

Registered number: 04040105

TURBINE SURFACE TECHNOLOGIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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TURBINE SURFACE TECHNOLOGIES LIMITED

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TURBINE SURFACE TECHNOLOGIES LIMITED

COMPANY INFORMATION

Directors

N Bird
D A Deakin
C M Haines
P Howard
N S H Groeger

Company secretary

J M Gentles

Registered number

04040105

Registered office

Moor Lane
Derby
Derbyshire
DE24 8BJ

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ

Bankers

National Westminster Bank PLC
18 South Parade
Nottingham
NG1 2JX

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their Strategic Report of Turbine Surface Technologies Limited (the "Company") for the year ended 31 December 2019.

Business review

Principal activities of the business is the development, manufacture and sale of coating services for aerospace gas turbine components for its principal customer Rolls-Royce plc in the financial year under review. Operations are based in Annesley, UK. The business continues to see sales growth year on year. Sales for this financial year were £102.4 million (2018: £83.4 million). The shareholders and directors of the business have committed to supporting the business going forward. On 13 November 2018 the shareholders reached an agreement in the form of a side letter to the Joint Venture agreement as to how the business expansion including a second facility would be supported. The Company's objectives are firmly aligned to its strategic partners Rolls-Royce plc's aerospace supply chain, on the current engine programmes and critical technology for its future programmes.

Results

The operating profit for the year was £15.3 million (2018: £15.5 million). Turnover rose by 23% to £102.4 million with customer throughput increase coming from new generation engine programmes. Technological improvements to existing coating methodologies, new product introduction, continued focus on right first time as well as yield improvement has enhanced the business. The Company continues with its Business process deployment and improvement activities and made capital investment of £1.2 million (2018: £3.9 million). Turbine Surface Technologies Ltd ('TSTL') cost base increased as the result of outsourcing activities increasing in the year to satisfy the customer demand signals which was in excess of its production capacity, with the spend reaching a total of £10.7 million (2018: £7.9 million). Administrative expenses also increased in the year by £2.2 million as the result of higher salaries and IT costs. This increase in outsourcing and administrative expenses are the two key drivers for operating margins decreasing by 3.6%.

At the end of the year the Company had shareholders' funds of £40.5 million (2018: £35.9 million) and after the payment of a £7.0 million (2018: £6.0 million) dividend, had distributable profits of £35.6 million (2018: £30.0 million). The directors therefore believe the Company's financial position to be satisfactory.

Future developments

In the opinion of the directors, prior to the coronavirus ('Covid-19') pandemic, the forward order position was such that the decision made in 2018 was to increase TSTL's footprint in order to fully exploit the opportunities available. Post Covid-19, it is likely that the investment to be made by Rolls-Royce plc in the new facility will be phased out over the short to medium term, aligned to the reduced demand faced by the aerospace sector. Rolls-Royce plc has also indicated that the capacity installation will now be implemented according to the coating capacity required by process. TSTL is now developing a broad framework with Rolls-Royce plc in line with the phased investment strategy and also in accordance with the principles set out by the side letter to the Joint Venture agreement. As per the revised phased capacity expansion plan, the 3rd EB-PVD equipment will come on line in the 2nd half of 2021. However, the fully operational end to end coating facility is now only expected to be in place by the end of 2024, based on current expectation on the recovery of the aerospace sector to pre Covid-19 levels.

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Principal risks, uncertainties and financial risk management

The main risks facing the business continue to be the availability of certain raw material, tooling, and exchange rate risks. The business is also exposed to the risks faced by its principal customer in particular the impact TSTL may have due to down turn on its volume. The business has now developed a detailed business risk register and mitigation plans to either reduce or eliminate the risks posed.

TSTL is exposed to a certain element of risk due to uncertainty in the movement of the exchange rate for foreign currency; this risk is mitigated by utilising time options through Rolls-Royce plc treasury function.

The Company's price risk is mitigated by the annual agreement of the price lists with the principal customer.

Because of TSTL's status of being Rolls-Royce plc preferred supplier of coatings it is expected that TSTL will continue to generate cash, which will further underpin our existing strong credit rating.

The Company has looked into potential Brexit impacts under a number of different scenarios: soft, hard and no deal. The key risks that have been identified include: potential increase in import duties in particular on platinum which is supplied from the euro zone area. Any potential cost increase resulting from duties will be passed on to the customer as per the supply agreement. The directors do not believe it will have a material impact on the business and will continue to monitor the situation closely.

