).

Deferred tax assets

Management have recognised a deferred tax asset based on expected losses expected to be utilised over the next 5 year period. The assessment of this utilisation is based on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Further details relating to deferred tax assets are in note 26.

Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit pension gross liability of £12.6 million (On business combinations: £13.5 million) is based on standard rates of inflation and mortality. The estimate does not include anticipation of future salary increases as there are no members with benefits related to future salary progression. Discount factors are determined close to each period end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future appraisals of the Group's defined benefit pension obligations. The value of the defined benefit pension asset at 31 May 2018 was £1.6 million (On business combination: £1.3 million). Further details of the pension scheme are in note 29.

Consolidated Income Statement

For the year ended 31 May 2018

	Note	2018 £'000	2017 £'000
Revenue	2	**78,864**	22,714
Cost of sales		**(58,787)**	(18,659)
Gross profit		**20,077**	4,055
Distribution costs		**(4,050)**	(713)
Share based payment expense		**(69)**	(34)
Acquisition costs		**(1,567)**	(101)
Restructuring costs		**(1,699)**	(182)
Tender share buyback costs		**–**	(226)
Amortisation of intangibles from business combinations		**(3,303)**	–
Other administrative expenses		**(13,231)**	(3,265)
Total administrative expenses		**(19,869)**	(3,808)
Operating loss	2	**(3,842)**	(466)
Finance income	5	**36**	219
Finance costs	6	**(692)**	(38)
Loss before taxation		**(4,498)**	(285)
Taxation	9	**12**	(11)
Loss for the financial year attributable to equity shareholders		**(4,486)**	(296)
Loss per share:			
From continuing operations			
- Basic	11	**(16.0)p**	(1.3)p
- Diluted	11	**(16.0)p**	(1.3)p

Consolidated Statement of Comprehensive Income

	2018 £'000	2017 £'000
Loss for the year	**(4,486)**	(296)
Items that will not be subsequently be reclassified to profit or loss		
Remeasurement of net defined benefit liability	**71**	–
Income tax relating to items not reclassified	**(14)**	–
Items that may/will subsequently be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(137)**	10
Total comprehensive income for the year attributable to equity shareholders	**(4,566)**	(286)

The principal accounting policies and notes on pages 31 to 81 form part of these financial statements.

Consolidated Balance Sheet

For the year ended 31 May 2018	*Note*	***2018***	*2017*
		£'000	*£'000*
Non current assets			
Goodwill	**12**	**23,369**	5,198
Other intangible assets	**13**	**15,612**	1,442
Property, plant and equipment	**14**	**27,595**	4,850
Deferred tax	**26**	**1,454**	–
Pension and other employee obligations	**29**	**1,590**	–
		69,620	11,490
Current assets			
Inventories	**16**	**10,341**	5,618
Trade and other receivables : amounts falling due within one year	**17**	**34,606**	9,038
Trade and other receivables : amounts falling due after one year	**17**	**–**	580
Current tax asset	**9**	**608**	52
Cash and cash equivalents	**19**	**6,574**	27,703
		52,129	42,991
Total assets		**121,749**	54,481
Current liabilities			
Trade and other payables	**21**	**(26,179)**	(7,870)
Obligations under finance leases	**24**	**(1,179)**	(142)
Borrowings	**23**	**(6,719)**	(179)
Current tax liabilities	**9**	**(15)**	–
Provisions	**20**	**(6,135)**	–
Derivatives		**(127)**	–
Total current liabilities		**(40,354)**	(8,191)
Non-current liabilities			
Borrowings	**23**	**(4,435)**	(896)
Obligations under finance leases	**24**	**(1,375)**	(37)
Deferred tax	**26**	**(2,914)**	(195)
Contingent consideration	**36**	**(256)**	(256)
Other creditors	**22**	**(3,339)**	–
Total non-current liabilities		**(12,319)**	(1,384)
Total liabilities		**(52,673)**	(9,575)
Net assets		**69,076**	44,906
Equity			
Share capital	**27**	**1,553**	958
Share premium account		**13,385**	12,771
Capital redemption reserve		**1,299**	1,299
Translation reserve		**(135)**	2
Merger reserve		**28,949**	–
Other reserves		**180**	180
Investment in own shares	**35**	**(2,835)**	(2,250)
Retained earnings		**26,680**	31,946
Total equity attributable to equity holders of the parent		**69,076**	44,906

The principal accounting policies and notes on pages 31 to 81 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 2 October 2018 and signed on its behalf by:

S M King
Director
Company number: 1968354

Company Balance Sheet

For the year ended 31 May 2018	Note	2018 £'000	2017 £'000
Non current assets			
Investments	15	35,977	6,419
		35,977	6,419
Current assets			
Trade and other receivables : amounts falling due within one year	17	32,814	11,833
Current tax asset		123	123
Cash at bank and in hand	19	2,065	25,124
		35,002	37,080
Total assets		70,979	43,499
Current liabilities			
Trade and other payables	21	(328)	(155)
Borrowings	23	(180)	(179)
Total current liabilities		(508)	(334)
Non-current liabilities			
Borrowings	23	(716)	(896)
Contingent consideration	36	(256)	(256)
Total non-current liabilities		(972)	(1,152)
Total liabilities		(1,480)	(1,486)
Net assets		69,499	42,013
Capital and reserves			
Called up share capital	27	1,553	958
Share premium account		13,385	12,771
Capital redemption reserve		1,299	1,299
Merger reserve		28,949	–
Other reserves		180	180
Profit and loss account		24,133	26,805
Equity shareholders' funds		69,499	42,013

The parent company has taken the exemption conferred by S.408 Companies Act 2006 not to publish the profit and loss account of the parent company with these consolidated accounts. The loss dealt with in the parent company's financial statements was £1,835k loss (2017: loss of £929k).

The financial statements were approved by the Board of Directors on and authorised for issue 2 October 2018 and signed on its behalf by:

S M King
Director

The principal accounting policies and notes on pages 31 to 81 form part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 May 2018

	Share capital £'000	*Share premium account £'000*	*Capital redemp -tion reserve £'000*	*Merger reserve £'000*	*Trans -lation reserve £'000*	*Other reserves £'000*	*Investment in own shares £'000*	*Retained earnings £'000*	*Total £'000*
At 1 June 2016	1,387	10,903	814	–	(8)	180	(1,000)	52,477	64,753
Ordinary shares issued	56	1,868	–	–	–	–	–	–	1,924
Dividends paid	–	–	–	–	–	–	–	(886)	(886)
Investment in own shares	–	–	–	–	–	–	(1,250)	–	(1,250)
Tender share buyback	(485)	–	485	–	–	–	–	(19,383)	(19,383)
Share-based payments	–	–	–	–	–	–	–	34	34
Transactions with with owners	(429)	1,868	485	–	–	–	(1,250)	(20,235)	(19,561)
Loss for the year	–	–	–	–	–	–	–	(296)	(296)
Other comprehensive income									
Exchange gain	–	–	–	–	10	–	–	–	10
Total comprehensive income for the year	–	–	–	–	10	–	–	(296)	(286)
Balance at 31 May 2017	**958**	**12,771**	**1,299**	**-**	**2**	**180**	**(2,250)**	**31,946**	**44,906**
At 1 June 2017	958	12,771	1,299	–	2	180	(2,250)	31,946	44,906
Ordinary shares issued	595	614	–	28,949	–	–	–	–	30,158
Dividends paid	–	–	–	–	–	–	–	(906)	(906)
Investment in own shares	–	–	–	–	–	–	(585)	–	(585)
Share-based payments	–	–	–	–	–	–	–	69	69
Transactions with owners	595	614	–	28,949	–	–	(585)	(837)	28,736
Loss for the year	–	–	–	–	–	–	–	(4,486)	(4,486)
Other comprehensive income									
Actuarial gain for the year on pension scheme	–	–	–	–	–	–	–	71	71
Deferred tax on actuarial movement on pension scheme	–	–	–	–	–	–	–	(14)	(14)
Exchange loss	–	–	–	–	(137)	–	–	–	(137)
Total comprehensive income for the year	–	–	–	–	(137)	–	–	(4,429)	(4,566)
Balance at 31 May 2018	**1,553**	**13,385**	**1,299**	**28,949**	**(135)**	**180**	**(2,835)**	**26,680**	**69,076**

The principal accounting policies and notes on pages 31 to 81 form part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 May 2018

	Share capital £'000	*Share premium account £'000*	*Capital redemp -tion reserve £'000*	*Merger reserve £'000*	*Other reserves £'000*	*Retained earnings £'000*	*Total £'000*
At 1 June 2016	1,387	10,903	814	–	180	47,969	61,253
Ordinary shares issued	56	1,868	–	–	–	–	1,924
Dividends paid	–	–	–	–	–	(886)	(886)
Transfer on disposal	(485)	–	485	–	–	(19,383)	(19,383)
Share-based payments	–	–	–	–	–	34	34
Transactions with owners	(429)	1,868	485	–	–	(20,235)	(18,311)
Loss for the year	–	–	–	–	–	(929)	(929)
Total comprehensive income for the year	–	–	–	–	–	(929)	(929)
Balance at 31 May 2017	**958**	**12,771**	**1,299**	–	**180**	**26,805**	**42,013**
At 1 June 2017	958	12,771	1,299	–	180	26,805	42,013
Ordinary shares issued	595	614	–	28,949	–	–	30,158
Dividends paid	–	–	–	–	–	(906)	(906)
Share-based payments	–	–	–	–	–	69	69
Transactions with owners	595	614	–	28,949	–	(837)	29,321
Loss for the year	–	–	–	–	–	(1,835)	(1,835)
Total comprehensive income for the year	–	–	–	–	–	(1,835)	(1,835)
Balance at 31 May 2018	**1,553**	**13,385**	**1,299**	**28,949**	**180**	**24,133**	**69,499**

The principal accounting policies and notes on pages 31 to 81 form part of these financial statements.

