

ASSOCIATED BRITISH ENGINEERING PLC
INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 SEPTEMBER 2019

ASSOCIATED BRITISH ENGINEERING PLC
INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

| CONTENTS | PAGE |
|--|-------------|
| Chairman's statement | 1 |
| Responsibility statement | 2 |
| Group income statement | 3 |
| Group statement of comprehensive income | 4 |
| Group interim balance sheet | 5 |
| Group interim statement of changes in shareholders' equity | 6 |
| Group interim cash flow statement | 7 – 8 |
| Notes to the interim report | 9 - 19 |

**ASSOCIATED BRITISH ENGINEERING PLC
CHAIRMAN'S STATEMENT**

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

| SUMMARY OF RESULTS | Six months to 30 September 2019 £'000 | Six months to 30 September 2018 £'000 | Year to 30 March 2019 £'000 |
|---------------------------|--|--|--|
| Revenue | 557 | 498 | 1,134 |
| Loss before Tax | (179) | (342) | (1,810) |
| Earnings/(loss) per Share | | | |
| Basic | (8.7p) | (16.7p) | (84.5p) |
| Diluted | (8.7p) | (16.7p) | (84.5p) |

The Group incurred a pre-tax loss of £179,000 for the six-month period to 30 September 2019. This represents a decreased loss of £163,000 on the similar financial period last year and is due to a reduction in the loss before interest and tax at British Polar Engines Limited ('BPE').

The turnover for our main operating subsidiary British Polar Engines (BPE) increased to £557,000 for the period ending 30th September 2019 (2018: £498,000) resulting in a reduced loss for the interim period of £246,000 (2018 loss £356,000). It is a disappointment that the sales increase was modest and as a result and following these results the Board have instituted a round of reorganisation and rationalisation within the various arms of the business. Post the period end, the Board has negotiated the utilisation of surplus space that will benefit future results as from the fourth quarter's figures. Since the last set of figures there have been signs that sales opportunities in the spares business are increasing and we are working hard to convert these leads into firm sales.

In late 2018 the board of BPE started discussions with the Trustees of the Pension Fund to resolve the longer term costs to the company of the Pension Fund. There was further disappointment from BPE's pension fund actuarial valuations in 2019, which despite years of additional contributions showed the funds deficit was again on the increase. It was therefore decided to enter discussions to close off the cost of the Pension Fund to BPE.

The Board of BPE, supported by the Board of your company, entered into discussions with the Trustees of the Pension Fund, the Pensions Regulator and the Pension Protection Fund. As part of those discussions the Board of BPE decided that they should engage FRP Advisory LLP to advise on negotiations with the Trustees and the Pensions Regulator and consider the future of the operating business of BPE including marketing it as for sale. This process is still ongoing.

The Board keeps the central costs of the Group under review and maintains them at a very low level. There are some signs that sales opportunities are increasing again and we are working hard to convert them. The Board is also working to ensure that its investments and cash in the business generate value for shareholders commensurate with the risk.

The Board continues to review options for the future development of the Group.

Colin Weinberg and Rupert Pearce Gould
Chairmen

28 November 2019

**ASSOCIATED BRITISH ENGINEERING PLC
RESPONSIBILITY STATEMENT**

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The Directors of the Company confirm to the best of their knowledge that:

- a) the Interim Report has been prepared in accordance with IAS 34;
- b) the Interim Report includes a fair view of the information required by DTR 4.2.7R, being an indication of the important events that have occurred during the first six months of the financial year and a description of the principal risks and uncertainties for the remaining six months of the year; and
- c) the Interim Report includes a fair review of the information required by DTR 4.2.8R, being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the group during that period; and any changes in the related party transactions described in the latest annual financial statements that could do so.