Covid-19 pandemic has become a strategic risk to the Company as the business is exposed to the reduction in demand signals from its principal customer Rolls-Royce plc as the result of the downturn in the commercial aerospace sector and the uncertainty of the extent and timing of its recovery. Latest demand signals for the financial year ended 31 December 2020 has decreased by 38% on pre Covid-19 levels. In response to the risk the Company announced on 9 June 2020 a restructuring programme to reshape and resize the Company to meet expected future demand in the short to medium term. The restructuring programme is due to complete by December 2020 with a reduction in head count of 148, which includes 55 agency employees. Headcount has reduced by 147 as at the signing of these financial statements.

Further cost initiatives have been implemented by the Company such as utilising the Governments furlough scheme, deferring VAT payments, scheduling production shutdowns to increase efficiencies, reducing outsourcing activities, business process improvements measures and yellow belt cost saving initiatives. The Company is in regular contact with Rolls-Royce plc to ensure that its forecasts are based on the latest demand signals provided by its customer and assumptions to manage the financial performance of the Company and take actions as necessary. Management has also implemented a business continuity engagement policy with its key supply chain partners to ensure continuity of supply including the expansion of certain critical material supplies from single source to multiple outlets.

The directors have accepted management's proposal to cancel the interim dividend payment planned in June 2020 in the light of the business down turn and to maintain the target cash generation in the financial year ended 31 December 2020.

As the Company manages through the current Covid-19 pandemic we continue to implement Government guidance to ensure the working environment is Covid-secure to safeguard our employees, contractors and critical visitors to the facility.

Directors' statement of compliance with duty to promote the success of the Company

Directors of the business regularly review the performance of the business with various processes in place on its short term and long term plans. The business risks are evaluated and mitigated where possible to ensure that the long term success of the business is managed effectively.

The Board of directors engage with the senior management team of TSTL to promote, enhance and to actively manage all the stakeholders of the business. The key performance indicators comprising various functionality and stakeholder interests are reviewed periodically to monitor trends and where necessary improvements required.

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Employee engagement

The business conducts employee engagement surveys in order to assess employee welfare and general wellbeing matters. The information is then published and shared with Board and senior management to review trends and if necessary to implement any remedial actions. TSTL has an excellent record on employee retention. The culture of the business is to consult employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests. TSTL has operated an employee incentive scheme in the past several years and this is designed to encourage the involvement of employees in the Company's performance through an employees' bonus scheme. This scheme links the TSTL's operating performance compared to budget and designed in such a way to promote achievement of health and safety and quality measures and support the success of the Company. TSTL's senior team also engages with the entire workforce through the "state of the nation" style briefings designed to inform employees on the performance of the current financial year and to share the medium to long term plans of the business.

Customer engagement

Our unique relationship with our principle customer is in excellent order. This long established partnership gives the business an excellent basis for an open and dynamic platform to discuss the strategy, capacity requirement, technological advancement as well as improvement opportunities of its existing programmes.

The visibility of the medium to long term demand and order status provide the directors a high level of confidence in making investment decisions, assessing future revenue streams and identifying opportunities for future growth. TSTL has a dedicated team and engages with the customer in product development, process improvement and capability acquisition. The business is very much entwined with the customer's future expansion plans and technological advancement programmes.

This relationship gives TSTL the opportunity to be a vital partner of the customers long range plans and with new advances in coating technologies and future developments coming down the pipeline.

Other stakeholders

TSTL regards its suppliers as key stakeholders of its business and engages with different supplier groups and takes their views into account. Some of the suppliers have been with TSTL since the inception of its business and the relationship has been strong. Our approach with these key stakeholders has been through continuous engagement and information sharing. This approach has proven invaluable with TSTL's growth in the recent past and our supplier base keeping abreast with this journey of growth. TSTL take pride in its fair treatment of its suppliers and TSTL's supplier payment performance is now in the public domain.

TSTL is an ISO 14001 registered company and take its environmental obligations seriously. The Standard specifies requirements for an effective environmental management system. It provides a framework that an organisation can follow and the development of best practices to establish environmental performance requirements. The senior management team reviews the key environmental performance indicators to demonstrate progress on objectives to meet the Company's policy commitments. TSTL takes into consideration environmental implications on operational, technical, financial and future expansion decision making. In making these considerations, we take into account the implications on its employees, neighbours, the community, and the wider public and their wellbeing.

The directors recognise that in order to be successful we have to be fully engaged with all our stakeholders hence TSTL has promoted an open door policy throughout the organisation and its activities in order to achieve this objective.

Dividend

During the year the directors approved the payment of a dividend amounting to 159.09 pence per share (2018: 136.4 pence per share).

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Key performance indicators

	Current Year	Prior Year
PBT Cumulative (£000)	15,629	14,865
Capital Expenditure (£000)	1,194	3,945
Unsafe Situations Raised	1,226	1,119
Facility Yield	96.4%	96.3%
Facility RFT	91.4%	93.2%

Safe working practices at all times is a key objective at TSTL and all staff are encouraged to actively consider ways to improve working methods.