Consolidated Statement of Cash Flow

For the year ended 31 May 2018

	Note	***2018*** ***£'000***	*2017* *£'000*
Operating activities			
Cash flows from operating activities	**30**	**(6,142)**	(3,221)
Finance costs paid		**(363)**	(38)
Income tax paid		**(212)**	(1)
Contributions to defined benefit plan		**(175)**	–
Net cash outflow from operating activities		**(6,892)**	(3,260)
Investing activities			
Acquisition of subsidiary undertakings, net of cash acquired	**36**	**(11,896)**	(585)
Finance income		**13**	219
Purchase of intangible assets		**(712)**	(626)
Purchase of property, plant and equipment		**(2,654)**	(484)
Proceeds from sale of property, plant and equipment		**–**	13
Net cash used by in investing activities		**(15,249)**	(1,463)
Financing activities			
Equity dividends paid		**(906)**	(886)
Repayments of bank loans		**(3,483)**	(334)
Repayments of obligations under finance leases		**(1,025)**	(292)
Proceeds from issue of ordinary shares		**47**	612
Purchase of shares - tender buyback		**–**	(19,383)
Proceeds from borrowings		**6,289**	–
Net cash inflow/(outflow) from financing activities		**922**	(20,283)
Net decrease in cash and cash equivalents		**(21,219)**	(25,006)
Cash and cash equivalents at beginning of year		**27,703**	52,923
Effect of foreign exchange rate changes on cash		**81**	(214)
Cash and cash equivalents at end of year	**19**	**6,565**	27,703

The principal accounting policies and notes on pages 31 to 81 form part of these financial statements.

Company Statement of Cash Flow

For the year ended 31 May 2018

	Note	*2018* *£'000*	*2017* *£'000*
Operating activities			
Cash flows from operating activities	**31**	**(10,649)**	(11,300)
Finance costs paid		**(19)**	(21)
Income tax repaid		**–**	–
Net cash outflow from operating activities		**(10,668)**	(11,321)
Investing activities			
Loan to subsidiary undertakings		**(12,500)**	(738)
Finance income		**565**	274
Net cash utilised by investing activities		**(11,935)**	(464)
Financing activities			
Equity dividends paid		**(906)**	(886)
Repayments of bank loans		**(182)**	(182)
Proceeds from issue of ordinary shares		**632**	1,862
Purchase of shares – tender buyback		**–**	(19,383)
Proceeds from borrowings		**–**	–
Net cash outflows from financing activities		**(456)**	(18,589)
Net decrease in cash and cash equivalents		**(23,059)**	(30,374)
Cash and cash equivalents at beginning of year		**25,124**	55,498
Cash and cash equivalents at end of year		**2,065**	25,124

The principal accounting policies and notes on pages 31 to 81 form part of these financial statements.

Notes to the Annual Report

For the year ended 31 May 2018

1 Corporate information

The consolidated financial statements of Avingtrans plc and its subsidiaries (collectively the Group) for the year ended 31 May 2018 were authorised for issue in accordance with a resolution of the directors on 2 October 2018. Avingtrans plc (the parent) is a limited company incorporated in England & Wales, whose shares are publicly traded on AIM. The registered office is located at Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA. The Group is principally engaged in the provision of highly engineered components, systems and services to the energy, medical and infrastructure industries worldwide.

2 Segmental analysis

For management purposes, the Group is currently organised into three (2017: two) main segments Energy-EPM, Energy-PSRE and Medical following the acquisition of HTG. The basis on which the Group reports to the Chief Executive.

Principal activities are as follows:

- Energy – EPM, built around Hayward Tyler which was acquired in the year. Hayward Tyler designs, manufactures and services performance-critical electric motors and pumps for the global energy industry, as both an OEM supplier and a trusted through life support partner.
- Energy – PSRE, in the design, manufacture, integration and servicing of an extensive product offering including steam turbines, gas compressors, pressure vessels, containers and skidded systems. Plus, design and manufacture of fabricated poles and cabinets for roadside safety cameras and rail track signalling.
- Medical – in the design and manufacture of innovative equipment for the medical, science and research communities. Including cutting-edge products for medical diagnostic equipment; high performance pressure, vacuum vessels and composite materials for research organisations; superconducting magnets and helium-free cryogenic systems in magnetic resonance imaging (MRI), nuclear magnetic resonance (NMR).

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements as presented below:

Year ended 31 May 2018	*Energy EPM £'000*	*Energy PSRE £'000*	*Medical MII £'000*	*Unallocated central items £'000*	*Total £'000*
Original Equipment	**15,194**	**20,096**	**10,410**	**–**	**45,700**
After Market	**21,581**	**11,583**	**–**	**–**	**33,164**
Revenue	**36,775**	**31,679**	**10,410**	**–**	**78,864**
Operating profit/(loss)	**(1,532)**	**425**	**(109)**	**(2,626)**	**(3,842)**
Net finance costs					**(656)**
Taxation					**12**
Loss after tax from continuing operations					**(4,486)**
Segment non-current assets	**37,636**	**27,174**	**4,810**	**–**	**69,620**
Segment current assets	**23,484**	**22,322**	**3,645**	**2,678**	**52,129**
Segment liabilities	**(28,632)**	**(15,933)**	**(2,572)**	**(5,536)**	**(52,673)**
Net assets	**32,488**	**33,563**	**5,883**	**(2,858)**	**69,076**
Non-current asset additions					
Intangible assets	**10**	**255**	**447**	**–**	**712**
Tangible assets	**1,438**	**854**	**362**	**–**	**2,654**
	1,448	**1,109**	**809**	**–**	**3,366**

Unallocated assets/ (liabilities) consist primarily of interest bearing assets and liabilities and income tax assets and liabilities. Energy-PSRE results include the acquisition of Ormandy and part of HTG acquisition which contributed £1,859,000 and £15,023,000 to Group revenue respectively and £82,000 and £390,000 loss after tax respectively (note 36). Energy-EPM is all part of the HTG acquisition (note 36).

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

2 Segmental analysis (continued)

Year ended 31 May 2017	***Energy PSRE £'000***	***Medical MII £'000***	***Unallocated Central items £'000***	***Total £'000***
Original Equipment	301	10,104	–	10,405
After Market	12,309	–	–	12,309
Revenue	12,610	10,104	–	22,714
Operating profit/(loss)	456	428	(1,350)	(466)
Net finance costs				181
Taxation				(11)
Loss after tax from continuing operations				(296)
Segment non-current assets	7,482	4,008	–	11,490
Segment current assets	10,314	6,102	26,575	42,991
Segment liabilities	(4,158)	(2,241)	(3,176)	(9,575)
Net assets	13,638	7,869	23,399	44,906
Non-current asset additions				
Intangible assets	587	39	–	626
Tangible assets	316	168	–	484
	903	207	–	1,110

Unallocated assets (liabilities) consist primarily of interest bearing assets and liabilities and income tax assets and liabilities.

Geographical

The following tables provides an analysis of the Group's revenue by destination and the location of non-current assets by geographical market:

	2018 Revenue £'000	*2017 Revenue £'000*	***2018 Non-current Assets £'000***	*2017 Non-current Assets £'000*
United Kingdom	**31,970**	18,635	**49,981**	10,111
Europe (excl UK)	**7,197**	785	**–**	–
United States of America	**14,210**	5	**17,792**	–
Africa & Middle East	**2,766**	1,846	**–**	–
Americas & Caribbean (excl US)	**1,190**	–	**–**	–
China	**5,286**	1,416	**1,841**	1,379
Asia Pacific (excl.China)	**16,117**	–	**6**	–
Rest of World	**128**	27	**–**	–
	78,864	22,714	**69,620**	11,490

The Group had Medical revenue of £nil (2017: £7,229,000) with single external customers under common control, which each represent more than 10% of the Group's revenue.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

3 Profit before taxation – continuing

Profit before taxation is stated after charging/(crediting):

	2018	*2017*
	£'000	*£'000*
Depreciation of property, plant and equipment	**2,532**	525
Profit on disposal of property, plant and equipment	**–**	(13)
Amortisation of internally generated intangible assets	**374**	120
Cost of inventories recognised as an expense	**32,358**	18,719
Loss/(gain) on foreign exchange transactions	**136**	(34)
Staff costs (note 8)	**27,331**	7,885
Operating lease rentals:		
- Land and buildings	**841**	354
- Machinery	**392**	10
Charitable donations	**5**	–
Research and development expenditure	**204**	–

Auditor's remuneration	***2018***	*2017*
	£'000	*£'000*
Fees payable to the Company's auditor for the audit of the financial statements	**61**	13
Fees payable to the Company's auditor and its associates for other services:		
- Audit of the financial statements of the Company's subsidiaries and associates pursuant to legislation	**156**	65
- Tax compliance services	**20**	20
- Corporate finance transaction services	**188**	–
- Tax advisory fee	**6**	27

4 Adjusted Earnings before interest, tax, depreciation and amortisation

	2018	*2017*
	£'000	*£'000*
Loss before tax from continuing operations	**(4,498)**	(285)
Share based payment expense	**69**	34
Acquisition costs	**1,567**	101
Restructuring costs	**1,699**	182
Tender share buyback costs	**–**	226
Loss on derivatives	**172**	–
Unwinding of discounting on dilapidation provision	**62**	–
Amortisation of intangibles from business combinations	**3,303**	–
Adjusted profit before tax	**2,374**	258
Finance income	**(36)**	(219)
Finance cost	**692**	38
Loss on derivatives/unwinding of discounting on dilapidation provision	**(234)**	–
Adjusted profit/(loss) before interest, tax and amortisation from business combinations ('EBITA')	**2,796**	77
Depreciation	**2,532**	525
Amortisation of other intangible assets	**375**	120
Adjusted Earnings before interest, tax, depreciation and amortisation ('EBITDA')	**5,703**	722

The Directors believe that the above adjusted earnings are a more appropriate reflection of the Group performance.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

5 Finance income

	Group	
	2018	*2017*
	£'000	*£'000*
Bank balances and deposits	**5**	219
Interest from other	**31**	–
	36	219

6 Finance costs

	Group	
	2018	*2017*
	£'000	*£'000*
Re-banking related finance charges	**19**	–
Finance charges related to the unwinding of provisions	**62**	–
Losses arising on the fair value of derivative contracts	**172**	–
Interest on bank loans and overdrafts wholly repayable within five years	**302**	–
Interest on bank loans and overdrafts wholly repayable after five years	**19**	21
Interest on finance lease agreements	**118**	17
	692	38

7 Directors' emoluments

Particulars of directors' emoluments are as follows:

	Salary and Fees £'000	***Benefits £'000***	***Long Term Incentive £'000***	***Total 2018 £'000***	*Total 2017 £'000*	***Pension Total 2018 £'000***	*Pension Total 2017 £'000*
Non-executive:							
R S McDowell	71	–	–	**71**	69	–	–
J Clarke	11	–	–	**11**	–	–	–
J J Hamer	–	–	–	–	25	–	–
EW Lloyd-Baker	18	–	–	**18**	–	–	–
LJ Thomas	34	–	–	**34**	33	–	–
GK Thornton	34	–	–	**34**	39	–	–
Executive:							
S McQuillan	340	1	16	**357**	336	–	–
S M King	275	–	13	**288**	267	–	–
Total emoluments	783	1	29	**813**	769	–	–

The fees of JS Clarke, JJ Hamer, EW Lloyd-Baker, LJ Thomas and GK Thornton were paid to JS Clarke Consulting Ltd, Fin Dec Limited, Lloyd-Baker & Associates LLP. Heriot Resources Ltd and RG Associates respectively.

