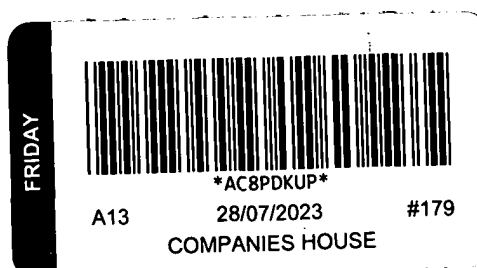


Registered number: 04040105

TURBINE SURFACE TECHNOLOGIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022



TURBINE SURFACE TECHNOLOGIES LIMITED

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TURBINE SURFACE TECHNOLOGIES LIMITED

COMPANY INFORMATION

Directors	N Bird N S H Groeger T R Hyde A J Taylor I H A Mahomed A D Williams
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 2022

The directors of Turbine Surface Technologies Limited ("TSTL") present their Strategic Report on the Company for the year ended 31 December 2022.

Business review

The principal activity of the Company is the development, manufacture and sale of coating services for aerospace gas turbine components for its principle customer Rolls-Royce plc. Revenue improved compared to 2021 however trading still remains below the pre pandemic levels. Our customer's ability to produce also had some impact to our throughput. Our biggest market sector being the civil large engine market, which powers long-haul flights, continued its recovery, albeit below its peak and more slowly than the short-haul travel sector. As a consequence, TSTL's sales for this financial year improved by £16,851,000 to finish at £59,891,000 (2021: £43,040,000).

The shareholders and directors of the business have committed to supporting the business going forward, including the agreement signed in the form of a side letter to the joint venture agreement. TSTL's objectives are firmly aligned to its strategic partners - Roll-Royce plc's aerospace supply chain. The business continues to engage with its partners on the current engine programmes, energy and environmental improvements on existing and future programmes including active participation in critical technology development and ensuring that robust IT security is in place to protect the business from cyber-attacks.

Results

The operating profit for the year was £5,571,000 (2021: £3,207,000). Turnover increased by 39.2% to £59,891,000 (2021: £43,040,000).

The increase in revenue, combined with continuing cost control activities, resulted in a significant improvement in gross margin to 19.1% (2021: 14.5%).

The Company continued with its business process deployment and improvement activities and made capital investment of £898,000 (2021: £211,000).

At the end of the year the Company had shareholder funds of £38,849,000 (2021: £38,686,000) and after payment of a £5,000,000 (2021: £2,000,000) dividend, had distributable profits of £33,548,000 (2021: £33,948,000). The directors therefore believe the Company's financial position to be satisfactory.

Responding to the impact of COVID-19

The COVID-19 containment actions and safe working practices introduced in 2020 were relaxed in line with Public Health England recommendations. However, management has appropriate policies in place to enact containment if any localised trend in infection were to be discovered. Management reviews the policies quarterly and update the business continuity plans and appropriate reactive planned actions in place if such trends were to surface.

The recovery in volume is expected to continue and this is evidenced by the relaxation of travel restrictions by various governments and the increase in the demand signals the business is receiving from the customer. This is also supported by industry data and the resumption of short and long haul air travel. Therefore the expectation is that the business will continue the growth trajectory in 2023.

Future developments

The Board of Directors have agreed amendments to the Supply Agreement with Rolls-Royce plc, and a new Management Agreement, to allow TSTL to take over the management of a second facility leased by Rolls-Royce plc. Due to the weakening of the forward order position following the pandemic, the capacity available in the existing facility and the slow growth trajectory of coating capacity demand, the pace of the expansion in the second factory will be gradual, hence the modus operandi as to how this facility will be managed will be different to how this was envisaged originally.

The Management Agreement between TSTL's shareholders for the handover of the second facility was signed on 12 May 2023. This will enable increased throughput on some processes, initially platinum plating and PVD, without the need to use subcontractors. These two processes will be validated for technical capability by the customer and will be available for production in 2023.

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Principal risks, uncertainties and financial risk management

The main risk facing the business is the downturn in volume due to reduction in customer demand and capacity issues in machining of turbine blades.

The current high level of inflation has led to higher pay awards in order to remain competitive in the jobs market. The impact of this is being mitigated by cost saving drives in other areas.

The recovery of the civil aerospace sector to pre pandemic levels would depend on the resumption of air travel, in particular the long haul travel market such as the Far East and economic stability following the current uncertainty due to challenges from post pandemic supply chain disruption compounded by conflict and higher levels of inflation. TSTL's principal customer Rolls-Royce plc, has seen a recovery in large engine flying hours to circa 80% of pre-pandemic level.