The **Unsafe Situations Raised** metric measures the number of unique occasions when staff have suggested improvements.

Facility yield is a measure of the proportion of all parts shipped which achieved an acceptable quality standard and were chargeable.

Facility RFT (Right First Time) is a measure of those chargeable parts which reached the required quality standard without re-work.

This report was approved by the board and signed on its behalf by:



J M Gentles
Secretary

Date: 24 September 2020

TURBINE SURFACE TECHNOLOGIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the audited financial statements of Turbine Surface Technologies Limited (the "Company") for the year ended 31 December 2019.

Principal activities

The principal activity of the Company is the development, manufacture and sale of coating services for aerospace gas turbine components for its principal customer Rolls-Royce plc.

Results and dividends

The profit for the financial year amounted to £12,571,000 (2018: £12,020,000).

Dividends totalling £7.0 million were paid during the year (2018: £6.0 million).

Directors

The directors who served during the year and up to the date of signing the financial statements, unless otherwise stated, were:

N Bird
D A Deakin
R J Feely (appointed 25 January 2019, resigned 23 July 2020)
C M Haines (appointed 25 January 2019)
P Howard
J Boutot (resigned 25 January 2019)
N S H Groeger (appointed 23 July 2020)
C Luzzatto (resigned 25 January 2019)
A Partridge (resigned 31 October 2019)

Going concern

Turbine Surface Technologies ('TSTL') cash flows, liquidity and financial performance is reliant on the demand signals from its principal customer and the extent and timing of recovery to the commercial aerospace sector to pre Covid-19 levels. The Company has already responded to the downturn through announcing a restructuring programme, which is due to complete by December 2020, to reshape and resize the Company to meet expected future demand. The directors have produced a base case scenario forecast using the latest revised demand signals received from its customer for the period to 31 December 2021 which reflects current expectations of future trading and a severe but plausible downside scenario. The severe but plausible downside scenario sensitises the base case scenario forecasts to reflect assumptions on the extent and duration of the disruption on customer demand levels and on the commercial aerospace sector, includes a possible second wave with widespread restrictions occurring, cost savings as the result of the restructuring programme and other cash outflow measures available to TSTL.

The directors are satisfied that the best case and severe but plausible forecasts tabled provides realistic scenarios and the assumptions made are plausible for the board of directors' to conclude on the short to medium term outcomes and financial impact on the Company, even when the short-term outcome is less certain. Both the best case and severe but plausible cash flow forecasts demonstrate that the Company will generate profits and have sufficient cash funds for the period to 31 December 2021. As such, the directors are satisfied that the Company has sufficient cash reserves to meet its obligations as they fall due for a period of at least 12 months from the date of signing these financial statements which are prepared on a going concern basis.

Future developments

Details of investment in a new facility and the key risks and uncertainties faced by the Company are detailed in the Strategic Report on page 2.

TURBINE SURFACE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Financial risk management

Financial risk management can be found in the Strategic Report on page 3.

Donations

Charitable donations during the year amounted to £1,181 (2018: £903). There were no political donations during the year (2018: £Nil).

Research and development activities

Although the Company does not employ a dedicated research and development function, the Company considers itself committed to the continual development of its coating processes to improve manufacturing efficiency, minimise environmental impact and to reduce operational cost. The business has also developed automation and robotic technology on some of its processes to support evolving customer requirements on both current and future products.

Employees

Details of the number of employees and related costs can be found in Note 7 to the financial statements.

The Company participates in policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

Disabled employees

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with TSTL continues and the appropriate training is arranged. It is the policy of TSTL that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

TURBINE SURFACE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet events

The global Covid-19 pandemic and its effect on the commercial aerospace sector has had a significant impact on TSTL's principal customer which in turn has reduced the coating requirement and TSTL's order book in the short to medium term. The Board is taking action to mitigate the impact on the Company's financial performance in the short to medium term due to the reduction in volume and revenue. The directors are aware that the Covid-19 pandemic will have an effect on the financial results of the Company and the extent remains uncertain. As detailed in the Strategic Report, the directors are looking at all possible opportunities to reduce the downside impact on the Company whilst safeguarding its employees. The directors have assessed the subsequent conditions on the carrying value of assets held as at 31 December 2019 and have determined that there is no material financial impact.

Independent auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

TURBINE SURFACE TECHNOLOGIES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

This report was approved by the board and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'J M Gentles', with a stylized flourish at the end.