By order of the Board

Colin Weinberg and Rupert Pearce Gould
Chairmen

28 November 2019

ASSOCIATED BRITISH ENGINEERING PLC
GROUP INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

| | Six months to 30 September 2019 £'000 | Six months to 30 September 2018 £'000 | Period to 31 March 2019 £'000 |
|---|--|--|--|
| Revenue | 557 | 498 | 1,134 |
| Operating costs | (734) | (835) | (2,552) |
| Exceptional items | - | - | (324) |
| OPERATING LOSS | <u>(177)</u> | <u>(337)</u> | <u>(1,742)</u> |
| Finance expense | (2) | (5) | (68) |
| Finance income | - | - | - |
| LOSS BEFORE TAXATION | <u>(179)</u> | <u>(342)</u> | <u>(1,810)</u> |
| Taxation | - | - | 79 |
| LOSS FOR PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | <u>(179)</u> | <u>(342)</u> | <u>(1,731)</u> |
| LOSS PER SHARE ON LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | | |
| Basic and diluted | <u>(8.7p)</u> | <u>(16.7p)</u> | <u>(84.5p)</u> |
| Loss for the period attributable to: | | | |
| Owners of the company | (179) | (342) | (1,731) |
| Non-controlling interest | - | - | - |
| | <u>(179)</u> | <u>(342)</u> | <u>(1,731)</u> |

ASSOCIATED BRITISH ENGINEERING PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

| | Six months to 30 September 2019 £'000 | Six months to 30 September 2018 £'000 | Period to 31 March 2019 £'000 |
|---|--|--|--|
| Loss for the period | <u>(179)</u> | <u>(342)</u> | <u>(1,731)</u> |
| Other comprehensive income | | | |
| Re-measurement of the net defined benefit liability (*) | - | - | (3,471) |
| Gain/(loss) on available for sale financial asset (**) | (79) | 384 | 568 |
| Surplus on revaluation of properties | <u>-</u> | <u>-</u> | <u>(50)</u> |
| Other comprehensive income for the period | (79) | 384 | (2,953) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u><u>(258)</u></u> | <u><u>42</u></u> | <u><u>(4,684)</u></u> |
| Total comprehensive loss attributable to: | | | |
| Owners of the company | (258) | 42 | (4,684) |
| Non-controlling interests | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u><u>(258)</u></u> | <u><u>42</u></u> | <u><u>(4,684)</u></u> |

(*) = Items which will not subsequently be reclassified to the Income Statement.

(**) = Items which may subsequently be reclassified to the Income Statement.

All activities are classified as continuing.

ASSOCIATED BRITISH ENGINEERING PLC
GROUP INTERIM BALANCE SHEET
AS AT 30 SEPTEMBER 2019

Company Number: 00110663

| | At 30 September 2019 £'000 | At 30 September 2018 £'000 | Period to 31 March 2019 £'000 |
|---|-------------------------------------|-------------------------------------|--|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | - | 784 | - |
| Available for sale financial assets | 8 | 565 | 21 |
| | <u>8</u> | <u>1,349</u> | <u>21</u> |
| Current assets | | | |
| Property, plant and equipment | 523 | - | 534 |
| Available for sale financial assets | 644 | - | 714 |
| Inventories | 109 | 1,008 | 165 |
| Trade and other receivables | 79 | 220 | 125 |
| Cash and cash equivalents | 271 | 474 | 389 |
| | <u>1,626</u> | <u>1,702</u> | <u>1,927</u> |
| Total assets | <u>1,634</u> | <u>3,051</u> | <u>1,948</u> |
| EQUITY AND LIABILITIES | | | |
| Called up share capital | 51 | 51 | 51 |
| Deferred shares | 2,594 | 2,594 | 2,594 |
| Share premium account | 5,370 | 5,370 | 5,370 |
| Other components of equity | 11 | 11 | 11 |
| Available for Sale financial assets | 725 | 319 | 805 |
| Revaluation reserve | 550 | 600 | 550 |
| Retained earnings | (13,267) | (7,927) | (13,089) |
| | <u>(3,966)</u> | <u>1,018</u> | <u>(3,708)</u> |
| Equity attributable to the Company's Equity Shareholders | <u>(3,966)</u> | <u>1,018</u> | <u>(3,708)</u> |
| Non-controlling interests | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>(3,966)</u> | <u>1,018</u> | <u>(3,708)</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Retirement benefit obligation | - | 1,354 | - |
| Obligation under finance leases | - | 4 | - |
| Deferred tax liabilities | - | - | - |
| | <u>-</u> | <u>1,358</u> | <u>-</u> |
| Current liabilities | | | |
| Trade and other payables | 613 | 660 | 664 |
| Obligations under finance leases | 5 | 15 | 10 |
| Retirement benefit obligation | 4,982 | - | 4,982 |
| | <u>5,600</u> | <u>675</u> | <u>5,656</u> |
| Total liabilities | <u>5,600</u> | <u>2,033</u> | <u>5,656</u> |
| Total equity and liabilities | <u>1,634</u> | <u>3,051</u> | <u>1,948</u> |