The non-cash benefits comprise the provision of private health insurance for S McQuillan. The number of Directors who are accruing benefits under money purchase schemes is nil (2017: nil).

The long term incentive represents the initial interest in the Joint Ownership Scheme (see note 35).

Employers National Insurance Contributions made relating to directors' emoluments were £99,000 (2017: £94,000).

During 2018 S McQuillan and S M King exercised nil options as set out on page 22 (2017: S McQuillan and S M King exercised 175,000 and 125,267 share options respectively resulting in unrealised gains of £171,000 and £122,000).

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

8 Employees

Particulars of employees, including Executive Directors:

	2018 £'000	*2017 £'000*
Wages and salaries	**24,176**	6,815
Social security costs	**2,179**	778
Other pension costs	**907**	257
Share-based payment expense	**69**	35
	27,331	7,885

The average monthly number of employees (including Executive Directors) during the year was:

	2018 Number	*2017 Number*
Production	**437**	192
Selling and distribution	**43**	13
Administration	**176**	37
	656	242

The remuneration of the Directors and Senior Management, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2018 £'000	*2017 £'000*
Short term employee benefits (including NIC)	**1,191**	944
Post-employment benefits	**4**	–
Share-based payments	**43**	25
	1,238	969

9 Taxation

	2018 £'000	*2017 £'000*
Current tax		
Corporation tax – current year	**–**	–
Corporation tax – prior year	**3**	(58)
Overseas tax	**1,153**	–
Total current tax	**1,156**	(58)
Deferred tax (note 26)		
Deferred tax – current year	**(815)**	69
Deferred tax – prior year	**(209)**	–
Deferred tax - rate	**(144)**	–
Total deferred tax	**(1,168)**	69
Total tax (credit)/charge	**(12)**	11

UK corporation tax is calculated at 19.00% (2017: 19.83%) of the estimated assessable profit/loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

9 Taxation (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2018	*2017*
	£'000	*£'000*
Loss before taxation	**(4,498)**	(285)
Theoretical tax at UK corporation tax rate of 19.00% (2017: 19.83%)	**(855)**	(56)
Effects of:		
Expenditure that is/is not tax deductible	**553**	94
Un-provided deferred tax differences	**218**	(4)
Adjustments in respect of prior years	**(207)**	(8)
Rate differential on timing differences	**2**	(4)
Change in deferred tax rate	**(144)**	(11)
Differential in overseas tax rate	**421**	–
Total tax charge	**(12)**	11

The Group has tax losses carried forward of approximately £34.8 million at 31 May 2018 (2017: £6.7million) that may be relievable against future profits. Further details are detailed in note 26.

The Group's corporation tax assets and liabilities can be summarised as follows:

	2018	*2017*
	£'000	*£'000*
Current tax assets		
UK Corporation tax	**608**	52
	608	52
Current tax liabilities		
UK Corporation tax	**(15)**	–
	(15)	–

Factors that may affect future tax charges

Reductions to the UK corporation tax rate were announced in the Chancellor's Budget on 8 July 2015 and were substantively enacted on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. An additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016 and will reduce the company's future current tax charge accordingly. The closing deferred tax liability at 31 May 2018 has therefore been calculated using these rates.

The US tax rate was historically 39% which reduced to 27% from January 2018.

10 Dividends

	2018	*2017*
	£'000	*£'000*
Interim dividend paid of 1.2p per ordinary share (2017: 1.1p)	**230**	305
Final dividend paid of 2.2p per ordinary share (2017: 2.1p)	**676**	581
	906	886

The interim dividend declared in the half year statement of 1.3p per ordinary share was paid on 15 June 2018.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

11 Earnings per ordinary share

Basic and diluted (loss)/earnings per share have been calculated in accordance with IAS 33 which requires that earnings should be based on the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the year.

For diluted (loss)/earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares, being the EMI, CSOP and ExSOP share options.

	2018	*2017*
	No.	*No.*
Weighted average number of shares – basic	**27,952,066**	22,295,083
Share option adjustment	**360,448**	288,451
Weighted average number of shares – diluted	**28,312,514**	22,583,534

	2018	*2017*
	£'000	*£'000*
Loss from continuing operations	**(4,486)**	(296)
Share based payment expense	**69**	34
Acquisition costs	**1,567**	101
Restructuring costs	**1,699**	182
Tender share buyback costs	**–**	226
Loss on derivatives	**172**	–
Unwinding of discounting on dilapidation provision	**62**	–
Amortisation of intangibles from business combinations	**3,303**	–
Adjusted earnings from continuing operations	**2,386**	247
From continuing operations:		
Basic loss per share	**(16.0)p**	(1.3)p
Adjusted basic earnings per share	**8.5p**	1.1p
Diluted loss per share	**(16.0)p**	(1.3)p
Adjusted diluted earnings per share	**8.4p**	1.1p

The Directors believe that the above adjusted earnings per share calculation for continuing operations is a more appropriate reflection of the Group's underlying performance.

The basic loss per share attributable to ordinary shareholders and diluted loss per share for the year ended 31 May 2019 are identical because the dilutive impact of an exercise of share options would have the effect of reducing the loss per share and is, therefore, is not a dilution under the terms of IAS33.

There are nil share options at 31 May 2018 (2017: nil) that are not included within diluted earnings per share because they are anti-dilutive.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

12 Goodwill

	Total £'000
Cost	
At 1 June 2016	5,400
Acquisition of subsidiary undertakings	648
1 June 2017	**6,048**
Acquisition of subsidiary undertaking (note 36)	18,171
At 31 May 2018	**24,219**
Accumulated impairment losses	
At 1 June 2016 and 1 June 2017	850
At 31 May 2018	**850**
Net book value	
At 31 May 2018	**23,369**
At 31 May 2017	**5,198**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2018 £'000	*2017 £'000*
Energy-EPM	**15,107**	-
Energy-PSRE	**6,753**	3,689
Medical	**1,509**	1,509
	23,369	5,198

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the revenue growth rates, expected changes to selling prices and direct costs during the period and discount rates.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years and derives cash flows for the following two years based on estimated growth rates for the specific markets in which each CGU operates. The Group uses its past experience in compiling the cashflow forecasts. The estimated growth rate does not exceed the average long-term growth rate for the relevant markets. A rate of 2%, 4% and 5% has been used for Energy-EPM, Energy-PSRE and Medical CGUs respectively. Recent changes to management and improvements to the contract negotiation and costing processes are expected to increase margins whilst Medical is developing into new markets and service.

Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The rate used to discount the forecast cash flows is 10% to 11.7% which is considered appropriate based on the Group's borrowings adjusted for the aggregate risk in the respective markets.

Management have sensitised these key assumptions for each CGU within what is considered a reasonably possible range for the market in which the Group operates and have concluded that a 2% growth in revenue and discount rate of 12% would not result in the carrying amount of goodwill exceeding the recoverable amount.

Whilst a five year horizon is shorter than the expected remaining life of the relevant CGUs, the directors consider this a suitable period to apply in performing impairment reviews due to the inherent uncertainty in further extrapolating three year forecasts.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

13 Other intangible assets – group

	Customer Relationships £'000	*Order book £'000*	*Brand £'000*	*Development costs £'000*	*Software £'000*	*Total £'000*
Cost						
At 1 June 2016	–	–	–	2,324	294	2,618
Additions	–	–	–	625	1	626
Acquisition of subsidiary undertakings	–	–	–	4	–	4
Exchange adjustments	–	–	–	–	2	2
At 1 June 2017	**–**	**–**	**–**	**2,953**	**297**	**3,250**
Additions	–	–	–	681	31	712
Acquisition of subsidiary undertakings (note 36)	10,532	3,096	2,504	783	54	16,969
Reclassification from PPE	–	–	–	–	171	171
Exchange adjustments	–	–	–	(5)	–	(5)
At 31 May 2018	**10,532**	**3,096**	**2,504**	**4,412**	**553**	**21,097**
Accumulated amortisation						
At 1 June 2016	–	–	–	1,463	225	1,688
Charge for the year	–	–	–	76	44	120
At 1 June 2017	**–**	**–**	**–**	**1,539**	**269**	**1,808**
Charge for the year	633	2,529	141	305	69	3,677
At 31 May 2018	**633**	**2,529**	**141**	**1,844**	**338**	**5,485**
Net book value at 31 May 2018	**9,899**	**567**	**2,363**	**2,568**	**215**	**15,612**
Net book value at 31 May 2017	–	–	–	1,414	28	1,442