J M Gentles
Secretary

Date: 24 September 2020

TURBINE SURFACE TECHNOLOGIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TURBINE SURFACE TECHNOLOGIES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Turbine Surface Technologies Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

TURBINE SURFACE TECHNOLOGIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TURBINE SURFACE TECHNOLOGIES LIMITED (CONTINUED)

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

TURBINE SURFACE TECHNOLOGIES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TURBINE SURFACE TECHNOLOGIES LIMITED (CONTINUED)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

R Cletheroe

Rachel Cletheroe (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

Date: 25 September 2020

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 £000	2018 £000
Turnover	4	102,391	83,382
Cost of sales		(80,544)	(63,726)
Gross profit		21,847	19,656
Administrative expenses		(6,488)	(4,151)
Operating profit	5	15,359	15,505
Interest receivable and similar income	9	176	27
Interest payable and similar expenses	10	(6)	(667)
Profit before taxation		15,529	14,865
Tax on profit	11	(2,958)	(2,845)
Profit for the financial year		12,571	12,020
Other comprehensive (expense)/income for the financial year			
Movement on derivative financial instruments designated as cash flow hedges			
- Change in value of hedging instruments		(590)	2,134
- Reclassification to profit and loss		(615)	116
Tax on components of other comprehensive (expense)/income		205	(285)
Other comprehensive (expense)/income for the financial year		(1,000)	1,965
Total comprehensive income for the financial year		11,571	13,985

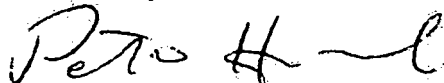
The notes on pages 17 to 35 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED
REGISTERED NUMBER: 04040105

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	13	22,577	23,871
Current assets			
Stocks	14	9,586	8,038
Debtors	15	9,165	9,163
Cash at bank and in hand	16	16,912	12,669
		<u>35,663</u>	<u>29,870</u>
Creditors: amounts falling due within one year	17	(16,144)	(16,147)
Net current assets		<u>19,519</u>	<u>13,723</u>
Total assets less current liabilities		<u>42,096</u>	<u>37,594</u>
Provisions for liabilities			
Deferred taxation	19	(1,698)	(1,667)
		<u>(1,598)</u>	<u>(1,667)</u>
Net assets		<u>40,498</u>	<u>35,927</u>
Capital and reserves			
Called up share capital	20	4,400	4,400
Share premium account	21	100	100
Cash flow hedging reserve	21	389	1,389
Profit and loss account	21	35,609	30,038
Total shareholders' funds		<u>40,498</u>	<u>35,927</u>

The financial statements on pages 13 to 35 were approved and authorised for issue by the board and were signed on its behalf by:



P Howard
Director

Date: *Sept 24th 2020*

The notes on pages 17 to 35 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £000	Share premium account £000	Cash flow hedging reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2018	4,400	100	(576)	24,018	27,942
Comprehensive income for the financial year					
Profit for the financial year	-	-	-	12,020	12,020
Cash flow hedges					
- Change in value of hedging instruments	-	-	2,134	-	2,134
- Reclassification to profit and loss	-	-	116	-	116
Tax on components of other comprehensive income	-	-	(285)	-	(285)
Total comprehensive income for the financial year	-	-	1,965	12,020	13,985
Contributions by and distributions to owners					
Dividends: Equity capital	-	-	-	(6,000)	(6,000)
Total transactions with owners	-	-	-	(6,000)	(6,000)
At 31 December 2018 and 1 January 2019	4,400	100	1,389	30,038	35,927
Comprehensive income for the financial year					
Profit for the financial year	-	-	-	12,571	12,571
Cash flow hedges					
- Change in value of hedging instruments	-	-	(590)	-	(590)
- Reclassification to profit and loss	-	-	(615)	-	(615)
Tax on components of other comprehensive (expense)/income	-	-	205	-	205
Total comprehensive (expense)/income for the financial year	-	-	(1,000)	12,571	11,571
Contributions by and distributions to owners					
Dividends: Equity capital	-	-	-	(7,000)	(7,000)
Total transactions with owners	-	-	-	(7,000)	(7,000)
At 31 December 2019	4,400	100	389	35,609	40,498

The notes on pages 17 to 35 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019 £000	2018 £000
Cash flows from operating activities		
Profit for the financial year	12,571	12,020
Adjustments for:		
Depreciation of tangible assets	2,485	2,044
Loss on disposal of tangible assets	5	-
Net interest expenses	6	1,458
Interest received	31	-
Tax on profit	2,958	2,844
Increase in inventories	(1,548)	(1,782)
Increase in trade and other debtors	(126)	(3,755)
Increase in amounts owed by groups	(747)	-
Increase in trade and other creditors	(55)	5,901
Decrease in amounts owed to groups	404	-
Tax movement on hedge accounting	(205)	284
Taxation paid	(3,506)	(1,818)
Net cash generated from operating activities	12,273	17,196
Cash flows from investing activities		
Purchase of tangible assets	(1,195)	(3,945)
Sale of tangible assets	(5)	-
Interest received	76	27
Joint ventures interest received	100	-
Net cash used in investing activities	(1,024)	(3,918)
Cash flows from financing activities		
Dividends paid	(7,000)	(6,000)
Interest paid	(6)	(667)
Net cash used in financing activities	(7,006)	(6,667)
Net increase in cash and cash equivalents	4,243	6,611
Cash and cash equivalents at beginning of financial year	12,669	6,058
Cash and cash equivalents at the end of financial year	16,912	12,669
Cash and cash equivalents at the end of financial year comprise:		
Cash at bank and in hand	16,912	12,669

