

Registered number: 04040105

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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**TURBINE SURFACE TECHNOLOGIES LIMITED**

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## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **COMPANY INFORMATION**

<b>Directors</b>	N Bird D A Deakin C M Haines Dr P Howard N S H Groeger
<b>Registered number</b>	04040105
<b>Registered office</b>	Moor Lane Derby Derbyshire DE24 8BJ
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Donington Court Pegasus Business Park Castle Donington East Midlands DE74 2UZ
<b>Bankers</b>	National Westminster Bank PLC 18 South Parade Nottingham NG1 2JX

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors of Turbine Surface Technologies Limited ("TSTL") present their Strategic Report on the Company for the year ended 31 December 2020.

#### **Business review**

Principal activities of the business remain the same in the year under review. The business saw continued year on year sales growth up to and until the Covid-19 pandemic struck in March 2020. Our largest customer Rolls-Royce plc suffered an unprecedented reduction in flying hours and deferral of engine sales due to the fall in air travel worldwide. As a consequence, TSTL's sales for this financial year fell by £38,792,000 to finish at £63,599,000 in 2020 (2019: £102,391,000).

The shareholders and directors of the business have committed to supporting the business going forward, including the agreement signed in the form of a site 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.

#### **Results**

The operating profit for the year was £630,000 (2019: £15,359,000). Turnover declined by 37.9% to £63,599,000 (2019: £102,391,000) due to the fall in demand from our principle customer following the global spread of the Covid-19 virus resulting in sudden deterioration in the civil aerospace business.

The reduction in revenue had a direct impact on gross margin reducing to 12.5% (2019: 21.3%). The principal causes being the response time required to restructure and resize the business compared to the immediate turnover impact, headcount not reduced in line with turnover due to the need to retain key skill sets for the future, and the high level of fixed costs in the business.

The Company continued with its business process deployment and improvement activities and made capital investment of £1,871,000 (2019: £1,194,000). Most of this investment commitments were made prior to the pandemic.

At the end of the year the Company had shareholder funds of £38,149,000 (2019: £40,498,000) and after payment of a £2,000,000 (2019: £7,000,000) dividend, had distributable profits of £33,897,000 (2019: £35,609,000). The directors therefore believe the Company's financial position to be satisfactory.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **Responding to the impact of COVID-19**

The business reacted quickly to the outbreak with immediate containment actions and rapid implementation of health and safety measures. TSTL implemented a week long facility closure to evaluate and assess workplace risk to employees and put in place corrective action and to provide a safe working environment, in line with Public Health England guidance, before the facility re-opened. We were successful in sourcing personal protective equipment relatively quickly and deployed measures to protect staff in line with the guidance issued. Significant number of staff were working from home and the business facilitated this by providing the necessary IT and communication equipment.

In response to the fall in volume and to mitigate the financial impact, TSTL carried out a restructuring programme responding to the downturn. In August 2020 the Company completed a redundancy programme to reshape and resize the business to meet expected future demand incurring exceptional administrative expenses of £2,356,000 (2019: £Nil) and reducing headcount by 93. Further there was a reduction in agency employees of 55 with a cost saving on prior year of £2,663,000. The customer issued regular demand signal updates which helped TSTL to produce financial forecast and to review the mitigation activities at regular intervals. The Company made use of £1,713,000 (2019: £Nil) from the government furlough scheme to manage the excess manning effectively. The Company also made use of deferring VAT payments until 2021 with £1,526,000 accrued at year end (2019: £1,273,000).

The recovery expectation of the business is firmly linked to the civil aerospace sector and the timing of the resumption of air travel.

#### **Future developments**

TSTL's management is in the process of developing a broad framework with Rolls-Royce plc in line with the principles agreed by both shareholders by way of the side letter. The side letter sets out the key principles with regards to the creation of a second facility and the modus operandi as to how this facility will be managed by the joint venture. Due to the weakening of the forward order position following the pandemic and the slow growth trajectory of coating capacity requirement, the pace of the expansion in the second factory will be gradual. As a consequence, the customer has deferred some of the capital injection required compared to how this was envisaged originally.