ASSOCIATED BRITISH ENGINEERING PLC
GROUP INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

| | Share Capital £'000 | Share Premium £'000 | Deferred Shares £'000 | Other Reserve £'000 | Available for Sale Financial Assets £'000 | Revaluation reserve £'000 | Retained Earnings £'000 | Attributable to owners of parent £'000 | Total £'000 |
|--|---------------------------|---------------------------|-----------------------------|---------------------------|---|---------------------------------|-------------------------------|---|----------------|
| Balance at 1 April 2018 | 51 | 5,370 | 2,594 | 11 | (64) | 600 | (7,586) | 976 | 976 |
| Loss for the period | - | - | - | - | - | - | (342) | (342) | (342) |
| Unrealised gain on Available For Sale Financial Assets (**) | - | - | - | - | 384 | - | - | 384 | 384 |
| Balance at 30 September 2018 | <u>51</u> | <u>5,370</u> | <u>2,594</u> | <u>11</u> | <u>320</u> | <u>600</u> | <u>(7,928)</u> | <u>1,018</u> | <u>1,018</u> |
| Loss for the period | - | - | - | - | - | - | (1,389) | (1,389) | (1,389) |
| Other comprehensive income | | | | | | | | | |
| Actuarial loss in defined benefit plan | - | - | - | - | - | - | (3,471) | (3,471) | (3,471) |
| Unrealised gain on Available For Sale Financial Assets (**) | - | - | - | - | 184 | - | - | 184 | 184 |
| Realised loss on Available For Sale Financial Assets | - | - | - | - | 301 | - | (301) | - | - |
| Revaluation | | | | | | | | | |
| Deficit on revaluation of freehold property | - | - | - | - | - | (50) | - | (50) | (50) |
| Total comprehensive income for the period | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>485</u> | <u>(50)</u> | <u>(5,161)</u> | <u>(4,726)</u> | <u>(4,726)</u> |
| Balance at 1 April 2019 | 51 | 5,370 | 2,594 | 11 | 805 | 550 | (13,089) | (3,708) | (3,708) |
| Loss for the period | - | - | - | - | - | - | (179) | (179) | (179) |
| Unrealised loss on Available For Sale Financial Assets (**) | - | - | - | - | (79) | - | - | (79) | (79) |
| Realised gain on Available For Sale Financial Assets | - | - | - | - | (1) | - | 1 | - | - |
| Balance at 30 September 2018 | <u>51</u> | <u>5,370</u> | <u>2,594</u> | <u>11</u> | <u>725</u> | <u>550</u> | <u>(13,267)</u> | <u>(3,966)</u> | <u>(3,966)</u> |

(*) = Items which will not subsequently be reclassified to the Income Statement.

(**) = Items which may subsequently be reclassified to the Income Statement.

ASSOCIATED BRITISH ENGINEERING PLC
GROUP INTERIM CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

| | Six months to 30 September 2019 £'000 | Six months to 30 September 2018 £'000 | Period to 31 March 2019 £'000 |
|---|--|--|--|
| Cash flows from operating activities | | | |
| Cash used in operations | (115) | (8) | (80) |
| Interest received | - | - | - |
| Interest paid | (2) | (4) | (68) |
| Taxation | - | - | - |
| Net cash used in operating activities | <u>(117)</u> | <u>(12)</u> | <u>(148)</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of equipment | - | 18 | 24 |
| Purchase of equipment | (1) | (2) | (16) |
| Purchase of investments | - | - | - |
| Sale proceeds of investments held for sale | 5 | 142 | 210 |
| Net cash used in investing activities | <u>4</u> | <u>158</u> | <u>218</u> |
| Cash flows from financing activities | | | |
| New finance lease | - | - | - |
| Proceeds from finance leases/(redemption of) | (5) | (16) | (25) |
| Redemption of loan notes | - | - | - |
| Net cash generated from financing activities | <u>(5)</u> | <u>(16)</u> | <u>(25)</u> |
| Net decrease in cash and cash equivalents | (118) | 130 | 45 |
| Cash and cash equivalents at beginning of period | <u>389</u> | <u>344</u> | <u>344</u> |
| Cash and cash equivalents at end of period | <u>271</u> | <u>474</u> | <u>389</u> |