The notes on pages 17 to 35 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information

Turbine Surface Technologies Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The registered number is 04040105 and the registered address is Moor Lane, Derby, Derbyshire, DE24 8BJ.

The principal activity of the Company is the development, manufacture and sale of coating services for aerospace gas turbine components for its principal customer Rolls-Royce plc. Operations are based in Annesley, UK.

2. Significant accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied consistently to all the years presented, unless otherwise stated.

2.2 Going concern

Turbine Surface Technologies ('TSTL') cash flows, liquidity and financial performance is reliant on the demand signals from its principal customer and the extent and timing of recovery to the commercial aerospace sector to pre Covid-19 levels. The Company has already responded to the downturn through announcing a restructuring programme, which is due to complete by December 2020, to reshape and resize the Company to meet expected future demand. The directors have produced a base case scenario forecast using the latest revised demand signals received from its customer for the period to 31 December 2021 which reflects current expectations of future trading and a severe but plausible downside scenario. The severe but plausible downside scenario sensitises the base case scenario forecasts to reflect assumptions on the extent and duration of the disruption on customer demand levels and on the commercial aerospace sector, includes a possible second wave with widespread restrictions occurring, cost savings as the result of the restructuring programme and other cash outflow measures available to TSTL.

The directors are satisfied that the best case and severe but plausible forecasts tabled provides realistic scenarios and the assumptions made are plausible for the board of directors' to conclude on the short to medium term outcomes and financial impact on the Company, even when the short-term outcome is less certain. Both the best case and severe but plausible cash flow forecasts demonstrate that the Company will generate profits and have sufficient cash funds for the period to 31 December 2021. As such, the directors are satisfied that the Company has sufficient cash reserves to meet its obligations as they fall due for a period of at least 12 months from the date of signing these financial statements which are prepared on a going concern basis.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Significant accounting policies (continued)

2.3 Foreign currency

Functional and presentation currency

The financial statements are prepared in sterling, which is the functional currency of the Company.

All amounts in the financial statements have been rounded to the nearest £1,000.

Transactions and balances

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

2.4 Turnover

The turnover represents sales to customers at invoiced amounts less value added tax. Turnover is recognised on collection of goods by customers, when the risks and rewards associated with the underlying products are substantially transferred. This includes both sales of goods and rendering of services.

2.5 Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

2.6 Interest receivable and interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Statement of Comprehensive Income (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Dividend income is recognised in the Statement of Comprehensive Income on the date the Company's right to receive payments is established.

Foreign currency gains and losses are reported on a net basis.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Significant accounting policies (continued)

2.7 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Group Plans

The Company's employees are members of a group wide defined benefit pension plan, which is funded. There is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities; the net defined benefit cost of the pension plan is recognised fully by the Company legally responsible for the plan, which is Chromalloy United Kingdom Limited. The Company is only contractually responsible to make contributions based on the future service cost as per the pension plan's Schedule of Contributions and as such the pension plan is accounted for as a defined contributions plan. The Company then recognises a cost equal to its contribution payable for the period.

2.8 Current and deferred taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the Statement of Financial Position date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Significant accounting policies (continued)

2.9 Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The Company assesses at each reporting date whether tangible assets are impaired.

Depreciation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of tangible assets. Leasehold improvements are depreciated over the shorter of the lease term and their useful lives. Assets under construction are not depreciated. The estimated useful lives are as follows:

Leasehold improvements	- 20 to 25 years
Plant and machinery	- 5 to 15 years
Office equipment	- 3 to 15 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits. Assets under construction begin depreciating when the project has been completed and signed off by senior management.

Assets are derecognised when they no longer have a useful economic life to the business.

2.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Provisions are made for slow moving or defected stock the policy being:

<i>Raw materials</i>	- Over 60 days
<i>Lineside stock</i>	- 50% of average historical actuals
<i>Work in progress</i>	- Known average yield losses based on historic obsolete sales plus management knowledge of work in progress write down

2.11 Debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the Cash flow statement.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Significant accounting policies (continued)

2.13 Creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

2.14 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

2.15 Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

2.16 Financial instruments

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a nonderivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Other financial instruments

Financial instruments not considered to be basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Significant accounting policies (continued)

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designed as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedged relationship but the hedge forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the Statement of Comprehensive Income immediately.