#### **Principal risks, uncertainties and financial risk management**

The main risk facing the business is the downturn in volume due to the uncertainty in air travel and the restriction imposed by global governments following the pandemic in order to control borders. The business took the decision this financial year to restructure which has resulted in the reduction in headcount to resize the business. TSTL has also used the government backed furlough scheme to manage the downturn and to flex the workforce in line with its throughput.

TSTL's principal customer Rolls-Royce plc, have been significantly impacted by the Covid-19 pandemic. The recovery of the civil aerospace sector and volume recovering to previous levels is dependent on the resumption of air travel and government policy. The Company has various leavers at its disposal such as changes to shift patterns and the flexibility provided by temporary and contracted staff to react to short to medium term volume reduction and, to manage uncertainty after the end of the government backed furlough scheme.

TSTL has developed a detailed business risk register across many disciplines and functions and mitigation plans have been developed to reduce or eliminate the risks posed. Exchange rate risk on foreign currency is mitigated by utilising time options. The impact caused by Brexit has been marginal and the business did not suffer any disruption worthy of note. TSTL was in the state of preparedness for a soft, hard or no deal scenarios.

This business'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.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **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 medium to long term, TSTL would require additional capacity in certain production cells to satisfy demand. TSTL's capacity on its existing facility is expected to reach its maximum capacity in 3 years hence the directors are confident that steps will be in place for the business to have the required capacity available in the second facility 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 range plans are reviewed at regularly intervals. The Directors instigated monthly reviews following the pandemic to ensure that the business stays agile short to medium term particularly with demand changes affecting the sector and its impact on TSTL. 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 target against actual performance, across various business processes to ensure that all the stakeholder interest are represented.

#### ***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 bi-monthly 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, fund raising events and charitable activity of the workforce 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 2020 included, Better Health Campaign, World Mental Health Day – Take 10 minutes to talk about mental health, Environment Photographer of the Year, International Women's and Men's Days, World Civil Aviation Day – Model Plane Challenge and Festive Fridays throughout December. Promoting good mental & physical health and wellbeing was a highlight of the year in recognition of the effects on individuals during the pandemic. TSTL was among the first in the industry to roll out Lateral Flow Testing in the work place to protect its workforce and has received praise from all quarters. TSTL's employee retention rate for 2020 was 98% (2019: 96%).

#### ***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. 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 roadmap 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 2020**

#### ***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 have 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 and also has taken initiatives to recover and recycle processed gases. 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.

## TURBINE SURFACE TECHNOLOGIES LIMITED

### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

#### 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 4,690 tonnes of carbon dioxide equivalents (tCO<sub>2</sub>e) based on a verified usage of 20,668,609 kilowatt-hours (kWh) of energy. When accounting for the usage of REGO backed, zero carbon source electricity, the total emissions for the year were 3,754 tonnes of carbon dioxide equivalents (tCO<sub>2</sub>e). As this is the first year of reporting under the SECR requirements, this year shall be considered the baseline year. TSTL will use the base line operational consumption intensity ratio, after offsetting, of 16.3 kgCO<sub>2</sub>e per unit processed to measure year on year comparison.

We have undertaken one energy efficiency action (EEA) in this reporting period by replacing a gas fired oven with an electric alternative. Electric heating is more efficient as well as being carbon neutral, due to TSTL sourcing of 100% renewable electricity as part of their supply contract.

The consultants confirm 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 and scope 2 transport, as well as scope 3 grey fleet usage, associated with business activities has been included within the reporting scope. The outsourced coating activities occurred in 2020 have also been included in the scope of this report. It is forecast that these outsourced activities to be brought back and integrated to coating activities at TSTL during the next financial year. This reintegration is therefore likely to increase scope 1 and scope 2 emissions in the 2021/22 financial year.