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

14 Property, plant and equipment – group

	Freehold land and buildings £'000	*Leasehold improve-ments £'000*	*Plant and Machinery £'000*	*Equipment and motor vehicles £'000*	*Total £'000*
Cost					
At 1 June 2016	2,126	103	5,723	1,005	8,957
Additions	41	12	311	120	484
Acquisition of subsidiary undertakings	–	–	99	5	104
Assets written off	–	–	(1,605)	(148)	(1,753)
Exchange adjustments	–	–	117	24	141
At 1 June 2017	**2,167**	**115**	**4,645**	**1,006**	**7,933**
Additions	1,028	–	1,328	298	2,654
Acquisition of subsidiary undertakings (note 36)	11,211	1,892	8,662	1,091	22,856
Transfer to other intangible assets	–	–	–	(171)	(171)
Assets written off	–	–	(858)	(34)	(892)
Exchange adjustments	(18)	–	(7)	(16)	(41)
At 31 May 2018	**14,388**	**2,007**	**13,770**	**2,174**	**32,339**
Depreciation					
At 1 June 2016	265	32	3,478	514	4,289
Charge in the year	30	19	362	114	525
Assets written off	–	–	(1,605)	(148)	(1,753)
Exchange adjustments	–	–	18	4	22
At 1 June 2017	**295**	**51**	**2,253**	**484**	**3,083**
Charge in the year	534	121	1,380	497	2,532
Assets written off	–	–	(858)	(34)	(892)
Exchange adjustments	2	–	13	6	21
At 31 May 2018	**831**	**172**	**2,788**	**953**	**4,744**
Net book value at 31 May 2018	**13,557**	**1,835**	**10,982**	**1,221**	**27,595**
Net book value at 31 May 2017	1,872	64	2,392	522	4,850

Leased assets
The net book value of assets held under finance leases are as follows:

	Plant and machinery £'000	*Equipment and motor vehicles £'000*	*Total £'000*
Net book value			
At 31 May 2018	**440**	**48**	**488**
At 31 May 2017	478	2	480

Depreciation charged on assets held under finance leases was £489,000 (2017: £200,000).

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

15 Investments

	Unlisted investments £'000	*Group Undertakings £'000*	*Capital Contributions £'000*	*Total £'000*
Cost				
At 1 June 2016	219	10,170	70	10,459
Acquisition of subsidiary undertakings	–	588	15	603
Unlisted investment written off	(219)	–	–	(219)
At 1 June 2017	**–**	**10,758**	**85**	**10,843**
Acquisition of subsidiary undertakings (note 36)	–	29,526	32	29,558
At 31 May 2018	**–**	**40,284**	**117**	**40,431**
Provision				
At 1 June 16, 1 June 2017 and 31 May 2018	**–**	**4,424**	**–**	**4,424**
Net book value at 31 May 2018	**–**	**35,860**	**117**	**35,977**
Net book value at 31 May 2017	–	6,334	85	6,419

The Company has the following investments in Ordinary shares in subsidiaries:

Name	**Country of incorporation**	**Principal activity**
Crown UK Limited	England and Wales	Trading
Stainless Metalcraft (Chatteris) Limited	England and Wales	Trading
Metalcraft (Chengdu) Limited *	China	Trading
Metalcraft (Sichuan) Limited *	China	Trading
Maloney Metalcraft Limited	England and Wales	Trading
Composite Products Limited	England and Wales	Trading
Space Cryomagnetics Limited (trading as Scientific Magnetics Limited)	England and Wales	Trading
Hayward Tyler Limited *	England & Wales	Trading
Hayward Tyler Inc *	USA	Trading
Hayward Tyler Pumps (Kunshan) Co Limited *	China	Trading
Hayward Tyler India PTE Limited *	India	Trading
Hayward Tyler Fluid Handling Limited *	England & Wales	Trading
Peter Brotherhood Limited *	England & Wales	Trading
Hayward Tyler Group plc	Isle of Man	Holding company
Southbank UK Limited *	England & Wales	Holding company
Hayward Tyler Group Limited *	England & Wales	Holding company
Hayward Tyler Holdings Limited *	England & Wales	Holding company
Hayward Tyler Holding Inc *	USA	Holding company
Nviro Cleantech Limited *	England & Wales	Holding company
Nviro Cleantech Inc *	USA	Holding company
Vertus Technologies US LLC *	USA	Holding company
Vertus Technologies Limited *	Cayman Islands	Holding company
Nviro Cleantech Limited *	Cayman Islands	Holding company
Redglade Associates Limited *	England & Wales	Property
Redglade Investments Limited *	England & Wales	Property
Specialist Energy Group Trustee Limited *	England & Wales	Acts as employee benefit trust
Hayward Tyler Pension Plan Trustees Limited *	England & Wales	Manages pension scheme
Hayward Tyler (UK) Limited *	England & Wales	Dormant
Varley Pumps Limited *	England & Wales	Dormant

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

15 Investments (continued)

Name	**Country of incorporation**	**Principal activity**
Hayward Tyler Solutions Limited *	England & Wales	Dormant
Appleton & Howard Limited *	England & Wales	Dormant
Hayward Tyler Fluid Dynamics Limited *	England & Wales	Dormant
Hayward Tyler Services Limited *	England & Wales	Dormant
Sumo Pumps Limited *	England & Wales	Dormant
Hayward Tyler Engineered Products Limited *	England & Wales	Dormant
Capital Engineering Services Limited *	England & Wales	Dormant
Credit Montague Limited *	England & Wales	Dormant
Mullins Limited *	England & Wales	Dormant
Vertus Technologies Industrial LLC *	USA	No longer trading

* -Indirectly owned subsidiary.

16 Inventories

	Group	
	2018	*2017*
	£'000	*£'000*
Raw materials and consumables	**4,406**	951
Work in progress	**3,727**	4,083
Finished goods	**2,208**	584
	10,341	5,618

The replacement cost of the above stocks would not be significantly different from the values stated. During the period there was an impairment charge of £132,000 (2017: £158,000).

17 Trade and other receivables

	Group		***Company***	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
Amounts falling due within one year				
Trade receivables	**16,718**	4,301	–	–
Allowance for doubtful debts	**(529)**	(181)	–	–
	16,189	4,120	–	–
Other receivables	**743**	1,491	**2,835**	3,700
Amounts owed by group undertakings	–	–	**29,933**	8,127
Prepayments and accrued income	**4,606**	2,302	**46**	6
Amounts receivable under long term contracts	**13,068**	1,125	–	–
	34,606	9,038	**32,814**	11,833
Amounts falling after one year				
Other receivables	–	–	–	–
Prepayments and accrued income	–	580	–	–
	–	580	–	–

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

17 Trade and other receivables (continued)

The average credit period taken on sales of goods is 58 days (2017: 44 days) in respect of the Group. No interest is generally charged on the receivables until legal action is taken. Thereafter, interest is charged at 8% above bank base rate on the outstanding balance.

The Group has impaired all trade receivables to the present value of estimated future cash receipts where it considers the collection of the receivable is doubtful.

The Group's maximum exposure to credit risk is limited to trade receivables net of allowance for doubtful debts.

Ageing of past due but not impaired trade receivables

	Group		*Company*	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
60 – 90 days	**1,195**	370	**–**	–
90 – 120 days	**346**	28	**–**	–
120+ days	**1,099**	343	**–**	–
Total	**2,640**	741	**–**	–

Movement in the allowance for doubtful debts

	Group		*Company*	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
Balance brought forward	**181**	52	**–**	–
Impairment losses recognised	**249**	94	**–**	–
Amounts written off as uncollectible	**(74)**	(58)	**–**	–
Amounts recovered during the year	**(34)**	–	**–**	–
On acquisition of subsidiaries	**207**	93	**–**	–
Balance carried forward	**529**	181	**–**	–

Included in the allowance for doubtful debts are individually impaired receivables.

Ageing of impaired receivables:

	Group		*Company*	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
60 – 90 days	**13**	–	**–**	–
90 – 120 days	**–**	–	**–**	–
120+ days	**516**	181	**–**	–
Total	**529**	181	**–**	–

The Directors consider that the carrying amount of trade and other receivables approximates to fair value.

For the year ended 31 May 2018

18 Long term contracts

	2018	*2017*
	£'000	*£'000*
Gross amounts due from customers for contract work (included in current assets)	**13,068**	1,451
Gross amounts due to customers for contract work (included in current liabilities)	**(5,041)**	(39)
	8,027	1,412
Contract costs incurred plus recognised profits less recognised losses to date	**26,810**	6,318
Less: progress billings	**(18,783)**	(4,906)
	8,027	1,412

Revenue arising from long term contracts was £24,950,000 (2017: £2,719,000).

19 Cash and cash equivalents

Cash and cash equivalents included the following components:

	Group		***Company***	
	At 31 May 2018 £'000	*At 31 May 2017 £'000*	***At 31 May 2018 £'000***	*At 31 May 2017 £'000*
Cash at bank and in hand:				
GBP	**5,129**	26,708	**2,065**	25,124
USD	**1,060**	431	**–**	–
EUR	**136**	–	**–**	–
Other	**249**	564	**–**	–
Overdraft (GBP)	**(9)**	–	**–**	–
	6,565	27,703	**2,065**	25,124

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

20 Provisions

The carrying amounts and the movements in the provision account are as follows:

	Warranty £'000	Loss Making £'000	Group Other £'000	Dilapidations £'000	Total £'000
Carrying amount					
1 June 2016 and 1 June 2017	–	–	–	–	**–**
Acquisition of subsidiary undertakings	1,616	2,985	374	2,200	**7,175**
Additional provisions	1,014	821	294	62	**2,191**
Amounts utilised	(479)	(1,618)	(402)	–	**(2,499)**
Reversals	(259)	(413)	(24)	–	**(696)**
Exchange Adjustments	(36)	–	–	–	**(36)**
31 May 2018	**1,856**	**1,775**	**242**	**2,262**	**6,135**

Warranty provision: Provisions for warranty work represent the estimated cost of work provided under the terms of the contracts with customers with reference to the length and unexpired portion of the terms provided.

Loss making contracts: Provisions for loss making contracts are the estimated total costs that exceed the total revenues from contracts that are in progress at the reporting date.

Other provisions: The balance to carry forward in other provisions relates to liquidated damages. Provisions for liquidated damages are the liabilities estimated to arise on the expected delay in shipment of contracts that have been shipped prior to 31 May 2018. There were minor expected delays in the year.

Dilapidations: Provision for dilapidation represent the estimated cost to restore the property to the agreed condition set out in the lease rental agreement for Peter Brotherhood Limited's Peterborough property.