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as deduction, net of tax, from proceeds.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Significant accounting policies (continued)

2.18 Distribution to equity holders

Dividends and other distributions to Company's shareholders are recognised as a liability in the financial statements in the period in which dividends and other distributions are approved by the board. These amounts are recognised in the Statement of Changes in Equity.

Dividend policy is set out by the criteria agreed by the board to test cash and distributable profit availability after giving due consideration for the availability of cash for the investment plans based on the budget and forecast.

2.19 Related parties

The Company discloses transactions with related parties who are related by the virtue of being under common control. These transactions are detailed in note 25.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The directors consider the following to be critical estimates and judgements applicable to the financial statements.

Critical accounting estimates and assumptions

(i) Inventory provisioning

The Company consider stock items within both raw material, lineside stock and work in progress to determine whether the cost of the items are fully recoverable. This assessment is made based on both the age of the items and the anticipated demand. For any stock items where the cost of the stock is not expected to be recoverable in full, a provision is made to ensure that the stock is held at the lower of cost and net realisable value. The provision is £1,050,000 (2018: £1,285,000) with £235,000 (2018: £344,000) utilised during the financial year, due to amounts released.

Critical accounting judgements and assumptions

(i) Accounting for multi-employer schemes

Certain employees participate in a multi-employer defined benefit pension scheme with other companies in the region. In the judgement of the directors, the Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for as a defined contribution scheme, see note 23 for further details.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. Turnover

An analysis of turnover by class of business is as follows:

	2019	2018
	£000	£000
Sale of goods	102,121	82,865
Rendering of services	270	517
	102,391	83,382

Analysis of turnover by geographical market:

	2019	2018
	£000	£000
United Kingdom	80,700	69,022
Europe	-	3
North America	21,691	14,357
	102,391	83,382

The turnover and profit before taxation are attributable to the one principal activity of the Company.

5. Operating profit

The operating profit is stated after charging/(crediting):

	2019	2018
	£000	£000
Depreciation	2,484	2,044
Impairment of trade receivables	-	(150)
Inventory recognised as an expense	34,738	30,273
Impairment of inventory	(235)	262
Foreign exchange gains	198	(793)
Operating lease charges	465	434

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

6. Auditors' remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	64	45
Fees payable to the Company's auditors in respect of:		
Preparation of financial statements	2	2

7. Employees

Staff costs were as follows:

	2019 £000	2018 £000
Wages and salaries	17,888	14,734
Social security costs	1,683	1,337
Other pension costs	400	295
	19,971	16,366

The monthly average number of full time equivalents employed by the Company (including directors) during the year, analysed by category, was as follows:

	2019 Number	2018 Number
Production	368	362
Administration	142	78
	510	440

8. Directors' remuneration

The directors received no emoluments for their services to the Company during the year (2018: £Nil). This is on the basis that the directors' emoluments have been borne by the shareholders of the Company, the services provided by the directors to the Company are insignificant and an amount in respect of those services provided by the directors cannot realistically be attributed.

Total compensation of key management personnel amounted to £924,000 (2018: £660,000). These figures include compensation, pension and other benefits.

TURBINE SURFACE TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

9. Interest receivable and similar income

	2019 £000	2018 £000
Net gain on other financial assets measured at fair value through profit or loss	100	-
Bank interest received	76	27
	176	27

10. Interest payable and similar expenses

	2019 £000	2018 £000
Bank interest payable	6	2
Net loss on other financial assets measured at fair value through profit or loss	-	665
	6	667

11. Tax on profit

	2019 £000	2018 £000
Corporation tax		
Current tax on profits for the financial year	2,837	2,880
Adjustments in respect of prior years	(15)	(77)
Total current tax	2,822	2,803
Deferred tax		
Origination and reversal of timing differences	123	(33)
Adjustments in respect of prior years	13	75
Total deferred tax	136	42
Total tax	2,958	2,845

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018: higher than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019	2018
	£000	£000
Profit before taxation	15,529	14,865
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	2,951	2,824
Effects of:		
Non-deductible expenses	25	19
Adjustments in respect of prior years	(2)	(2)
Tax rate differential on timing differences	(16)	4
Total tax charge for the financial year	2,958	2,845

Factors that may affect future tax charges

The 2020 Budget announced that the UK corporation tax rate will no longer reduce to 17% from 1 April 2020 and will remain at 19%. The deferred tax liability has been calculated at 17% as this rate has been substantively enacted at the Balance Sheet date. Had the 19% been substantively enacted on or before 31 December 2019 it would have had the effect of decreasing the deferred tax liability by £188,000.