#### Greenhouse Gas Emission (GHG)

	Units	Report Year 2020
Scope 1	Emissions (tCO <sub>2</sub> e)	182.4
Scope 2	Emissions (tCO <sub>2</sub> e)	4,184.7
Scope 3	Emissions (tCO <sub>2</sub> e)	323.0
<b>TOTAL EMISSIONS</b>	<b>Emissions (tCO<sub>2</sub>e)</b>	<b>4,690.2</b>
Carbon Offsets & Green Tariffs Purchased	Emissions (tCO <sub>2</sub> e)	935.7
<b>TOTAL EMISSIONS WITH OFFSETTING</b>	<b>Emissions (tCO<sub>2</sub>e)</b>	<b>3,754.5</b>

#### Underlying Energy Use

	Units	Report Year 2020
Scope 1	Energy (kWh)	989,061
Scope 2	Energy (kWh)	17,949,241
Scope 3	Energy (kWh)	1,730,307
<b>TOTAL ENERGY</b>	<b>Energy (kWh)</b>	<b>20,668,609</b>

#### Operation Emissions Intensity Ratios (with offsetting)

Type	Units	Report Year 2020
Production	kgCO <sub>2</sub> e/Units processed	16.3

#### Dividend

During the year the directors approved the payments of a dividend amounting to 45.45 pence per share (2019: 159.09 pence per share).



**TURBINE SURFACE TECHNOLOGIES LIMITED**

**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**Key performance indicators**

	<b>Current Year</b>	<b>Prior Year</b>
PBT Cumulative (£000)	<b>655</b>	15,529
Capital Expenditure (£000)	<b>1,871</b>	1,194
Unsafe Situations Raised (number)	<b>861</b>	1,226
Facility Yield (%)	<b>95.5%</b>	96.4%
Facility RFT (%)	<b>90.5%</b>	91.4%

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 the number of unique occasions when staff have suggested 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:



**Dr P Howard**  
Chairman

Date: 1 September 2021

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

The directors present their annual report and the audited financial statements of Turbine Surface Technologies Limited (the "Company") for the year ended 31 December 2020.

#### **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 £288,000 (2019: £12,571,000).

Dividends totalling £2,000,000 (2019: £7,000,000) 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  
D A Deakin  
R J Feely (resigned 23 July 2020)  
C M Haines  
Dr P Howard  
N S H Groeger (appointed 23 July 2020)

#### **Going concern**

Turbine Surface Technologies ('TSTL') trading operations and throughput were impacted adversely by the extraordinary nature of the Covid-19 pandemic. The Company's cash flows, liquidity and financial performance is reliant on the demand of its principal customer Rolls-Royce plc, who have been significantly impacted by the Covid-19 pandemic. Global economic growth is expected to increase demand across the Civil Aerospace sector and the guidance given by the customer is that "the timing of recovery would be gradual for commercial aviation to pre Covid-19 levels". The Company carried out a restructuring programme in August 2020 in responding to the downturn through completing a redundancy programme to reshape and resize the Company to meet expected future demand. 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 if the demand growth were to be delayed further, reflecting the extent and duration of the disruption on TSTL's customer and commercial aviation market, including possible restrictions occurring as the result of new variants. The Company's liquidity and financial performance going forward is also looking favourable under the two scenarios and the directors are satisfied that the level of cash in the Company, £15,930,000 as at the Statement of Financial Position date (2019: £16,912,000), 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, even when the short-term outcome is less certain.

The most likely and the worst case forecasts demonstrate that the Company will generate profits and cash in the year ending 31 December 2021 and beyond. 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.

#### **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 pages 2 to 3.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **Financial risk management**

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

#### **Donations**

Charitable donations during the year amounted to £2,072 (2019: £1,181). There were no political donations during the year (2019: £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.

#### **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 9 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.

#### **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.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **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:



**Dr P Howard**  
Chairman

Date: 1 September 2021

## **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 2020 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 2020; the Statement of Comprehensive Income, the Statement of Changes in Equity and the 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.