This company's status of being Rolls-Royce plc preferred supplier of coatings is expected to continue, enabling TSTL to be profitable and to generate cash for the foreseeable future. This is evidenced by the continuing level of technology co-operation and new coating technologies being explored jointly by TSTL, Chromalloy and Rolls-Royce plc and capital investment programmes planned which are aligned to such programmes. Rolls-Royce plc is also outsourcing machining of turbine blades to other international machining companies and TSTL is developing new relationships with those businesses in providing coating solutions thus, expanding its customer base.

TSTL has developed a detailed business risk register across many disciplines and functions and mitigation plans have been developed to reduce and where possible eliminate the risks posed. Exchange rate risk on foreign currency is mitigated by utilising time options.

The financial risk management objective and the policy of the business is to take Time Options for known or highly probable future liabilities such as platinum forward contracts, and estimates of other future spend based upon the customer published future demand for blades and vanes.

The Company's hedging relationship is comprised predominantly of US\$ denominated future liability and US\$ derivatives in the form of Time Options allowing the Company to draw down to meet its obligations.

As the Company only takes out Time Options for known or highly probable future liabilities, all changes in fair value should be "effective", and therefore accounted for in other comprehensive income and cash flow reserve in equity.

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

Based on the latest demand signals received from the customer, the indications are that for the medium to long term, TSTL would require additional capacity in certain production cells to satisfy demand. TSTL has facilitated the negotiations between the two shareholders to amend the Joint venture agreement enabling the second facility to operate under the principles agreed by the side letter. TSTL has also negotiated a management agreement and an amendment to the supply agreement for the second facility and these agreements were signed by the board on 12 May and 17 May 2023 consecutively. The expectation is that the second facility to start operating in Q2 2023 with a low level of production to ensure the facility will become production ready by Q3 2023. The directors are therefore confident that steps are in place for the business to have the required capacity available to exploit the growth opportunities.

Performance of the business is reviewed by the directors regularly. Quarterly board meetings will have scheduled in-depth reviews on operational, technological, health and safety and human resource disciplines. The medium to long term plans are reviewed at regular intervals. 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 conduct a review with the senior management team of TSTL to promote, enhance and to actively manage all the stakeholders of the business. The key performance indicators are reviewed periodically to monitor against actual performance against target, across various business processes to ensure that all stakeholder interests are represented.

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Employee engagement

The business values employee engagement, and recognises an engaged workforce is more likely to drive productivity, better products and innovation. To understand whether TSTL's workforce is engaged, we ask all employees to take part in engagement surveys, to establish where the business is doing well and areas which require improvement.

The senior management team holds question and answer sessions through virtual meeting applications allowing employees to engage with management. Another popular feature in TSTL is the "State of the nation" briefings whereby the senior management team update employees on the performance of the business and share medium to long term plans of the business. A monthly newsletter is also published and emailed to all employees. The contents usually cover the performance of the business, TSTL's performance through our people activities and an update on quarterly performance bonus and upcoming events.

TSTL's "Performance through Our People" committee runs events that are planned to engage the workforce in a fun way. The events that have been held in 2022 included, National Apprenticeship week, Wear a Hat for Brain Tumour Research, Queens Jubilee Pizza weekend, Table Tennis Tournament, Gallop Q12, TST Table Top Football Competition, Paper Plane Challenge and continued the festive Fridays throughout December as in previous years.

TSTL's employee retention rate for 2022 was 93.4% (2021: 94.7%).

The Company recognises Unite the Union and has regular consultations with Union on matters of employee interests.

The Company operates a bonus scheme for all employees. Performance KPIs for the bonus scheme are published at the start of the year and regular updates provided on performance against these metrics. The bonus KPIs are measured and published quarterly and where a bonus payment is triggered, this is paid quarterly. This encourages employee participation in the improvement journey, since a bonus KPI not met in one quarter could be achieved in future quarters. No bonuses were paid in 2021 however the improvement in the business in 2022 enabled the resumption of bonus payments.

Customer engagement

Our relationship with the principle customer gives the business the visibility required with short, medium and long term demand across various engines on original equipment and spares sales. Monthly reviews with the senior team and weekly reviews with various customer plants at operational and tactical level enables TSTL to be agile and responsive to customer needs at various levels. This strong relationship provides the directors a high level of confidence with the opportunities that lie ahead for growth. This has enabled informed investment decisions to be made for the business.

This long established partnership gives the business a platform to conduct an open and dynamic discussion on strategy, capacity requirement, technological advancement as well as improvement opportunities of its existing programmes and other products and projects in the development phase. The trust and engagement enables TSTL to map out a long term technology road map in conjunction with the technical and research and development arm of the customer providing a platform and the basis for future proofing TSTL.

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Other stakeholders

Our approach with key stakeholders has been through continuous engagement and information sharing. We value the trust that has developed over many years and our relationship with the stakeholders has evolved as we understand the importance of keeping the interest of our stakeholders at the centre of everything we do. Engagement is essential to maintain the alignment of interests between our stakeholders and the way we plan and run the business. This approach has proven invaluable in the recent past with our supplier base keeping abreast with this journey of growth and when the business contracted following the pandemic. TSTL strong cash performance enabled TSTL to meet its payment obligations on time. TSTL's supplier performance improved over the past twelve months and we take pride in fair treatment of our suppliers. TSTL's supplier payment performance is now published and in the public domain.