ASSOCIATED BRITISH ENGINEERING PLC
GROUP INTERIM CASH FLOW STATEMENT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

| CASH FLOW FROM OPERATING ACTIVITIES | Six months to 30 September 2019 £'000 | Six months to 30 September 2018 £'000 | Period to 31 March 2019 £'000 |
|--|--|--|--|
| Loss before taxation | (179) | (342) | (1,810) |
| Adjustments for: | | | |
| Depreciation | 11 | 33 | 91 |
| Interest income | - | - | - |
| Finance expense | 2 | 4 | 68 |
| Foreign exchange difference | - | - | (11) |
| Pension scheme interest expense | - | - | 38 |
| Cash paid in excess of current pensions service cost | - | - | (204) |
| Profit on disposal of equipment | - | (1) | (6) |
| Impairment of assets | - | - | 156 |
| Profit on disposal of Available for Sale investments | - | (58) | (108) |
| Changes in working capital: | | | |
| Decrease/(increase) in inventories | 56 | 29 | 872 |
| Decrease/(increase) in trade and other receivables | 46 | 299 | 393 |
| Increase/(decrease) in payables | (51) | 28 | 33 |
| | <u>(115)</u> | <u>(8)</u> | <u>(80)</u> |
| Taxes paid | - | - | - |
| Cash used in operations | <u>(115)</u> | <u>(8)</u> | <u>(80)</u> |

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The company is incorporated in the United Kingdom under the Companies Act 2006.

This unaudited Group Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting and the disclosure requirements of the Listing Rules. The policies set out below have been consistently applied to all periods presented.

This Group Interim Report is not audited.

The results for the period ended 31 March 2019 have been extracted from the statutory consolidated financial statements of Associated British Engineering Plc, which are prepared in accordance with IFRS, as adopted by the EU.

NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The following standards became applicable for the current reporting period:

- IFRS 16 in respect of Leases which became effective for accounting periods beginning on or after 1 January 2019.

The directors anticipate that the adoption of the above Standards and Interpretations in this and future periods will have no material impact on the financial statements of the Group, except as follows:

- IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and it removes the current distinction between an operating and finance lease, introducing consistent requirements for all leases similar to the current finance lease accounting. The lease value for leased premises as well as other smaller trade related operating leases will be brought onto the Statement of Financial Position at the fair value of the future minimum lease payments.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairmen's statement on page 1. The financial position of the Group, its cash flows and liquidity position are described in the financial statements.

As described in detail in the last Chairmen's Statement the Board of Directors' commenced discussions with the Trustees of the Pension Fund with the intention of resolving the longer-term costs to the Group of the Pension Fund with the view to closing off the cost of the Pension Fund to the Group. The Board of Directors' therefore entered into detailed discussions with the Trustees of the Pension Fund, the Pensions Regulator and the Pension Protection Fund with the view to obtaining a resolution of these matters. These discussions are on going.

On 2 July 2019, it was announced to the market that FRP Advisory LLP had been engaged to advise on negotiations with the Trustees and the Pensions Regulator and consider the future of the operating business of BPE including marketing the Company for sale. This process is still ongoing.

Consequently, the Directors have concluded that BPE is expected to be reconstructed, sold or cease trading within a period of 6 months from the date that these financial statements will be approved and, consequently have agreed that the going concern basis of preparation is no longer applicable.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

GOING CONCERN (*continued*)

As such, these financial statements have continued to be prepared on a basis other than the going concern basis and, we have used the same provisions as the review revealed in July/August of this year given its proximity to the period end and adjustments have been made accordingly to liabilities and to reduce the carrying value of these assets to their expected recoverable amounts.

The assessment of the recoverable amount of these assets is considered to be a key accounting judgement and further details of this judgement can be found disclosed in these financial statements.