### **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.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

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

#### **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 2020 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.

##### **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 applicable Generally Accepted Accounting Practices, tax compliance legislation and quality regulations relevant to the aerospace industry, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. 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 posting inappropriate journal entries to manipulate financial results, the improper creation or inclusion of transactions in revenue through inappropriate journal entries, and management bias in accounting estimates and judgemental areas of the financial statements. Audit procedures performed by the engagement team included:

- auditing the risk of management override of controls, through using our data analysis tools to confirm completeness of journals and adopting a risk based approach to identify journals for testing, for example journals with unusual account combinations;
- challenging assumptions and judgements made by management in determining significant accounting estimates, as defined in the notes to the financial statements, because of the risk of potential management bias;
- auditing the risk of fraud in revenue recognition of improper creation or inclusion of transactions in revenue by using our data analysis tools to identify unusual credits to revenue for further investigation;
- reviewing minutes of meetings of those charged with governance;
- discussions throughout the audit with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, including any litigation or claims against or by the Company; and
- reviewing financial statement disclosures and testing 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

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

#### **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.

#### **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  
2 September 2021

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Note	2020 £000	2019 £000
Turnover	4	63,599	102,391
Cost of sales		(55,651)	(80,544)
<b>Gross profit</b>		<b>7,948</b>	<b>21,847</b>
Administrative expenses		(6,675)	(6,488)
Exceptional administrative expenses	5	(2,356)	-
Other operating income	6	1,713	-
<b>Operating profit</b>	7	<b>630</b>	<b>15,359</b>
Interest receivable and similar income	11	25	176
Interest payable and similar expenses	12	-	(6)
<b>Profit before taxation</b>		<b>655</b>	<b>15,529</b>
Tax on profit	13	(367)	(2,958)
<b>Profit for the financial year</b>		<b>288</b>	<b>12,571</b>
<b>Other comprehensive expense for the financial year</b>			
Movement on derivative financial instruments designated as cash flow hedges			
- Change in value of hedging instruments		(276)	(590)
- Reclassification to profit and loss		(619)	(615)
- Amounts reclassified to profit and loss relating to discontinued hedges		117	-
Tax on components of other comprehensive expense		141	205
<b>Other comprehensive expense for the financial year</b>		<b>(637)</b>	<b>(1,000)</b>
<b>Total comprehensive (expense)/income for the financial year</b>		<b>(349)</b>	<b>11,571</b>

The notes on pages 19 to 38 form part of these financial statements.




**TURBINE SURFACE TECHNOLOGIES LIMITED**  
**REGISTERED NUMBER: 04040105**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2020**

	Note	2020 £000	2019 £000
<b>Fixed assets</b>			
Tangible assets	15	22,002	22,577
<b>Current assets</b>			
Stocks	16	9,485	9,586
Debtors	17	5,190	9,165
Cash at bank and in hand	18	15,930	16,912
		<u>30,605</u>	<u>35,663</u>
Creditors: amounts falling due within one year	19	(12,665)	(16,144)
<b>Net current assets</b>		<u>17,940</u>	<u>19,519</u>
<b>Total assets less current liabilities</b>		<u>39,942</u>	<u>42,096</u>
<b>Provisions for liabilities</b>			
Deferred taxation	21	(1,793)	(1,598)
<b>Net assets</b>		<u>38,149</u>	<u>40,498</u>
<b>Capital and reserves</b>			
Called up share capital	22	4,400	4,400
Share premium account	23	100	100
Cash flow hedging reserve	23	(248)	389
Profit and loss account	23	33,897	35,609
<b>Total shareholders' funds</b>		<u>38,149</u>	<u>40,498</u>

The financial statements on pages 14 to 38 were approved by the Board of Directors on 1 September 2021 and signed on its behalf by:



**Dr P Howard**  
Chairman

The notes on pages 19 to 38 form part of these financial statements.