21 Trade and other payables

	Group		*Company*	
	2018 £'000	*2017 £'000*	***2018 £'000***	*2017 £'000*
Trade payables	**12,459**	4,657	**97**	71
Amounts owed to group undertakings	**–**	–	**–**	–
Other tax and social security	**1,138**	433	**51**	43
Other payables	**734**	509	**29**	27
Payments on account	**5,041**	334	**–**	–
Accruals and deferred income	**6,807**	1,937	**151**	14
	26,179	7,870	**328**	155

22 Other creditors

	Group		*Company*	
	At 31 May 2018 £'000	*At 31 May 2017 £'000*	***At 31 May 2018 £'000***	*At 31 May 2017 £'000*
Non-current				
Other creditors – deferred income	**3,339**	–	**–**	–

For the year ended 31 May 2018

23 Borrowings

Secured borrowings

	Group		Company	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
Bank overdrafts and short-term borrowings	**6,099**	–	**–**	–
Bank loans	**5,055**	1,075	**896**	1,075
Total borrowings	**11,154**	1,075	**896**	1,075
Amount due for settlement within 12 months	**6,719**	179	**180**	179
Amount due for settlement after 12 months	**4,435**	896	**716**	896

	Group		Company	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
Bank loans due within one to two years	**620**	180	**180**	180
Bank loans due within two to five years	**619**	542	**536**	542
Bank loans due after five years	**3,816**	174	**–**	174
	5,055	896	**716**	896

Bank loans, overdrafts and short-term borrowings of £11,154,000 (2017: £1,075,000) are secured on certain assets of the Group.

At 31 May 2018 the Group had £7,068,000 (2017: £2,950,000) of undrawn committed borrowing facilities expiring within one year which the Directors expect to be renewed. All borrowings were at variable rates relative to local base rates.

Short term borrowings and Bank loans were based on variable LIBOR rates at margins of between 2.75% - 3.0% and 1.5% - 2.5% respectively.

24 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
Amounts due within one year	**1,282**	146	**1,179**	142
Amounts due in two to five years	**1,385**	41	**1,290**	37
Amounts due after five years	**86**	–	**85**	–
Total obligations under finance leases	**2,753**	187	**2,554**	179
Less future finance charges	**(199)**	(8)	**–**	–
Present value of lease obligations	**2,554**	179	**2,554**	179

Finance lease liabilities are secured on the related assets. All finance lease liabilities were at variable rates relative to local base rates.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

25 Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 23 and 24 cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The Board closely monitor current and forecast cash balances at monthly Board meetings to allow the Group to maximise return to shareholders by way of dividends, whilst maintaining suitable amounts of liquid funds and facilities to allow acquisitions to be funded as opportunities arise and continued investment in property, plant and equipment and research and development. The level of dividends are set by the Board to meet the expectations of the shareholders based on cash generated by the Group.

The gearing ratio at the year-end is as follows

	Group		*Company*	
	2018	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*
Debt	**(13,708)**	(1,254)	**(896)**	(1,075)
Cash and cash equivalents	**6,565**	27,703	**2,065**	25,123
Net (debt)/cash	**(7,143)**	26,449	**1,169**	24,048
Equity	**69,076**	44,906	**69,416**	42,013
Net (debt)/cash to equity ratio	**(10.3%)**	58.9%	**1.7%**	57.2%

Debt is defined as long and short-term borrowings, as detailed in note 23. Equity includes all capital and reserves of the Group attributable to equity holders of the parent. The Group is not subject to externally imposed capital requirements.

Analysis of financial instruments by IAS 39 category

	Group		*Company*	
	2018	*2017*	***2018***	*2017*
Financial assets	***£'000***	*£'000*	***£'000***	*£'000*
Loans and receivables comprising:				
Trade and other receivables	**16,189**	4,120	**29,933**	8,127
Amounts receivable under long term contracts	**13,068**	1,125	**–**	–
Cash and cash equivalents	**6,574**	27,703	**2,065**	25,124
	35,831	32,948	**31,998**	33,251
Financial liabilities				
Other financial liabilities at amortised cost				
Trade payables	**12,459**	4,657	**97**	71
Payments on account	**5,041**	334	**–**	–
Accruals	**6,807**	1,937	**151**	14
	24,307	6,928	**248**	85
Borrowings	**11,154**	1,075	**896**	1,075
Lease obligations	**2,554**	179	**–**	–
	13,708	1,254	**896**	1,075
Financial liabilities at amortised cost	**38,015**	8,182	**1,144**	1,160
Undiscounted contractual maturity of financial liabilities:				
Amounts due within one year	**32,455**	7,274	**293**	284
Amounts due in two to five years	**6,394**	806	**745**	766
Amounts due after five years	**86**	175	**–**	175
	38,935	8,255	**1,038**	1,225
Less future finance charges	**(917)**	(73)	**(45)**	(65)
Financial liabilities at carrying value	**38,018**	8,182	**993**	1,160

The fair value of the financial instruments set out above is not materially different to the book value.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

25 Financial instruments (continued)

Financial assets and financial liabilities measured at fair value in the balance sheet are grouped into three levels of fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

- Level one: quoted prices in active markets for identical assets or liabilities
- Level two: inputs other than quoted prices included within level one that are observable for the asset or liability, either directly or indirectly
- Level three: unobservable inputs for the assets or liabilities

All of the financial assets and liabilities measured at fair value are classified as level 3 using the fair value hierarchy with the exception of forward foreign exchange contracts which are at level two. All forward foreign exchange contracts expire within 12 months of the balance sheet date.

Financial assets and liabilities in the Group's Consolidated balance sheet are either held at fair value or their carrying value approximates to fair value, with the exception of loans, which are held at amortised cost.

There were no transfers between levels in either the current or previous financial period.

Financial risk management objectives

Management monitor and manage the financial risks relating to the operations of the Group. These risks include currency risk, interest rate risk, credit risk, liquidity risk and cash flow interest rate risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates particularly in US dollars and the Euro.

Foreign currency risk management

The Group enters into forward foreign currency contracts to eliminate exposures on certain material sales or purchases denominated in foreign currency once a significant commitment has been made.

Derivative contracts are measured at fair value in the statement of financial position with movements in that fair value being recognised in profit or loss.

The Group presently has £5.0 million contracts (2017: none) to manage the transactional currency exposure on certain contracts outstanding as at 31 May 2018.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies on overseas assets. These changes are considered to be reasonably possible based on observation of current market conditions.

	Euro currency impact		***US $ currency impact***		***RmB currency impact***	
	2018	*2017*	***2018***	*2017*	***2018***	*2017*
	£'000	*£'000*	***£'000***	*£'000*	***£'000***	*£'000*
Impact (+/-) on						
Profit for the financial year/equity	**31**	13	**65**	13	–	–

Interest rate risk management

The Group finances its operations where necessary through bank loans, overdrafts and finance lease facilities. The bank loans and overdrafts are at floating rates principally at negotiated margins using pooling of the Group's requirements to achieve this. The finance lease facilities are held at both fixed and floating rates.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank overdrafts attracting interest at floating rates) were to change by + or – 0.5% the impact on the results in the income statement and equity would be an increase/decrease of £48,000. These charges are considered to be reasonably possible based on observation of current market conditions.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

25 Financial instruments (continued)

Price risk management

Where possible the Group enters into long term contracts with suppliers to mitigate any significant exposure to materials and utilities price risk.

Credit risk management

The Group's principal financial assets are bank balances, cash, and trade receivables.

The Group's principal credit risk is attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has one major customer which represents 11.4% (2017: three major customer's which represent 24.2%, 11.5% and 11.2% respectively) of trade receivables, the Group has no other significant concentration of receivables. The bad debt provision and ageing has increased during the year predominately due to the impact of one particular customer at an acquired subsidiary undertaking and rebuilding their relationships with key customers at acquisitions.

Liquidity risk management

The Group funds acquisitions through a mixture of cash, equity and long-term debt. Short term financing needs are met by working capital facilities.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a monthly 13 week projection. Long-term liquidity needs for up to a two year period are projected monthly and reviewed quarterly. The Group maintains cash and working capital facilities to meet its liquidity requirements for up to 30-day periods. Funding in regards to long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

All facilities are secured on the assets of the Group.

26 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	*Intangibles £'000*	*Other temporary differences £'000*	*Tax losses £'000*	*Total £'000*
At 1 June 2016	132	–	(6)	–	126
Credit to income – continuing operations	63	–	6	–	69
At 1 June 2017	**195**	**–**	**–**	**–**	**195**
On business combination	(67)	–	1,010	(1,335)	(392)
Arising on the fair value adjustments on business Combinations	–	2,850	–	–	2,850
Credit to income – continuing operations	16	(627)	(438)	(119)	(1,168)
Charge/credit to other comprehensive income	(2)	–	(23)	–	(25)
At 31 May 2018	**142**	**2,223**	**549**	**(1,454)**	**1,460**

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

26 Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset where the relevant criteria are met. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018	*2017*
	£'000	*£'000*
Deferred tax liabilities	**2,914**	195
Deferred tax assets	**(1,454)**	–
	1,460	195

At the balance sheet date the Group has unused tax losses of £28.7 million (2017: £6.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £8.6 million (2017: £nil) of such losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in future against which deductible temporary differences can be utilised. This is assessed based on the Group's forecast of future operating results and the future projected profitability of the Group. In addition the Group has an unrecognised deferred tax asset of £21k (2017: £29k) in respect of share based payments.

At the balance sheet date the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was £nil (2017: £nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

A deferred tax liability of £6.1m arises on properties acquired on acquisition of the Hayward Tyler Group by Avingtrans plc. The deferred tax liability has not been recognised on the face of the financial statements as brought forward unrecognised trading losses of £6.1m are available to offset this liability in full.