No net reversal of the deferred tax liability is expected to occur in the next reporting period.

12. Dividends

	2019	2018
	£000	£000
Dividends paid	7,000	6,000

TURBINE SURFACE TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

13. Tangible assets

	Leasehold improvements £000	Plant and machinery £000	Office equipment £000	Assets under construction £000	Total £000
Cost					
At 1 January 2019	1,934	37,571	1,600	1,864	42,969
Additions	530	547	-	118	1,195
Disposals	-	(9)	-	-	(9)
Asset under construction transfer	-	1,982	-	(1,982)	-
At 31 December 2019	2,464	40,091	1,600	-	44,155
Accumulated depreciation					
At 1 January 2019	716	17,530	852	-	19,098
Charge for the year	183	2,187	114	-	2,484
Disposals	-	(4)	-	-	(4)
At 31 December 2019	899	19,713	966	-	21,578
Net book value					
At 31 December 2019	1,565	20,378	634	-	22,577
At 31 December 2018	1,218	20,041	748	1,864	23,871

Tangible assets under construction

A total of £1,982,000 of expenditure has been capitalised into assets under construction during the year (2018: £2,004,000). Of this amount £Nil (2018: £Nil) relates to capitalised borrowing costs.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

14. Stocks

	2019	2018
	£000	£000
Raw materials	5,833	5,072
Work in progress	3,328	2,758
Lineside stock	425	208
	9,586	8,038

Inventories are stated after provisions for impairment of £1,050,000 (2018: £1,285,000).

There is no significant difference between replacement of work in progress and their carrying value.

15. Debtors

	2019	2018
	£000	£000
Trade debtors	219	183
Amounts owed by related parties	7,692	6,945
Other debtors	44	-
Derivative financial instruments (see note 18)	824	1,696
Prepayments and accrued income	386	339
	9,165	9,163

Amounts owed by related parties are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Trade debtors are stated after provisions for impairment of £Nil (2018: £Nil).

16. Cash at bank and in hand

	2019	2018
	£000	£000
Cash at bank and in hand	16,912	12,669

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17. Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	2,735	3,811
Amounts owed to related parties	6,243	5,839
Corporation tax	1,470	2,155
Taxation and social security	1,702	2,467
Other creditors	106	80
Derivative financial instruments (see note-18)	355	22
Accruals and deferred income	3,533	1,773
	<u>16,144</u>	<u>16,147</u>

Amounts owed to related parties are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

18. Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2019 £000	2018 £000
Financial assets		
Assets measured at fair value through profit or loss	824	1,696
Assets measured at amortised cost	7,912	7,128
	<u>8,736</u>	<u>8,824</u>
Financial liabilities		
Liabilities measured at fair value through profit or loss	(355)	(22)
Liabilities measured at amortised cost	(12,512)	(11,423)
	<u>(12,867)</u>	<u>(11,445)</u>

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18. Financial instruments (continued)

(b) Financial instruments measured at fair value

Derivative financial instruments

Fair value is estimated based upon observable inputs by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

(c) Hedge accounting

The following table indicates the years in which the cash flows associated with cash flow hedging instruments are expected to occur as required by FRS 102.29(a) for the cash flow hedge accounting models. And also the years in which the cash flows associated with cash flow hedging instruments are expected to affect profit and loss:

	Carrying amount £000	Expected cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Forward exchange contracts:						
Assets	824	824	366	214	226	18
Liabilities	-355	-355	-322	-33	0	0

Prior year comparatives:

	Carrying amount £000	Expected cash flow £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Forward exchange contracts:						
Assets	1,696	1,734	643	493	296	302
Liabilities	(22)	(22)	(20)	(2)	-	-

The Company hedges its foreign exchange risk arising from forecast US Dollar purchases using forward hedge contracts.

The forward currency contracts are measured at fair value, determined using valuation techniques with observable inputs. The key assumptions used are forward exchange rates GBP:USD.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19. Deferred taxation

	2019 £000
At beginning of year	(1,667)
Credited to profit or loss	(136)
Charged to other comprehensive income	205
At end of year	(1,598)

The provision for deferred taxation is made up as follows:

	2019 £000	2018 £000
Opening deferred tax liability	(1,667)	(1,341)
Accelerated capital allowances	(139)	(131)
Forward exchange contracts	208	(195)
	(1,598)	(1,667)

A net reversal of £69,000 (2018: £38,000) in the deferred tax liability is expected to occur during the next year.