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital	Share premium account	Cash flow hedging reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 1 January 2020	4,400	100	389	35,609	40,498
<b>Comprehensive expense for the financial year</b>					
Profit for the financial year	-	-	-	288	288
Cash flow hedges					
- Change in value of hedging instruments	-	-	(276)	-	(276)
- Reclassification to profit and loss	-	-	(619)	-	(619)
- Amounts reclassified to profit and loss relating to discontinued hedges	-	-	117	-	117
Tax on components of other comprehensive expense	-	-	141	-	141
<b>Other comprehensive expense for the financial year</b>	-	-	(637)	-	(637)
<b>Total comprehensive expense for the financial year</b>	-	-	(637)	288	(349)
<b>Contributions by and distributions to owners</b>					
Dividends: Equity capital	-	-	-	(2,000)	(2,000)
<b>Total transactions with owners</b>	-	-	-	(2,000)	(2,000)
<b>At 31 December 2020</b>	<b>4,400</b>	<b>100</b>	<b>(248)</b>	<b>33,897</b>	<b>38,149</b>

The notes on pages 19 to 38 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	Share premium account	Cash flow hedging reserve	Profit and loss account	Total shareholders' funds
	£000	£000	£000	£000	£000
At 1 January 2019	4,400	100	1,389	30,038	35,927
<b>Comprehensive income for the financial year</b>					
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	-	-	205	-	205
<b>Other comprehensive expense for the financial year</b>	-	-	(1,000)	-	(1,000)
<b>Total comprehensive income for the financial year</b>	-	-	(1,000)	12,571	11,571
<b>Contributions by and distributions to owners</b>					
Dividends: Equity capital	-	-	-	(7,000)	(7,000)
<b>Total transactions with owners</b>	-	-	-	(7,000)	(7,000)
<b>At 31 December 2019</b>	<b>4,400</b>	<b>100</b>	<b>389</b>	<b>35,609</b>	<b>40,498</b>

The notes on pages 19 to 38 form part of these financial statements.

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020 £000	2019 £000
<b>Cash flows from operating activities</b>		
Profit for the financial year	288	12,571
<b>Adjustments for:</b>		
Depreciation of tangible assets	2,446	2,485
Loss on disposal of tangible assets	-	5
Net interest expenses	-	6
Interest (received)/paid	(25)	31
Tax on profit	367	2,958
Decrease/(increase) in inventories	101	(1,548)
Increase in trade and other debtors	(1,408)	(126)
Decrease/(increase) in amounts owed by groups	4,770	(747)
Decrease in trade and other creditors	(1,610)	(55)
(Decrease)/increase in amounts owed to groups	(629)	404
Tax movement on hedge accounting	-	(205)
Taxation paid	(1,436)	(3,506)
<b>Net cash generated from operating activities</b>	<b>2,864</b>	<b>12,273</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible assets	(1,871)	(1,195)
Sale of tangible assets	-	(5)
Interest received	25	76
Joint ventures interest received	-	100
<b>Net cash used in investing activities</b>	<b>(1,846)</b>	<b>(1,024)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(2,000)	(7,000)
Interest paid	-	(6)
<b>Net cash used in financing activities</b>	<b>(2,000)</b>	<b>(7,006)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(982)</b>	<b>4,243</b>
Cash and cash equivalents at beginning of financial year	16,912	12,669
<b>Cash and cash equivalents at the end of financial year</b>	<b>15,930</b>	<b>16,912</b>
<b>Cash and cash equivalents at the end of financial year comprise:</b>		
Cash at bank and in hand	15,930	16,912

The notes on pages 19 to 38 form part of these financial statements.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **1. General information**