27 Called up share capital

	2018		*2017*	
	No.	***£'000***	*No.*	*£'000*
Allotted, issued and fully paid				
Ordinary shares of 5p each	**31,061,636**	**1,553**	19,171,123	958

Reconciliation of movement in allotted, issued and fully paid share capital

	No.	***£'000***
At 1 June 2017 and 31 May 17	19,171,123	958
Shares issued for Acquisition in period (note 36)	11,533,513	577
Shares issued in period to ExSop (note 35)	330,000	17
Shares issued on exercise of share options (note 28)	27,000	1
At 31 May 2018	**31,061,636**	**1,553**

The Company has a share option scheme under which options to subscribe for the Company's shares have been awarded to certain directors and employees. During the year 27,000 options were exercised, 5,000 and 22,000 at 176.0p and 109.0p respectively. The market price on the day of exercise was 221.0p, 225.0p and 210.5p. Further details of the scheme are given in note 28.

The market price of the Company's shares at the end of the year was 209.5p (2017: 236.5p). The highest and lowest market prices during the year were 256.5p and 173p (2017: 258.5p and 164.4p respectively).

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

28 Share-based payments

The Group has recognised a portion of the fair value of these options in calculating the profit for the current and prior year.

	2018		*2017*	
	Options (No. '000)	***Weighted Average Exercise price (p)***	*Options (No. '000)*	*Weighted Average Exercise price (p)*
Outstanding at the start of the year	**231.7**	**152.6**	1,213.3	110.11
Lapsed during the year	**–**	**–**	(35.7)	149.70
Issued during the year	**477.0**	**182.07**	1,180.0	193.00
Exercised during the year	**27.0**	**121.41**	(659.9)	109.79
Outstanding at the end of the year	**2,147.7**	**175.74**	1,697.7	173.61
Exercisable at the end of the year	**490.7**	**129.84**	231.7	152.60

The options outstanding at 31 May 2018 had exercise prices in the range 39.5p to 193p and a weighted average remaining contractual life of 8.1 years (2017: 8.7 years). The average market share price of options at date of exercise was 221p (2017: 190p).

The terms of these options are as follows:

Date of grant	***Options outstanding at 31 May 2017***	***Vesting period***	***Market value at date of grant (p)***	***Exercise price (p)***	***Exercise period***
23/09/2013	39,733	3 years	39.50	39.50	24/09/2013 to 23/09/2020
22/11/2013	187,000	3 years	176.00	176.00	23/12/2016 to 22/12/2023
09/12/2014	24,000	3 years	109.00	109.00	10/12/2017 to 09/12/2024
10/12/2014	230,000	3 years	111.00	111.00	11/12/2017 to 10/12/2024
21/12/2016	1,180,000	3 years	193.00	193.00	22/12/2019 to 21/12/2026
15/12/2017	147,000	3 years	177.50	177.50	26/12/2020 to 15/12/2027
15/12/2017	330,000	3 years	181.50	181.50	26/12/2020 to 15/12/2027

The performance condition for each of these options is that the increase in adjusted EPS must be at least equal to the increase in RPI over the vesting period.

All share options are equity settled. The adjusted EPS is the basic earnings per share published in the Preliminary Announcement of Results with adjustments made for amortisation of acquisition related intangibles costs of share-based payments, and exceptional items agreed by the Remuneration Committee. Further adjustments to the above performance conditions may be approved by the Remuneration Committee to reflect future changes in accounting standards.

The fair value of the options was calculated by external consultants, Pegg, Franklin & Co and Pinsent Masons.

Options granted with performance conditions are valued using the Black-Scholes model.

For all awards, recipients are required to remain in employment with the Group over the vesting period.

28 Share-based payments (continued)

Future volatility at the date of grant has been estimated by reference to the historical volatility at that time.

The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Total charge to the income statement in respect of share-based payments

	2018	*2017*
	£'000	*£'000*
In respect of:		
Equity settled share options	**69**	34

There are no share-based payment transactions that were expensed immediately. A deferred tax credit of £nil (2017: £nil) was recognised during the year in respect of share-based payments.

29 Pensions and other employee obligations

Through the business combination of HTG, the defined benefit pension plan for the subsidiary Hayward Tyler Limited has been included. For the purposes of this disclosure, the Group has shown the movement in the plan from the business combination date 1 September 2017 through to the period ended 31 May 2018.

Within the UK the Group operates a defined benefit plan with benefits linked to final salary and a defined contribution plan.

The defined benefit pension arrangement, called the Hayward Tyler Pension Plan (the "Plan"), and provides benefits based on final salary and length of service on retirement, leaving service or death. With effect from 1 June 2003 the Plan was closed to new UK employees and to future service accrued for existing members who are offered membership of the defined contribution plan. The majority of UK employees are members of one of these arrangements. The method used in assessing the Plan liabilities is the projected unit method. A full valuation of the Plan is produced every three years (the last one being as at 1 January 2017) and updated annually to 31 May 2018 by independent qualified actuaries.

The Plan is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the Plan is carried out at least once every three years to determine whether the Statutory Funding Objective is being met. As part of the process the Company must agree with the trustees of the Plan the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Plan in these accounts.

The Plan is managed by a board of trustees appointed in part by the Company and in part from elections by members of the Plan. The board of trustees includes a professional trustee (Independent Trustee Services Limited). The trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Plan's assets. The trustees delegate some of these functions to their professional advisers where appropriate.

The Plan exposes the Company to a number of risks:

- **Investment risk**
  The Plan holds investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- **Interest rate risk**
  The Plan's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Plan holds assets such as equities the value of the assets and liabilities may not move in the same way;
- **Inflation risk**
  A significant proportion of the benefits under the Plan are linked to inflation. Although the Plan's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging;
- **Longevity risk**
  In the event that members live longer than assumed a deficit will emerge in the Plan; and
- **Concentration risk**
  A significant proportion of the Plan's liabilities are in respect of a single pensioner member. The development of the liabilities over time will therefore depend heavily on the actual experience in respect of this member.

  There were no plan amendments, curtailments or settlements during the period.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

29 Pensions and other employee obligations (continued)

The Group's defined benefit obligations and plan assets may be reconciled to the amounts presented on the face of the statement of financial position for each of the reporting periods under review as follows:

	At 31 March 2018 £'000	*At 1 September 2017 £'000*
Defined benefit obligation	**(12,559)**	(13,515)
Fair value of plan assets	**14,149**	14,835
Impact of asset ceiling	**–**	–
Net defined benefit asset	**1,590**	1,320

Scheme liabilities

The defined benefit obligations for the reporting periods under review are as follows:

	At 31 May 2018 £'000	*At 1 September 2017 £'000*
Defined benefit obligation at start of period	**13,515**	13,857
Interest cost	**250**	142
Changes to demographic assumptions	**(99)**	–
Changes to financial assumptions	**(492)**	183
Experience (gain)/loss on defined benefit obligation	**26**	(333)
Benefits paid	**(641)**	(334)
Defined benefits obligation at end of year	**12,559**	13,515

For determination of the pension obligation, the following actuarial assumptions were used:

	At 31 May 2018 £'000	*At 1 September 2017 £'000*
Discount rate	**2.65%**	2.40%
Expected rate of pension increases	**2.20%**	2.25%
Inflation assumption	**3.20%**	3.25%
Mortality assumption	**S2PXA CMI**	S2PXA CMI

S2PXA CMI – for males and females projected on a year of birth basis using CMI (2016) projections with a long-term rate of improvement of 1.25% per annum with a plus 2 year age rating. The mortality assumptions imply the following life expectancies:

- Life expectancy at age 65 of male aged 45 21.9
- Life expectancy at age 65 of male aged 65 20.5
- Life expectancy at age 65 of female aged 45 23.8
- Life expectancy at age 65 of female aged 65 22.3

29 Pensions and other employee obligations (continued)

These assumptions were developed by management under consideration of expert advice provided by Barnett Waddingham, independent actuarial appraisers. These assumptions have led to the amounts determined as the Group's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

No assumption is made with regard to the expected rate of salary increases as there are no members with benefits related to future salary progression.

Scheme assets

The assets held by the pension fund can be reconciled from the opening balance to the reporting date as follows:

	At 31 May 2018 £'000	*At 1 September 2017 £'000*
Fair value of plan assets at start of period	**14,835**	14,897
Interest income	**274**	152
Return on plan assets (excluding amounts included in net interest)	**(494)**	23
Contributions by the Group	**175**	97
Benefits paid	**(641)**	(334)
Fair value of plan assets at end of period	**14,149**	14,835
Actual return on plan assets	**(45)**	175

Plan assets do not include any investment in shares of the Company. Plan assets can be broken down into the following major categories of investments:

	At 31 May 2018 £'000	***At 31 May 2018 %***	*At 1 September 2017 £'000*	*At 1 September 2017 %*
Diversified growth funds	**8,833**	**62.4**	9,257	62.4
Gifts and LDI funds	**5,082**	**35.9**	5,459	36.8
Liquid funds	**234**	**1.7**	119	0.8
Total value of assets	**14,149**	**100**	14,835	100

All equity and debt instruments have quoted prices in active markets (Level 1).

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

29 Pensions and other employee obligations (continued)

Scheme expenses

Net interest income resulting from the Group's defined benefit plans was £24,000 in the period. The employee benefits expense for the period is £nil.

The remeasurement recorded in other comprehensive income is as follows:

	At 31 May 2018 £'000	*At 1 September 2017 £'000*
(Gain)/loss on scheme assets in excess of interest	**494**	(23)
Experience losses	**26**	(333)
Gain from changes to demographic assumptions	**(99)**	–
Loss/(gain) from changes to financial assumptions	**(492)**	183
Total (gain) recognised in other comprehensive income	**(71)**	(173)

Sensitivity of the value placed on the liabilities

	Approximate effect on liabilities £'000
Reduce discount rate by 0.1% p.a.	168
Increase inflation and related assumption by 0.1% p.a.	104
Increase a long-term rate of longevity improvement by 0.25% p.a.	91
Apply a 90% loading to the mortality base table (reduces probability of death by 10% at each age)	530

Note that the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

29 Pensions and other employee obligations (continued)

Risk mitigation strategies

The trustees invest the Plan's assets in combination of Liability-Sensitive assets and Return-Generating assets. The Liability-Sensitive assets are invested in a variety of LDI (Liability-Driven Investment) Funds. These funds invest in a combination of interest rate and inflation rate swaps in order to mimic the movement in expected cashflows of the Plan caused by changes in interest and inflation rates.