BASIS OF CONSOLIDATION

As set out in the Directors' report, the Directors have decided to prepare the financial statements on a basis other than that of a going concern. In adopting the basis other than going concern at 31 March 2019 and subsequently for these interim financial statements, the following policies and procedures were implemented:

- At 31 March 2019 all BPE non-current assets are considered as realisable, hence reclassified as current assets
- All BPE assets have been disclosed at values at which they are expected to be realised
- All liabilities reflect the full amount at which they are expected to materialise

The Group Interim Report incorporates the financial statements of Associated British Engineering Plc and its subsidiary undertakings to 30 September each year. All inter-company balances and transactions have been eliminated in full. The Group Interim Report includes the results of subsidiaries acquired or disposed of during the year from or to the effective date of acquisition or disposal.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

REVENUE RECOGNITION

The Group has adopted Revenue from Contracts with Customers (IFRS 15) with an adoption date of 1 April 2018. The Group has assessed the requirements of IFRS 15 and have determined that the existing revenue recognition policy is in line with the requirements of this new standard, as all revenue relates to contracts held with customers. This adoption, therefore, did not result in a change in the accounting policy outlined below:

Revenue is measured at the fair value of the consideration receivable by the Group for goods supplied and services provided, excluding value added tax and trade discounts. Revenue from the sale of spare parts is recognised when the goods are dispatched or, if under a bill and hold arrangement, when they are available for despatch to a specific customer. Revenue from the sale of engines is recognised in accordance with the performance of contractual terms and specifically when the engines have been satisfactorily tested in accordance with contractual terms. Revenue from servicing and repair work is recognised when the work is completed.

ACCOUNTING ESTIMATES AND JUDGEMENTS

Management are required, in accordance with IFRS, to exercise judgement and to make estimates and assumptions regarding the application of accounting policies and the resulting effect on reported amounts of assets, liabilities, income, and expenses. These estimates and assumptions are based on historical experience and a review of current conditions prevailing at the time but actual results may differ from these estimates. Any such revision is recognised in the financial statements in the period in which the change in circumstance is detected.

Accounting Judgements

The key areas where management have exercised judgement in the period, and the thought process undertaken, are as follows:

Going Concern

The Directors anticipate that the trade of the Company's principal subsidiary BPE is expected to be re-constructed, sold or cease trading within 6 months from the date that these financial statements will be approved and, consequently have agreed that the going concern basis of preparation is no longer applicable.

Pension Scheme

The directors are in regular contact with the Trustees of the pension scheme in connection with three key areas where judgement is exercised; the assumptions underpinning the actuarial valuation, continued negotiations regarding the pension scheme and in relation to the payment plan. The directors then assess the relevant estimates and assumptions and have now deemed the pension scheme to be prepared under the solvency basis, which provides an estimate of the cost of transferring all liabilities to an insurer. This basis has been derived in line with the s.143 basis prescribed by the Pension Protection Fund ("PPF") that was in force as at 1 April 2019.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Pension Scheme (continued)

In evaluating the assumptions underpinning the actuarial valuation the directors have sought the professional advice of a firm of actuaries who prepare the valuation according to industry standards and norms.

Deferred taxation

Judgement is applied by management in determining the extent to which the recovery of carried forward tax losses is probable for the purpose of meeting the criteria for recognition as deferred tax assets

Available for Sale Financial Assets

British Polar Engines holding in SalvaRx was 1.92% (September 2018: 2.13%). The directors have judged that this holding does not give the group 'significant influence' over SalvaRx Group PLC, and so this investment has not been accounted for as an associate in these financial statements.

Accounting Estimates

The accounting estimate having an impact on carrying amounts of assets and liabilities in the reporting period is as follows:

Recoverable amount of assets

Following the directors' decision to prepare the financial statements on a basis other than going concern, inventories, property, plant and equipment, trade and other receivables, available for sale assets have been written down to their recoverable amount. The directors appointed a specialist to value the above items at their recoverable amounts. Additional information is provided in the basis of preparation in the accounting policies.

Inventories

In previous interim reporting periods, inventories were stated at the lower of cost and net realisable value. Following the directors' decision to prepare the financial statements on a basis other than going concern, inventories have been written down to their recoverable amount. The comparatives are prepared in accordance with the accounting policies adopted in previous periods.

Inventories held by the Group consist of raw material (mainly components), work in progress (manufactured engines and parts) and finished goods (both purchased and manufactured engines and parts).

The directors' review their assumptions and accounting estimates, along with the accounting policies adopted in preparing these financial statements, on a regular basis and recognise any change in the period in which circumstances vary.

INVENTORIES AND IMPAIRMENT OF INVENTORIES

Cost is on a first in, first out basis. Net realisable value is the estimated selling price in the normal course of business, less estimated costs of completion and provision is made for obsolete, slow moving and defective inventories. However, following the directors' decision to prepare the financial statements on a basis other than going concern, inventories have been written down to their recoverable amount.