TSTL is an ISO 14001 registered company and we take the commitment we have towards environmental obligations seriously. The business takes into consideration environmental implications on operational, technical, financial and future expansion decision making. In making these decisions, we consider the implications on its employees, neighbours, the community, and the wider public and their wellbeing. TSTL's environmental credentials have improved in the past twelve months.

The business is developing plans in order to achieve Net Zero Carbon and has identified various projects which would help towards achieving this goal. The business will also invest capital funding to eliminate or to minimise carbon emitting processes where possible. TSTL has developed a framework that the organisation can follow and the development of best practices to establish best in class environmental performance.

Key environmental performance indicators which demonstrate adherence to plan is reviewed by the directors and senior management team to ensure that the objectives are met.

Streamline Energy and Carbon Reporting (SECR)

TSTL outsourced the commissioning of the SECR report to confirm and validate our greenhouse gas emissions for the reporting period. Total emissions for the year were 3,685.0 tonnes (2021: 3,377.2 tonnes) of carbon dioxide equivalents (tCO₂e) based on a verified usage of 19,110,062 (2021: 16,014,692) kilowatt-hours (kWh) of energy. When accounting for the usage of REGO backed, zero carbon source electricity, the total emissions for the year were 127.1 tonnes (2021: 150.06 tonnes) of carbon dioxide equivalents (tCO₂e).

The organisation has undertaken two energy efficiency actions (EEA) in this reporting year. Being the Aluminising gas burn of system consumption being reduced to 70% and idle furnace temperatures have been lowered to reduce idle energy baseline consumption whilst protecting the service life of the equipment and throughput.

The directors confirm, based on the consultant's certification that the methodology used in compiling this report complies to "Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance March 2019".

TSTL operate out of a single site, therefore this is the only site covered in this report. All scope 1 transport, as well as scope 3 grey fleet usage, associated with business activities have been included within the reporting scope; all those reported stems from the vehicle use by Turbine Surface Technologies employees. There were no outsourced coating activities during 2022 and 2021.

TURBINE SURFACE TECHNOLOGIES LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2022**

Streamline Energy and Carbon Reporting (SECR) (continued)

Greenhouse Gas Emission (GHG)

	Units	Report Year 2022	Report Year 2021
Scope 1	Emissions (tCO ₂ e)	122.0	150.0
Scope 2	Emissions (tCO ₂ e)	3,558.0	3,226.6
Scope 3	Emissions (tCO ₂ e)	5.1	0.6
TOTAL EMISSIONS	Emissions (tCO₂e)	3,685.1	3,377.2
Green Tariffs Purchased	Emissions (tCO ₂ e)	3,558.0	3,226.6
NET EMISSIONS	Emissions (tCO₂e)	127.1	150.6

Underlying Energy Use

	Units	Report Year 2022	Report Year 2021
Scope 1	Energy (kWh)	650,492	816,817
Scope 2	Energy (kWh)	18,398,342	15,196,117
Scope 3	Energy (kWh)	61,228	1,758
TOTAL ENERGY	Energy (kWh)	19,110,062	16,014,692

Operation Emissions Intensity Ratios

Type	Units	Report Year 2022	Report Year 2021
Production	kgCO ₂ e/Units processed*	11.6	13.8
Production (net emissions)	kgCO ₂ e/Units processed*	0.4	0.6

* units processed is the quantity of goods produced.

Dividends

During the year the directors approved the payments of a dividend amounting to 113.64 pence per share (2021: 45.45 pence per share).

TURBINE SURFACE TECHNOLOGIES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Key performance indicators

	2022	2021
PBT Cumulative (£000)	5,605	3,258
Capital Expenditure (£000)	898	211
Unsafe Situations Raised (number)	512	675
Environmental Good Spots Raised (number)	17	67
Quality Good Spots Raised (number)	599	319
Facility Yield (%)	96.1%	96.0%
Facility RFT (%)	94.0%	92.9%

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

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

Environmental Good Spots Raised metric measure is the number of times a member of staff has raised suggestion on how the Company can be more energy efficient.

Quality Good Spots Raised metric measure is the number of quality good spots closed out from when staff have raised suggestions for changes and improvements.

Facility yield is a measure of proportion of all parts shipped which achieve 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:



Mr A Taylor
Chairman

20 July 2023

TURBINE SURFACE TECHNOLOGIES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their annual report and the audited financial statements of Turbine Surface Technologies Limited (the "Company") for the year ended 31 December 2022.

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 £4,600,000 (2021: £2,051,000).

Dividends totalling £5,000,000 (2021: £2,000,000) were paid during the year.