Effect of the Plan on Group's future cashflows

The Group is required to agree a Schedule of Contributions with the Trustees of the Plan following a valuation which must be carried out at least once every three years. The next valuation of the Plan is due at 1 January 2020. In the event that the valuation reveals a larger deficit than excepted the Company may be required to increase contributions above those set out in the existing schedule of contributions. Conversely, if the position is better than expected contributions may be reduced.

The Group expects to pay contributions of £245,000 in the year to 31 May 2019.

The weighted average duration of the defined benefit obligation is around 14 years.

30 Notes to the consolidated cash flow statement

Cash flows from operating activities:

	2018	*2017*
	£'000	*£'000*
Continuing operations		
Loss before income tax from continuing operations	**(4,498)**	(285)
Adjustments for:		
Depreciation	**2,532**	525
Amortisation of intangible assets	**374**	120
Amortisation of intangibles from business combinations	**3,303**	–
Gain on disposal of property, plant and equipment	**–**	(13)
Finance income	**(36)**	(219)
Finance expenses	**692**	38
Share based payment charge	**69**	34
Changes in working capital		
Decrease/(increase) in inventories	**4,144**	(2,482)
Increase in trade and other receivables	**(8,618)**	(1,654)
Increase in trade and other payables	**(3,088)**	711
Increase in provisions	**(1,039)**	–
Other non cash changes	**23**	4
Cashflows from operating activities	**(6,142)**	(3,221)

	2018	*2017*
	£'000	*£'000*
Cash and cash equivalents		
Cash	**6,574**	27,703
Overdrafts	**(9)**	–
	6,565	27,703

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

31 Notes to the company cash flow statement

	Company **2018** **£'000**	*2017* *£'000*
Continuing operations		
Loss before income tax from continuing operations	**(1,919)**	(1,057)
Adjustments for:		
Finance income	**(565)**	(274)
Finance expenses	**19**	21
Share based payment charge	**37**	19
Changes in working capital		
(Increase) in trade and other receivables	**(8,397)**	(6,313)
Increase/(decrease) in trade and other payables	**173**	(3,700)
Other non cash changes	**3**	4
Cashflows from operating activities	**(10,649)**	(11,300)

32 Reconciliation of liabilities arising from finance activities

Group	***Long-term borrowings £'000***	***Short-term borrowings £'000***	***Lease liabilities £'000***	***Overdraft £'000***	***Total £'000***
At 1 June 2016	1,075	331	471	–	1,877
Cash flows:					
Repayments	–	(334)	(292)	–	(626)
Proceeds	–	–	–	–	–
Non-cash:					
Amortisation of finance fees	–	3	–	–	3
Reclassification	(179)	179	–	–	–
At 1 June 2017	**896**	**179**	**179**	**–**	**1,254**
Cash flows:					
Repayments	–	(3,484)	(1,025)	–	(4,509)
Proceeds	7	6,156	127	9	6,299
Non-cash:					
Acquisition of subsidiary undertakings (note 36)	4,145	3,212	3,307	–	10,664
Amortisation of finance fees	–	23	–	–	23
Exchange adjustments	–	11	(34)	–	(23)
Reclassification	(613)	613	–	–	–
At 31 May 2018	**4,435**	**6,710**	**2,554**	**9**	**13,708**

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

32 Reconciliation of liabilities arising from finance activities (continued)

Company	*Long-term borrowings £'000*	*Short-term borrowings £'000*	*Lease liabilities £'000*	*Overdraft £'000*	*Total £'000*
At 1 June 2016	1,075	178	–	–	1,253
Cash flows:					
Repayments	–	(182)	–	–	(182)
Non-cash:					
Amortisation of finance fees	–	4	–	–	4
Reclassification	(179)	179	–	–	–
At 1 June 2017	**896**	**179**	**–**	**–**	**1,075**
Cash flows:					
Repayments	–	(182)	–	–	(182)
Non-cash:					
Amortisation of finance fees	–	3	–	–	3
Reclassification	(180)	180	–	–	–
At 31 May 2018	**716**	**180**	**–**	**–**	**896**

33 Related party transactions

Company
The Directors benefited from dividends paid in the year (note 10) on their shareholdings as set out in the Directors report page 17.

Group
During the year the Group entered into an agreement with Sustinere Solutions Ltd ("Sustinere"), a company 21.54% owned by Tristan Lloyd-Baker (brother of Ewan Lloyd-Baker). Subsequent to the agreement being signed, Ewan Lloyd-Baker and his wife and purchased a 1.76% share holdings in Sustinere. The agreement is for the Group to supply a Combined Heat and Power unit for £379,000 which will then be installed by Sustinere along with associated infrastructure at one of the Group's premises. Once installed this equipment will provide the Group with lower cost electricity and heating. The Group will repay the cost of the related unit and associated infrastructure via a minimum 13 year finance arrangement with payments going to an unrelated third party company. Payments under this finance arrangement depend upon the heat consumption and electrical load plus the Group is liable to pay minimum usage costs which amount to £173,000 (including energy and maintenance costs) in the first year, increasing by RPI each year. At the balance sheet date future minimum lease payments (excluding energy and maintenance costs) total £1,139,000.

At one site in the Group generators were leased from Powr Capital Ltd, a company 50% owned by Tristan Lloyd-Baker (brother of Ewan Lloyd Baker) under an ongoing lease. The lease on the generators runs to November 2025 and in the 9 month period post acquisition of HTG, the Group recognised an expense of £23,000 in the accounts and paid Powr Capital Ltd £26,000. At the balance sheet date future minimum lease payments total £230,000.

34 Financial commitments

a) Capital commitments
Commitments for capital expenditure were as follows:

	***2018* £'000**	*2017 £'000*
Contracted for, but not provided in the accounts	**1,346**	333

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

34 Financial commitments (continued)

b) Operating lease commitments
At the balance sheet date the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	*2017*
	£'000	*£'000*
Land and buildings lease obligations falling due:		
Within one year	**1,293**	345
In the second to fifth years inclusive	**7,281**	339
	8,574	684
Other asset lease obligations falling due:		
Within one year	**272**	4
In the second to fifth years inclusive	**288**	–
	560	4

Operating lease payments represent rentals payable by the Group for certain of its office properties, motor vehicles and items of plant and equipment. Property leases are negotiated for an average term of 10 years and rentals are fixed for an average of five years with an option to extend for a further five years at the then prevailing market rate.

35 Investment in own shares

On 22 June 2011 the Company approved, adopted and established the Avingtrans Employees' Share Trust ('the ExSOP Trust). A summary of the Trust Deed is as follows:

- It has been established that the original trustee is RBC CEES Trustee Limited
- The primary objective of the ExSOP Trust is to hold the capital and income of the Trust for the beneficiaries
- The beneficiaries and the Trustee jointly subscribe for an initial interest in the shares purchased by the Trust
- If the performance condition as set out in note 28 is achieved the option can be exercised by the beneficiaries

During the year 330,000 (2017: 795,001) shares were purchased at a cost of £598,950 (2017: £1,534,352) by the Trust and beneficiaries, an interest in which was allocated to the Executive Directors as beneficiaries (as shown in note 28). All shares held by the trust are under option to Directors. Costs are charged to profit and loss as incurred.

The above holdings are held at a cost of £2,835,000 (2017: £2,250,000) and shown as a deduction from equity in the statement of changes in shareholders' equity.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

36 Acquisitions

Business combination – Hayward Tyler Group plc

On 1 September 2017 the Group acquired 100 percent of the issued share capital of Hayward Tyler Group plc ('HTG'). The acquisition was made to enhance the Group's position in the Energy division. The provisional fair value of net assets acquired at the date of acquisition were as follows:

Fair value of assets and liabilities acquired	***£'000***
Other intangible assets	**837**
Property, plant and equipment	**22,846**
Deferred tax	**392**
Pension and other employee obligations	**1,320**
Inventories	**8,592**
Trade and other receivables	**17,095**
Cash and cash equivalents	**739**
Current tax asset	**1,251**
Derivatives	**45**
Trade and other payables	**(21,110)**
Obligations under finance leases	**(3,307)**
Borrowings	**(7,357)**
Provisions	**(7,175)**
Other creditors	**(3,545)**
Net assets	**10,623**
Business combinations intangibles assets identified	**16,082**
Deferred tax on intangibles identified	**(2,850)**
Goodwill	**18,171**
	42,026
Fair value of consideration transferred:	
Repayment of loans	**12,500**
Shares issued	**29,526**
Consideration	**42,026**
Cash acquired	**(739)**
Loans repaid	**12,500**
Acquisition costs charged to expenses	**1,469**
Net cash paid relating to the acquisition	**13,230**

The £12,500,000 loans repaid were subject to change of control provisions. Acquisition costs arising from this transaction of £1,469,000 have been included in administration expenses included in overheads before operating profit.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

36 Acquisitions

Business combination – Hayward Tyler Group plc (continued)

The impact of the HTG acquisition on the Consolidated income statement is as follows:

	£'000
Revenue	**51,798**
Gross profit	**15,954**
Overheads	**(12,954)**
Restructuring costs	**(1,622)**
Amortisation of intangibles from business combinations	**(3,300)**
Operating loss	**(1,922)**
Finance income	**24**
Finance costs	**(959)**
Loss before taxation	**(2,857)**
Taxation	**(668)**
Overall effect on the Consolidated income statement	**(3,525)**

Since acquisition HTG contributed the following to the Group's cashflows:	*2018* *£'000*
Operating cashflows	**(4,438)**
Investing activities	**(1,844)**
Financing activities	**2,011**

Business combination – Ormandy Group

On 19 February 2018 the Group acquired certain of the assets and IP of the Ormandy Group. The acquisition was made to enhance the Group's position in the PRSE - Energy division. The net assets at the date of acquisition were as follows:

Fair value of assets and liabilities acquired

	£'000
Property, plant and equipment	**10**
Inventories	**268**
Trade and other payables	**(193)**
Net Assets	**85**
Intangibles assets identified	**–**
Goodwill & IP	**50**
	135
Fair value of consideration transferred:	
Cash	**135**
Consideration	**135**
Acquisition costs charged to expenses	**99**
Net cash paid relating to the acquisition	**234**

Management did not identify any further intangible assets on acquisition of this business due to its distressed state.