Provision for doubtful debts

At the balance sheet date, each subsidiary evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ from the estimated levels of recovery and could impact future operating results positively or negatively.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

LEASED ASSETS

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Assets held under finance leases are capitalised at lease inception at the lower of the asset's fair value and the present value of the minimum lease payments. Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate within borrowings. The interest element of the finance cost is charged to the income statement over the life of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant or equipment is depreciated on the same basis as owned plant and equipment or over the life of the lease, if shorter.

PROPERTY, PLANT AND EQUIPMENT

In previous interim reporting periods, plant and equipment are stated at cost less depreciation and any impairment in value. The comparatives are prepared in accordance with the accounting policies adopted in previous periods. Freehold property is held under a revaluation model as outlined below. Depreciation is calculated to write down the cost of all property, plant and equipment less its residual value by annual instalments over their expected useful lives on the following bases:

| | |
|---------------------|--------------------------------|
| Freehold buildings | 5 per cent straight line |
| Plant and machinery | 7½- 33⅓ per cent straight line |

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. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

The carrying values of plant and machinery are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts. Following the directors' decision to prepare the financial statements on a basis other than going concern, property, plant and equipment have been written down to their recoverable amount.

Freehold property is held under the revaluation model and was carried at a revalued amount, being their fair value at the date of valuation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of the land and buildings is usually considered to be their market value. This changed from a cost model to a revaluation model is a change in accounting policy.

Revaluation gains and losses are recognised in other comprehensive income and accumulated in equity, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in the Income Statement or a revaluation loss exceeds the accumulated revaluation gains recognised in equity; such gains and losses are recognised in the Income Statement.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

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

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (*continued*)

TAXATION (*continued*)

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

FOREIGN CURRENCIES

The functional and presentational currency of the parent company and its subsidiaries is UK Pounds Sterling, rounded to the nearest thousands. Transactions in currencies other than the functional currency are translated at the rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gains or losses arising from the transactions are taken to the income statement.

RETIREMENT BENEFIT COSTS

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the Group statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to cumulative unrecognised past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Actuarial gains and losses, which represent differences between the expected and actuarial returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in the statement of other comprehensive income in the period in which they occur. Pension payments to the Group's defined contribution schemes are charged to the income statement as they arise.

The directors have assessed the relevant estimates and assumptions and have now deemed the pension scheme to be prepared under the solvency basis, which provides an estimate of the cost of transferring all liabilities to an insurer. This basis has been derived in line with the s.143 basis prescribed by the Pension Protection Fund ("PPF") that was in force as at 1 April 2019.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with a maturity of three months or less which are subject to an insignificant risk of changes in value.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (*continued*)

FINANCIAL ASSETS

Financial assets are recognised initially at fair value, normally being the transaction price. In the case of financial assets not at fair value through profit or loss, directly attributable transaction costs are also included. The subsequent measurement of financial assets depends on their classification. The group derecognises financial assets when the contractual rights to the cash flows expire or the financial asset is transferred to a third party. This includes the de-recognition of receivables for which discounting arrangements are entered into.

FINANCIAL INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities and are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the income statement. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

Where none of the contractual terms of share capital meet the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Trade and other receivables

In previous interim reporting periods, trade and other receivables were originally recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method. A 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.

However, following the directors' decision to prepare the financial statements on a basis other than going concern, trade and other receivables have been written down to their recoverable amount. The comparatives are prepared in accordance with the accounting policies adopted in previous periods.

Trade and other payables

Trade and other payables are originally recognised at fair value, net of transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method.

Investments in securities

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, with all transaction costs being written off to the income statement as incurred.

Investments are classified as available for sale and are measured at subsequent reporting dates at fair value. However, during the current year this has subsequently changed given that they are now held at a discount to the quoted market price. The directors consider it appropriate to apply a discount due to a lack of liquidity in the markets. Gains and losses arising from changes in fair value of available for sale financial assets are included in other comprehensive income for the period. When the asset is disposed of or deemed to be impaired, the cumulative gain or loss is reclassified from equity reserve to income statement.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (*continued*)

IMPAIRMENT OF TANGIBLE ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

EQUITY AND RESERVES

EQUITY AND RESERVES

Share capital represents the nominal value of shares that have been issued except for the preference shares classified as debt.