Directors

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

N Bird
C M Haines (resigned 23/11/2022)
Dr P Howard (resigned 31/01/2023)
N S H Groeger
T R Hyde
A J Taylor
I H A Mahomed (appointed 23/11/2022)
A D Williams (appointed 31/01/2023)

Going concern

Turbine Surface Technologies Limited ('TSTL') trading operations and throughput continues to be adversely impacted by the extraordinary nature of the Covid-19 pandemic and the change in attitude to business travel post pandemic. The Company's cash flows, liquidity and financial performance are reliant on the demand of its principal customer Rolls-Royce plc. The global economic growth and activity post pandemic is showing increased demand across the Civil Aerospace sector. However, the demand and orders do not suggest sales would reach pre-pandemic level in the next 12 month period from signing these financial statements. The pace of recovery has accelerated compared to previous year. However uncertainty caused by rising inflation and ongoing global supply chain disruption remains a risk to our customer and to this business. The current demand signal from our customer Rolls-Royce plc is for continued increase in throughput in 2023 compared to the year in review, although below pre pandemic levels.

The directors have produced a forecast using the latest revised demand information received from its customer which reflects current expectations of future trading together with a plausible downside scenario for a period of at least 12 months from the date of signing. The plausible downside scenario assumes reduction in the input to the business as a result of the customer being unable to increase its production and or their capacity is restrained, hence the customer's inability to satisfy demand growth. The plausible downside scenario also assumes continued headwind to the business caused by rising inflation and manning challenges to satisfy demand. The Company's liquidity and financial performance going forward is looking positive under the two scenarios and the directors are satisfied that the level of cash in the Company, £21,330,000 (2021: £20,921,000) as at the Statement of Financial Position date, will protect the business if significant cash outflows were to occur in these times.

The directors are satisfied that the two forecast scenarios tabled are realistic and the assumptions made are plausible for the board of directors' to conclude the short to medium term outcomes and impact on the Company.

The most likely and the plausible downside case forecasts demonstrate that the Company will generate profits and net cash for a period of at least 12 months. 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 of these financial statements. As such, the directors are satisfied that these financial statements are prepared on a going concern basis.

TURBINE SURFACE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

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 3.

Financial risk management

The financial risk management objective and the policy of the business is to take Time Options for known or highly probable future liabilities such as platinum forward contracts, estimate of other future spend based upon the customer published future demand for blades and vanes.

The Company's hedging relationship comprises predominantly of US\$ denominated future liability and US\$ derivatives in the form of Time Options allowing the Company to draw down to meet its obligations.

As the Company only takes out Time Options for known or highly probable future liabilities, all hedging in fair value should be "effective", and therefore accounted for in other comprehensive income and cash flow reserve in capital and reserve.

Donations

Charitable donations during the year amounted to £2,500 (2021: £Nil). There were no political donations during the year (2021: £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. The Company undertook activities as part of the Research and Development Expenditure Credit (RDEC) scheme, a government initiative that allowed the Company to claim relief for qualifying research and development expenditure.

Engagement with suppliers, customers and others

Details of employee, customer and other stakeholder engagements are detailed in the Strategic Report on pages 4 to 5.

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. This is detailed in the Strategic Report on page 4.

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.

Directors' indemnities

During the financial year and at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors and the Company Secretary to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as a Director or officer of the Company.

The indemnities policy is a third party policy covered under Sequa's Directors and Officers Liability policies.

TURBINE SURFACE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

Streamline Energy and Carbon Reporting (SECR)

Details of the SECR report issued by the Company are detailed in the Strategic Report on pages 5 and 6.

Statement of directors' responsibilities in respect of the financial statements

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, 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;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors 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 enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

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

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.

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



Mr A Taylor
Chairman

20 July 2023

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 2022 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, including 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 2022; the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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 in respect of the financial statements, 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.

TURBINE SURFACE TECHNOLOGIES LIMITED

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

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006 and corporate, employee and VAT tax legislation in the United Kingdom, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries to manipulate financial results, including the improper creation or inclusion of transactions in revenue through inappropriate journal entries, and potential management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Inquiries throughout the audit with management, including considerations of known or suspected instances of non-compliance with laws and regulations and fraud, including any litigation or claims against or by the Company;
- Review legal expense nominal ledger accounts and board minutes for indications of non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries that meet our defined risk criteria, in particular any journal entries posted with unusual account combinations, such as unusual credits to revenue;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing;
- Challenging assumptions and judgements made by management in determining significant accounting estimates, including validating to supporting evidence and considering possible alternatives; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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.