Acquisition costs arising from this transaction of £99,000 have been included in administration expenses included in overheads before operating profit.

Notes to the Annual Report (Continued)

For the year ended 31 May 2018

36 Acquisitions (continued)

Business combination – Ormandy Group (continued)

The impact of the Ormandy acquisition on the Consolidated income statement is as follows:

	£'000
Revenue	**1,859**
Gross profit	**115**
Overheads	**(194)**
Restructuring costs	**–**
Amortisation of intangibles from business combinations	**(3)**
Operating loss	**(82)**
Finance income & costs	**–**
Loss before taxation	**(82)**
Taxation	**16**
Overall effect on the Consolidated income statement	**(66)**

Since acquisition Ormandy contributed the following to the Group's cashflows:

	2018 ***£'000***
Operating cashflows	**(349)**
Investing activities	**(135)**

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Avingtrans Plc will be held at Shakespeare Martineau LLP, No 1 Colmore Square, Birmingham, B4 6AA on 15 November 2018 at 11:00am for the following purposes:

To consider, and if thought fit, to pass the following resolutions numbered 1 to 6 as ordinary resolutions

1. To receive and adopt the reports of the Directors and the auditor and the financial statements for the year ended 31 May 2018.
2. To declare a final dividend of 2.3p per ordinary share payable on 7 December 2018 payable to shareholders on the register of members on 26 October 2018.
3. To re-elect Stephen King as a Director.
4. To re-elect Graham Thornton as a Director.
5. To elect John Clarke as a Director.
6. To reappoint Grant Thornton UK LLP as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration to be fixed by the Directors.

To transact any other ordinary business of an Annual General Meeting and as special business to consider the following Resolutions, Resolutions 7 and 8 being proposed as Ordinary Resolutions and Resolution 9 as a Special Resolutions.

7. That the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities as defined in Section 551 of the Companies Act 2006 (the "Act") up to an aggregate nominal value of £512,517 provided that this authority shall expire in whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except that the Company may before such expiry make an offer or agreement which would or might require relevant securities in pursuance of any such offer or agreement as if the authority conferred by this Resolution had not expired, and that this authority shall be in substitution for all previous authorities conferred upon the Directors pursuant to section 551 of the Act.
8. That the Company be generally and unconditionally authorised, in accordance with Article 9 of its Articles of Association and Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 5p each of the Company on such terms and in such manner as the Directors may from time to time determine provided that:

   a. the maximum number of ordinary shares authorised to be purchased is 3,106,164;

   b. the minimum price which may be paid for an ordinary share is 5p (exclusive of expenses and advance corporation tax, if any, payable by the Company);

   c. the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share of the Company derived from the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased (exclusive of expenses and advance corporation tax, if any, payable by the Company); and

   d. the authority conferred shall expire at the conclusion of the next Annual General Meeting of the Company except that the Company may, prior to such expiry, make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

9. That the Directors be empowered pursuant to Section 571 of the Act to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority conferred upon them by Resolution 7 as if Section 561 of the Act did not apply to any such allotment provided that such power shall be limited:

   a. to the allotment of equity securities in connection with a rights issue or other offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws of any territory or the requirements of a regulatory body; and

Notice of Annual General Meeting (Continued)

b. to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £155,308 and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the Company or the date falling 15 months from the date of the passing of this Resolution, except that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this Resolution had not expired.

By order of the Board

S M King **Registered office**
Chatteris Business Park
Chatteris
Cambridgeshire
PE16 6SA

Dated 2 October 2018

Notes:

Entitlement to attend and vote

1. Only those members registered on the Company's register of members at close of business on 13 November 2018; or if this Meeting is adjourned, at close of business on the day two days prior to the adjourned meeting shall be entitled to attend and vote at the Meeting.

Attending in person

2. If you wish to attend the Meeting in person, please bring photographic identification with you to the meeting.

Appointment of proxies

3. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

4. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section.

5. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.

6. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share.

7. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

8. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be completed and signed and sent or delivered to Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and received by Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 11:00am on 13 November 2018.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

10. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

    Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

    If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

11. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:

    - By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
    - In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

    In either case, the revocation notice must be received by the Link Asset Services of PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 13 November 2018 at 11.00am.

    Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights

12. As at 11:00 am on 2 October 2018, the Company's issued share capital comprised 31,061,636 ordinary shares of 5p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 11.00am on 2 October 2018 is 31,061,636.

Documents on display

13 The following documents will be available for inspection at Chatteris Business Park, Chatteris, Cambridgeshire PE16 6SA from 26 October 2018 until the time of the Meeting and for at least 15 minutes prior to the Meeting and during the Meeting:

- Copies of the letters of appointment of the directors of the Company.

The Strategy in action

Pinpoint-Invest-Exit

Pinpoint

Strengthening the energy market portfolio

Avingtrans successfully acquires Hayward Tyler Group for £29.4m in September 2017.

With a rich installed base of 1000's of pumps and motors across the global energy space, the opportunity to drive short term growth and profitability through focused aftermarket activity balances the medium and longer term opportunities, as capital investment picks up in the Oil & Gas and Power Generation segments.

Avingtrans successfully acquires certain assets of Ormandy Ltd for £0.1m in February 2017.

Ormandy Group manufactures off-site plant, heat exchangers and other HVAC (heating, ventilation and air conditioning) products and the synergies that exist between the Ormandy Group and Avingtrans' businesses will allow Ormandy to re-establish its presence in an improving market space.

Invest

Establishing world class capability

Energy

Metalcraft completes the second phase of the factory development for 3m3 intermediate level waste (ILW) boxes and successfully commissions the first dedicated plasma robot welding station for box production.

The first boxes have now been delivered to Sellafield and the multi-million 10 year contract is on track.

Medical

Scientific Magnetics Ltd and MR Resources Inc. launch a pan-European partnership, to bring Nuclear Magnetic Resonance (NMR) system support and service contracts to European NMR users.

The partnership results in a unique and independent service offering for European NMR users and is fundamental to the groups continued focus on aftermarket support.

Exit

Returning share-holder value

Avingtrans is now fully into the Pinpoint-Invest phases of its two energy divisions and its medical division since the successful Exit of the aerospace group, Sigma Components, at an enterprise value of £65m back in 2016.

Avingtrans is committed to medium and longer term development plans, with the focus on exiting businesses at advantageous valuations, at which point proceeds can be considered for return to shareholders, or redeployed for continued growth in shareholder value.

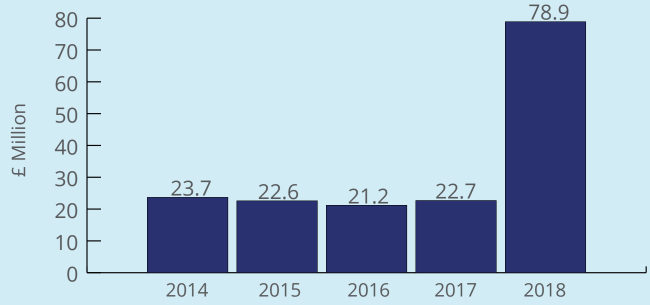
As the energy markets continue to recover, M&A activity remains strong and flow control businesses command high valuations. Avingtrans is quietly confident about the current strategic direction and potential future Exit opportunities.

> "Avingtrans is quietly confident about the current strategic direction and potential future Exit opportunities

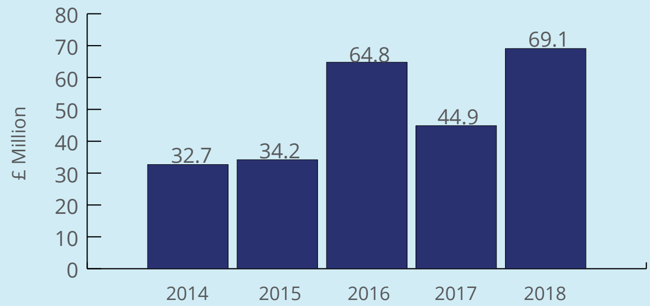
Performance

5 YEAR PERFORMANCE

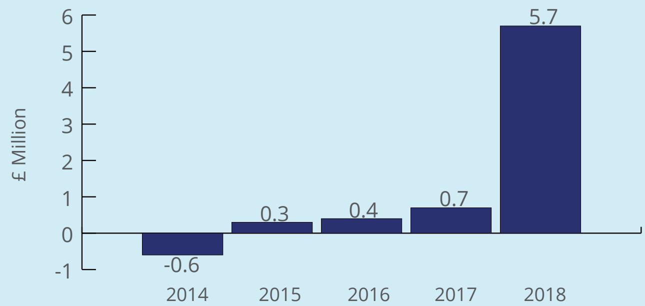
Revenue



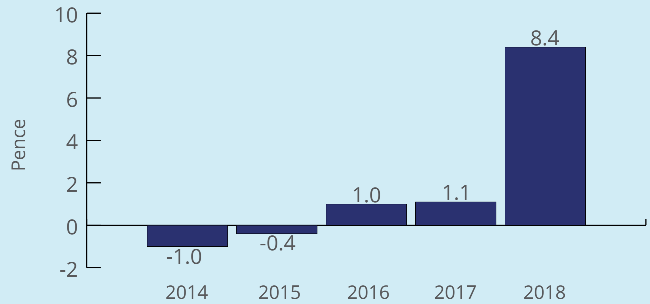
Net Assets



EBITDA (adjusted)



EPS – Diluted (adjusted)



2014 – 2015 adjusted to exclude results for Aerospace division sold May 16. The results above are under IAS (International Accounting Standards). Adjusted for share based payments, impairment of good will, amortisation/ impairment of intangibles and exceptionals

HAYWARD TYLER

Peter Brotherhood
150 years of engineering innovation

Maloney Metalcraft

Metalcraft

Ormandy Rycroft Engineering

WHITELEY READ ENGINEERING

Composite Products Ltd

SCIENTIFIC MAGNETICS

crown INTERNATIONAL

www.avingtrans.plc.uk