Deferred shares represent shares arising from the sub-division of ordinary shares of £2.

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.

Retained earnings include all current and prior period retained profits and losses.

Other reserves relate to movements not classified in any of the reserves detailed above.

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

SEGMENTAL REPORTING

The standard requires financial information to be disclosed in the financial statements in the same format in which it is disclosed to the chief operating decision-maker. The chief decision-maker has been identified as the Board, at which level strategic decisions are made.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

2. SEGMENTAL ANALYSIS

| | Six months to 30 September 2019 £'000 | Six months to 30 September 2018 £'000 | Period to 31 March 2019 £'000 |
|--------------------------|--|--|--|
| United Kingdom | 274 | 255 | 627 |
| Europe | 106 | 97 | 240 |
| Far East and Australasia | 52 | 41 | 87 |
| Africa | 5 | 74 | 81 |
| North and South America | 75 | 31 | 87 |
| Middle East | 45 | - | 12 |
| | <u>557</u> | <u>498</u> | <u>1,134</u> |

All of the above revenue arises from diesel, related engineering activities and aluminium trading. All revenue originates in the United Kingdom.

In the periods detailed above all of the assets held by the group were located in the United Kingdom and all capital expenditure was incurred within the United Kingdom.

Operating segments

The following segment information has been prepared in accordance with IFRS 8, "Operating Segments" which defines requirements for the disclosure of financial information of an entity's operating segments.

The Board consider the Group on an individual company basis. Reports by individual companies are used by the chief decision-makers in the Group. Significant operating segments are Associated British Engineering Plc, British Polar Engines Limited and Akoris Trading Limited.

The Group's operations are located in the United Kingdom. Any transactions between business units are on normal commercial terms and conditions.

British Polar Engines Limited's activities consist of the manufacture and supply of diesel engines and spare parts for diesel engines together with associated repair work.

Akoris Trading Limited did not carry out trading activity in the period.

Associated British Engineering Plc is the group holding company.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (continued)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

2 SEGMENTAL ANALYSIS (continued)

| | Associated British Engineering PLC £'000 | British Polar Engines Ltd £'000 | Akoris Trading Ltd £'000 | Consolidated |
|--|--|---------------------------------------|--------------------------------|---------------------|
| Six months to 30 September 2019 | | | | |
| External sales | - | 557 | - | 557 |
| Segment result (PBIT) | <u>(27)</u> | <u>(150)</u> | <u>-</u> | <u>(177)</u> |
| Net finance expense | | | | (2) |
| Taxation | | | | - |
| Loss after tax | | | | <u><u>(179)</u></u> |
| Other information | | | | |
| Capital additions | - | - | - | - |
| Balance sheet | | | | |
| Segment assets | <u>71</u> | <u>1,563</u> | <u>-</u> | <u>1,634</u> |
| Six months to 30 September 2018 | | | | |
| External sales | - | 498 | - | 498 |
| Segment result (PBIT) | <u>(68)</u> | <u>(270)</u> | <u>1</u> | <u>(337)</u> |
| Net finance expenses | | | | (5) |
| Taxation | | | | - |
| Profit after tax | | | | <u><u>(342)</u></u> |
| Other information | | | | |
| Capital additions | - | 2 | - | 2 |
| Balance sheet | | | | |
| Segment assets | <u>101</u> | <u>2,934</u> | <u>16</u> | <u>3,051</u> |

There was one customer that contributed more than 10% of the total group revenue for the six months ending 30 September 2019 (2018: two customers).

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE INTERIM REPORT (*continued*)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

3. PRINCIPAL RISKS AND UNCERTAINTIES

In light of the industry in which the trading subsidiaries operate, there are a number of risks and uncertainties which could have an impact on the performance of the Group for the remaining six months of the year.

The Directors have considered the principal risks and uncertainties relating to its future business which might affect the financial performance of the Group in 2019. The Group continues to be exposed to the principal risks and uncertainties as described on page 8 of the 2019 Annual Report and Accounts. A copy of the 2019 Annual Report and Accounts is available on the Company's website.

The Directors meet on a regular basis to discuss these risks and uncertainties and appropriate actions are taken to mitigate these risks and to develop suitable strategies to protect the long term performance of the Group.