Rachel Cletheroe (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands
20 July 2023

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 £000	2021 £000
Turnover	3	59,891	43,040
Cost of Sales		(48,424)	(36,805)
Gross profit		11,467	6,235
Administrative expenses		(6,018)	(5,590)
Other operating income	4	122	2,562
Operating profit	5	5,571	3,207
Interest receivable and similar income	9	36	49
Interest payable and similar expenses	10	(2)	2
Profit before taxation		5,605	3,258
Tax on profit	11	(1,005)	(1,207)
Profit for the financial year		4,600	2,051
Other comprehensive income/(expense) for the financial year			
Movement on derivative financial instruments designated as cash flow hedges			
-Change in value of hedging instruments		2,010	330
-Reclassification to profit and loss		(1,259)	2
-Amounts reclassified to profit and loss relating to discontinued hedges		-	292
Tax on components of other comprehensive income		(188)	(138)
Other comprehensive income for the financial year		563	486
Total comprehensive income for the financial year		5,163	2,537


The notes on pages 20 to 38 form part of these financial statements

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022**

	Note	2022 £000	2021 £000
Fixed assets			
Tangible assets	13	18,066	19,674
Current assets			
Stocks	14	10,797	8,399
Debtors	15	5,276	3,418
Cash at bank and in hand	16	21,330	20,921
		<u>37,403</u>	<u>32,738</u>
Creditors: amounts falling due within one year	17	<u>(13,737)</u>	<u>(11,256)</u>
		(13,737)	(11,256)
Net current assets		<u>23,666</u>	<u>21,482</u>
Total assets less current liabilities		41,732	41,156
Creditors: amounts falling due after more than one year	17	(264)	-
Provisions for liabilities			
Deferred taxation	19	<u>(2,619)</u>	<u>(2,470)</u>
Net assets		<u>38,849</u>	<u>38,686</u>
Capital and reserves			
Called up share capital	20	4,400	4,400
Share premium account	21	100	100
Cash flow hedging reserve	21	801	238
Profit and loss account	21	<u>33,548</u>	<u>33,948</u>
Total shareholders' funds		<u>38,849</u>	<u>38,686</u>

The financial statements on pages 15 to 38 were approved by the Board of Directors on 20/07/23 and signed on its behalf by:


Mr A Taylor
Chairman

Registered Number: 04040105

The notes on pages 20 to 38 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Called up share capital	Share premium account	Cash flow hedging reserve	Profit and loss account	Total shareholders' fund
	£000	£000	£000	£000	£000
At 1 January 2022	4,400	100	238	33,948	38,686
Comprehensive income for the financial year					
Profit for the financial year	-	-	-	4,600	4,600
Cash flow hedges					
-Change in value of hedging instruments	-	-	2,010	-	2,010
-Reclassification to profit and loss	-	-	(1,259)	-	(1,259)
- Amounts reclassified to profit and loss relating to discounted hedges	-	-	-	-	-
-Tax on components of other comprehensive income	-	-	(188)	-	(188)
Other comprehensive income for the financial year	-	-	563	-	563
Total comprehensive income for the financial year	-	-	563	4,600	5,163
Contributions by and distributions to owners					
Dividends: Equity capital	-	-	-	(5,000)	(5,000)
Total transactions with owners	-	-	-	(5,000)	(5,000)
At 31 December 2022	4,400	100	801	33,548	38,849

The notes on pages 20 to 38 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021**

	Called up share capital	Share premium account	Cash flow hedging reserve	Profit and loss account	Total shareholders' fund
	£000	£000	£000	£000	£000
At 1 January 2021	4,400	100	(248)	33,897	38,149
Comprehensive income for the financial year					
Profit for the financial year	-	-	-	2,051	2,051
Cash flow hedges					
-Change in value of hedging instruments	-	-	330	-	330
-Reclassification to profit and loss	-	-	2	-	2
- Amounts reclassified to profit and loss relating to discounted hedges	-	-	292	-	292
-Tax on components of other comprehensive income	-	-	(138)	-	(138)
Other comprehensive income for the financial year	-	-	486	-	486
Total comprehensive income for the financial year	-	-	486	2,051	2,537
Contributions by and distributions to owners					
Dividends: Equity capital	-	-	-	(2,000)	(2,000)
Total transactions with owners	-	-	-	(2,000)	(2,000)
At 31 December 2021	4,400	100	238	33,948	38,686