20. Called up share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
2,200,100 (2018: 2,200,100) ordinary 'A' shares of £1 (2018: £1) each	2,200	2,200
2,200,100 (2018: 2,200,100) ordinary 'B' shares of £1 (2018: £1) each	2,200	2,200
	4,400	4,400

A and B shares are equal in all respects.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Reserves

Share premium account

The balance classified as share premium relates to the aggregate net proceeds less nominal value of shares on issue of the Company's equity share capital.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Profit and loss account

The profit and loss account represents the accumulated profits, losses and distributions of the Company.

22. Capital commitments

The Company had contractual commitments to purchase tangible fixed assets at 31 December 2019 totalling £1,134,000 (2018: £97,000).

The Company has no other off-Statement of Financial Position arrangements.

23. Employee benefits

Chromalloy United Kingdom Limited, a shareholder of the Company, is legally responsible for the Retirement Benefits Scheme, a funded defined benefit pension scheme in the UK. The Scheme is administered within a trust which is legally separate from the Company. The Trustee is appointed by both the Company and the Scheme's membership and act in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The underlying assets and liabilities of the Group defined benefit scheme will be recognised within Chromalloy United Kingdom Limited's financial statement as permitted by FRS 102 Section 28 Employee Benefits. The net deficit on the Chromalloy United Kingdom Limited Retirement Benefits Scheme as at 31 December 2019 is £1,689,000 (2018: £1,561,000).

Total contributions payable by the Company to the scheme during the year totalled £22,000 (2018: £Nil).

The Company provides a defined contribution scheme for its employees. The amount recognised as an expense during the year totalled £400,000 (2018: £295,000). Amounts accrued at year end is £Nil (2018: £Nil).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24. Commitments under operating leases

At 31 December the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £000	2018 £000
Less than one year	465	434
Between one and five years	1,773	1,735
More than five years	850	1,283
	3,088	3,452

During the year £465,000 was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases (2018: £434,000).

25. Related parties

Identity of related parties with which the Company has transacted

Rolls-Royce plc and Chromalloy United Kingdom Limited are related parties of the Company by way of their interests in the Company's share capital. The Company is related to TRT Limited as it is also a joint venture of Rolls-Royce plc and Chromalloy United Kingdom Limited. The Company is related to Chromalloy Gas Turbines LLC by way of a common shareholding. The Company is related to Trac Precision Machining Limited by way of it being a fully owned subsidiary of Chromalloy United Kingdom Limited's immediate parent company, Chromalloy UK Holdings Limited.

Related party transactions and year end balances with those companies can be summarised as follows:

Year ended 31 December 2019

	Rolls-Royce plc (1) £000	Chromalloy United Kingdom Limited (2) £000	Chromalloy Gas Turbines LLC (3) £000	Trac Precision Machining Limited (4) £000	TRT Limited (5) £000
Sales to related party	101,840	3	0	0	0
Purchases from related party	0	1,834	10,651	-	-
Recharges to related party	5,241	140	4	-	11
Recharges from related party	289	55	96	-	-
Amounts due from related party	7,670	14	4	-	4
Amounts due to related party	5,272	261	710	-	-

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

25. Related parties (continued)

Year ended 31 December 2018

	Rolls-Royce plc (1) £000	Chromalloy United Kingdom Limited (2) £000	Chromalloy Gas Turbines LLC (3) £000	Trac Precision Machining Limited (4) £000	TRT Limited (5) £000
Sales to related party	83,363	10	-	-	9
Purchases from related party	-	792	6,240	-	-
Recharges to related party	1,409	6	-	-	90
Recharges from related party	273	281	101	-	17
Amounts due from related party	6,941	-	-	-	4
Amounts due to related party	4,072	311	1,456	-	-

26. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Rolls-Royce plc and Chromalloy United Kingdom Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Rolls-Royce plc and Sequa Corporation. Copies of the Rolls-Royce plc consolidated financial statements can be obtained from Kings Place, 90 York Way, London, N1 9FX, United Kingdom and Sequa Corporation can be obtained from 4100 RCA Boulevard, Palm Beach Gardens, Florida 33410.

The Company is controlled by the joint venture parties, Rolls-Royce plc (50%) and Chromalloy United Kingdom Limited (50%). In the opinion of the directors there is no ultimate controlling party.

27. Post balance sheet events

The global Covid-19 pandemic and its effect on the commercial aerospace sector has had a significant impact on TSTL's principal customer which in turn has reduced the coating requirement and TSTL's order book in the short to medium term. The Board is taking action to mitigate the impact on the Company's financial performance in the short to medium term due to the reduction to volume and revenue. The directors are aware that the Covid-19 pandemic will have an effect on the financial results of the Company and the extent remain uncertain. As detailed in the Strategic Report, the directors are looking at all possible opportunities to reduce the downside impact on the Company whilst safeguarding its employees. The directors have assessed the subsequent conditions on the carrying value of assets held as at 31 December 2019 and have determined that there is no material financial impact.