The notes on pages 20 to 38 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	£000	£000
Cash flows from operating activities		
Profit for the financial year	4,600	2,051
Adjustments for:		
Depreciation of tangible assets	2,506	2,538
Net interest received	(34)	(47)
Tax of profit	1,005	1,181
(Increase)/Decrease in inventories	(2,399)	1,087
(Increase)/Decrease in trade and other debtors	(493)	1,216
(Increase)/Decrease in amounts owed by related parties	(521)	830
Increase/(Decrease) in trade and other creditors	2,405	(442)
(Increase)/Decrease in amounts owed to related parties	53	(731)
Taxation paid	(849)	(528)
Net cash generated from operating activities	<u>6,273</u>	<u>7,155</u>
Cash flows from investing activities		
Purchase of tangible assets	(898)	(211)
Interest received	36	49
Net cash used in Investing activities	<u>(862)</u>	<u>(162)</u>
Cash flows from financing activities		
Dividends paid	(5,000)	(2,000)
Interest Paid	(2)	(2)
Net cash used in financing activities	<u>(5,002)</u>	<u>(2,002)</u>
Net increase in cash and cash equivalents	409	4,991
Cash and cash equivalents at the beginning of financial year	<u>20,921</u>	<u>15,930</u>
Cash and cash equivalents at the end of financial year	<u>21,330</u>	<u>20,921</u>
Cash and cash equivalents at the end of financial year comprise:		
Cash at bank and in hand	<u>21,330</u>	<u>20,921</u>

The notes on pages 20 to 38 form part of these financial statements.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. General Information

Turbine Surface Technologies Limited (the "Company") is a private company limited by shares and incorporated and registered in England, United Kingdom. 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 as modified by the recognition of certain financial assets and liabilities measured at fair value 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 2.20).

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

2.2 Going concern

Turbine Surface Technologies Limited ('TSTL') trading operations and throughput continues to be adversely impacted by the extraordinary nature of the Covid-19 pandemic and the change in attitude to business travel post pandemic. The Company's cash flows, liquidity and financial performance are reliant on the demand of its principal customer Rolls-Royce plc. The global economic growth and activity post pandemic is showing increase demand across the Civil Aerospace sector. However, the demand and orders do not suggest sales would reach pre-pandemic level in the next 12 month period from signing these financial statements. The pace of recovery has accelerated compared to previous year. However uncertainty caused by rising inflation and ongoing global supply chain disruption remains a risk to our customer and to this business. The current demand signal from our customer Rolls-Royce plc is for continued increase in throughput in 2023 compared to the year in review, although below pre pandemic levels.

The directors have produced a forecast using the latest revised demand information received from its customer which reflects current expectations of future trading together with a plausible downside scenario for a period of at least 12 months from the date of signing. The plausible downside scenario assumes reduction in the input to the business as a result of the customer being unable to increase its production and or their capacity is restrained, hence the customer's inability to satisfy demand growth. The plausible downside scenario also assumes continued headwind to the business caused by rising inflation and manning challenges to satisfy demand. The Company's liquidity and financial performance going forward is looking positive under the two scenarios and the directors are satisfied that the level of cash in the Company, £21,330,000 (2021: £20,921,000) as at the Statement of Financial Position date, will protect the business if significant cash outflows were to occur in these times.

The directors are satisfied that the two forecast scenarios tabled are realistic and the assumptions made are plausible for the board of directors' to conclude the short to medium term outcomes and impact on the Company. The most likely and the plausible downside case forecasts demonstrate that the Company will generate profits and net cash for a period of at least 12 months. 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 of these financial statements. As such, the directors are satisfied that these financial statements are prepared on a going concern basis.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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. Sale of goods is recognised on collection of goods by customers, when the risks and rewards associated with the underlying products are substantially transferred.

Rendering of services is recognised when a Services Entry Sheet number has been issued by the customer approving the work has been completed and that the customer is satisfied with the outcome.

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 2022

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.

The schedule of contributions has been prepared by the Trustee of the scheme after obtaining the advice of the scheme Actuary and has been agreed by Chromalloy United Kingdom Limited ("the Principal Employer"). It sets out the contributions that the Principal Employer must pay to the scheme and the dates by which these contributions must be paid. The Schedule covers the contributions payable over the period 1 August 2020 to 30 September 2025.

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 2022

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	- 6 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 standard cost principle, reviewed annually, 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:

Raw materials	- Over 60 days
Lineside stock	- 50% of non-lot tracked items
Work in progress	- 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 2022

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 non-derivative 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.

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

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.

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.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

2. Significant accounting policies (continued)

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.

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.

2.20 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

The directors do not consider there to be areas of significant accounting estimates and assumptions in the financial statements.

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 2022****3. Turnover**

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

	2022	2021
	£000	£000
Sales of goods	58,506	41,103
Rendering of services	1,385	1,937
	<u>59,891</u>	<u>43,040</u>

Analysis of turnover by country of destination:

	2022	2021
	£000	£000
United Kingdom	57,544	38,882
North America	557	3,581
Europe	90	-
Rest of the World	1,700	577
	<u>59,891</u>	<u>43,040</u>

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

4. Other operating income

	2022	2021
	£000	£000
Other income	<u>122</u>	<u>2,562</u>

Other income in 2022 relates to Research and Development Expenditure Credit (RDEC) which is a UK government initiative allowing the Company to claim relief for qualifying research and development expenditure.

The 2021 other income is from the Coronavirus Job Retention Scheme (CJRS). The Company claimed under this CJRS for the period April 2020 to September 2021 from the UK Government for the employees furloughed.

TURBINE SURFACE TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****5. Operating profit**

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

	2022	2021
	£000	£000
Depreciation on tangible assets	2,506	2,538
Inventory recognised as an expense	19,149	14,447
(Reversal of impairment)/impairment of inventory	(319)	236
Foreign exchange (gains)/losses	(1,015)	446
Operating lease charges	476	473
Impairment of trade debtors	16	19

6. Auditors' remuneration

	2022	2021
	£000	£000
Fees payable to the Company's auditors for the audit of the Company's Annual financial statements	86	75

There were no non-audit services in 2022 (2021: Nil)

TURBINE SURFACE TECHNOLOGIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022****7. Employees**

Staff costs were as follows:

	2022	2021
	£000	£000
Wages and salaries	19,426	15,935
Social security costs	1,919	1,476
Other pension costs	496	462
	21,841	17,873

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

	2022	2021
	Number	Number
Production	388	367
Administration	153	138
	541	505

8. Directors' remuneration

The directors received no emoluments for their services to the Company during the year (2021: £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 totalling 7 in 2022 (2021: 8) amounting to £999,000 (2021: £976,000). These figures include compensation, pension and other benefits. 4 personnel in 2022 (2021: 4) were recharged from shareholder companies amounting to £679,000 (2021: £629,000).

9. Interest receivable and similar income

	2022	2021
	£000	£000
Bank interest received	36	49

TURBINE SURFACE TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

10. Interest payable and similar expenses

	2022	2021
	£000	£000
Bank interest payable	<u>(2)</u>	<u>2</u>

11. Tax on profit

	2022	2021
	£000	£000
Corporation tax		
Current tax on profits for the financial year	1,051	706
Adjustments in respect of prior years	<u>(7)</u>	<u>(38)</u>
Total Current tax	<u>1,044</u>	<u>668</u>
Deferred tax		
Origination and reversal of timing differences	(36)	(88)
Adjustments in respect of prior years	(3)	43
Adjustments in respect of an increase in tax rate	<u>-</u>	<u>584</u>
Total deferred tax	<u>(39)</u>	<u>539</u>
Total tax	<u>1,005</u>	<u>1,207</u>

TURBINE SURFACE TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

11. Tax on profit (continued) will change

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2021: higher than) the standard rate of corporation tax in the UK of 19.0% (2021: 19.0%). The differences are explained below:

	2022	2021
	£000	£000
Profit before taxation	<u>5,605</u>	<u>3,258</u>
Profit before taxation by standard rate of corporation tax in the UK of 19.0% (2021: 19.0%)	1,065	619
Effects of :		
Non-deductible expenses	(42)	20
Adjustments in respect of prior years	(10)	5
Tax rate differential on timing differences	(8)	(21)
Adjustments in respect of an increase in the tax rate	<u>-</u>	<u>584</u>
Total tax charge for the financial year	<u>1,005</u>	<u>1,207</u>

12. Dividends

	2022	2021
	£000	£000
Dividends paid	<u>5,000</u>	<u>2,000</u>

During the year the directors approved the payments of a dividend amounting to 113.64 pence per share (2021: 45.45 pence per share).

TURBINE SURFACE TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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13. Tangible Assets

	Leasehold improvements £000	Plant and machinery £000	Office equipment £000	Total £000
Cost				
At 1 January 2022	3,018	40,155	1,295	44,468
Additions	336	497	65	898
Asset Class Movement	363	(363)	-	-
At 31 December 2022	<u>3,717</u>	<u>40,289</u>	<u>1,360</u>	<u>45,366</u>
Accumulated depreciation				
At 1 January 2022	1,357	22,495	942	24,794
Charge for the year	261	2,140	105	2,506
Asset Class Movement	138	(138)	-	-
At 31 December 2022	<u>1,756</u>	<u>24,497</u>	<u>1,047</u>	<u>27,300</u>
Net book value				
At 31 December 2022	<u>1,961</u>	<u>15,792</u>	<u>313</u>	<u>18,066</u>
At 31 December 2021	<u>1,661</u>	<u>17,660</u>	<u>353</u>	<u>19,674</u>

Classification of assets previously being held as plant and machinery have been changed to leasehold improvements, accumulated depreciation has also been adjusted.

14. Stocks

	2022	2021
	£000	£000
Raw materials and consumables	8,661	6,896
Work in progress	<u>2,136</u>	<u>1,503</u>
	<u>10,797</u>	<u>8,399</u>

Inventories are stated after provisions for impairment of £996,000 (2021: £1,315,000).

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

TURBINE SURFACE TECHNOLOGIES LIMITED

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15. Debtors

	2022	2021
	£000	£000
Trade debtors	736	194
Amounts owed by related parties	2,613	2,092
Other debtors	116	222
Derivative financial instruments (see note 18)	1,329	486
Prepayments and accrued income	482	424
	5,276	3,418

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 £104,000 (2021: £88,000).

Amounts owed after more than one year £584,000 (2021: £Nil) relating to derivative financial instruments.

16. Cash at bank and in hand

	2022	2021
	£000	£000
Cash at bank and in hand	21,330	20,921

17. Creditors: amounts falling due within one year

	2022	2021
	£000	£000
Trade creditors	2,850	1,217
Amounts owed to related parties	7,381	7,328
Corporation tax	373	178
Other taxation and social security	2,005	1,739
Derivative financial instruments (see note 18)	-	171
Accruals and deferred income	1,128	623
	13,737	11,256

Creditors: amounts falling due after more than one year

	2022	2021
	£000	£000
Derivative financial instruments (see note 18)	264	-
	264	-

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

TURBINE SURFACE TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include:

	2022	2021
	£000	£000
Financial assets		
Assets measured at fair value through profit or loss	1,329	486
Assets measured at amortised cost	3,349	2,287
	<u>4,678</u>	<u>2,773</u>
Financial liabilities		
Liabilities measured at fair value through profit or loss	(264)	(171)
Liabilities measured at amortised cost	(11,359)	(9,168)
	<u>(11,623)</u>	<u>(9,339)</u>

During the year, derivative financial instruments were cancelled with a fair value of nil (2021: £292,000).

(i) 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.

(ii) 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
Forward exchange contracts:					
Assets	1,329	1,329	745	536	48
Liabilities	(264)	(264)	-	-	(264)

TURBINE SURFACE TECHNOLOGIES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

18. Financial instruments (continued)

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
Forward exchange contracts:					
Assets	486	486	260	80	146
Liabilities	(171)	(171)	(57)	(104)	(10)

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.

19. Deferred taxation

	2022 £000
At beginning of year	2,470
Credited to profit or loss	(39)
Charged to other comprehensive income	188
At end of year	2,619

The provision for deferred taxation is made up as follows:

	2022 £000	2021 £000
Opening deferred tax liability	2,470	1,793
Accelerated capital allowances	(11)	539
Forward exchange contracts	188	138
Accrued pension contributions	(28)	-
	2,619	2,470

No net reversal of the deferred tax liability is expected to occur in the next reporting period (2021: Nil).

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

20. Called up share capital

	2022 £000	2021 £000
Allotted, called up and fully paid		
2,200,100 (2021: 2,200,100) Ordinary 'A' shares of £1 (2021: £1) each	2,200	2,200
2,200,100 (2021: 2,200,100) Ordinary 'A' shares of £1 (2021: £1) each	<u>2,200</u>	<u>2,200</u>
	<u>4,400</u>	<u>4,400</u>

There are no restrictions on the distribution of dividends and the repayment of capital.

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.

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 2022 totalling £122,000 (2021: £359,000).

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

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 2022 is £1,113,000 (2021: £203,000).

Total contributions payable by the Company to the scheme during the year totalled £26,000 (2021: £37,000).

The Company provides a defined contribution scheme for its employees. The amount recognised as an expense during the year totalled £496,000 (2021: £462,000). Amounts accrued at year end is £109,000 (2021: £Nil).

24. Commitments under operating leases

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

	2022	2021
	£000	£000
Less than one year	473	465
Between one and five years	1,312	1,302
More than five years	-	-
	<u>1,785</u>	<u>1,767</u>

During the year £476,000 (2021: £473,000) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases.

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.

Industria De Turbo Propulsores S.A.U (ITP) are related to Rolls-Royce plc and became a customer of TSTL in 2022. Related party sales relating to ITP are disclosed up to the 15 September 2022, as this is the date that the sale by Rolls-Royce plc of ITP was completed.

TURBINE SURFACE TECHNOLOGIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

25. Related parties (continued)

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

Year ended 31 December 2022

	Rolls-Royce plc	Chromalloy United Kingdom Limited	Chromalloy Gas Turbines LLC	TRT Limited	ITP S.A.U
	£000	£000	£000	£000	£000
Sales to related party	57,071	-	-	27	35
Purchases from related party	-	-	-	-	-
Recharges to related party	2,111	1	-	33	-
Recharges from related party	259	338	288	-	-
Amounts due from related party	2,605	1	-	7	-
Amounts due to related party	7,142	181	58	-	-

Year ended 31 December 2021

	Rolls-Royce plc	Chromalloy United Kingdom Limited	Chromalloy Gas Turbines LLC	TRT Limited	ITP S.A.U
	£000	£000	£000	£000	£000
Sales to related party	37,989	2	-	81	-
Purchases from related party	-	3	-	-	-
Recharges to related party	2,395	32	26	16	-
Recharges from related party	7	328	52	-	-
Amounts due from related party	2,092	-	-	12	-
Amounts due to related party	7,175	88	65	-	-

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, United States of America.

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.