Turbine Surface Technologies Limited (the "Company") is a private company limited by shares and incorporated and domiciled in the England. 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') trading operations and throughput were impacted adversely by the extraordinary nature of the Covid-19 pandemic. The Company's cash flows, liquidity and financial performance is reliant on the demand of its principal customer Rolls-Royce plc, who have been significantly impacted by the Covid-19 pandemic. Global economic growth is expected to increase demand across the Civil Aerospace sector and the guidance given by the customer is that "the timing of recovery would be gradual for commercial aviation to pre Covid-19 levels". The Company carried out a restructuring programme in August 2020 in responding to the downturn through completing a redundancy programme to reshape and resize the Company to meet expected future demand. 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 if the demand growth were to be delayed further, reflecting the extent and duration of the disruption on TSTL's customer and commercial aviation market, including possible restrictions occurring as the result of new variants. The Company's liquidity and financial performance going forward is also looking favourable under the two scenarios and the directors are satisfied that the level of cash in the Company, £15,930,000 as at the Statement of Financial Position date (2019: £16,912,000), 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, even when the short-term outcome is less certain.

The most likely and the worst case forecasts demonstrate that the Company will generate profits and cash in the year ending 31 December 2021 and beyond. 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 2020**

#### **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 Government grants**

The Company has taken advantage of government support made available to businesses to help mitigate the impact of COVID-19. In recognising this support in the financial statements, the Company has applied Section 24 of FRS 102. Grant income is recognised only when it is reasonably certain that the cash will be received, and that all eligibility criteria have been met. To the extent that there are ongoing eligibility or performance criteria, grant income is spread over the relevant period of measurement. Grant income is presented gross in the profit and loss account and further details can be found within note 6.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **2. Significant accounting policies (continued)**

##### **2.7 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.

##### **2.8 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.

## **TURBINE SURFACE TECHNOLOGIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **2. Significant accounting policies (continued)**

##### **2.9 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.

##### **2.10 Exceptional items**

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.



## TURBINE SURFACE TECHNOLOGIES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 2. Significant accounting policies (continued)

##### 2.11 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.

##### 2.12 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:

<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

##### 2.13 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.

##### 2.14 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 2020**

#### **2. Significant accounting policies (continued)**

##### **2.15 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.

##### **2.16 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.

##### **2.17 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.

##### **2.18 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.

## TURBINE SURFACE TECHNOLOGIES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 2. Significant accounting policies (continued)

##### 2.17 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 2020**

#### **2. Significant accounting policies (continued)**

##### **2.19 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.

##### **2.20 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.

##### **2.21 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 27.

#### **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***

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 25 for further details.

# **TURBINE SURFACE TECHNOLOGIES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

### **4. Turnover**

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

	2020 £000	2019 £000
Sale of goods	63,006	102,121
Rendering of services	593	270
	<u>63,599</u>	<u>102,391</u>

Analysis of turnover by country of destination:

	2020 £000	2019 £000
United Kingdom	44,168	80,700
North America	17,566	21,691
Rest of the World	1,827	-
Europe	38	-
	<u>63,599</u>	<u>102,391</u>

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

### **5. Exceptional administrative expenses**

	2020 £000	2019 £000
Redundancy costs	<u>2,356</u>	<u>-</u>

### **6. Other operating income**

	2020 £000	2019 £000
Other income	<u>1,713</u>	<u>-</u>

On 20 March 2020, the UK Government announced the Coronavirus Job Retention Scheme ('CJRS') to provide support for employers to enable them to continue paying part of their employees' salaries. The Company claimed under this CJRS for the period April 2020 to December 2020 from the UK Government for the employees furloughed.

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**7. Operating profit**

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

	2020 £000	2019 £000
Depreciation on tangible assets	2,446	2,485
Inventory recognised as an expense	25,540	34,738
Impairment of inventory	29	(235)
Foreign exchange losses	209	198
Operating lease charges	485	465
Impairment of trade debtors	69	-
	<u>69</u>	<u>-</u>

**8. Auditors' remuneration**

	2020 £000	2019 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	69	64
	<u>69</u>	<u>64</u>

**Fees payable to the Company's auditors in respect of:**

Preparation of financial statements	3	2
	<u>3</u>	<u>2</u>

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**9. Employees**

Staff costs were as follows:

	2020 £000	2019 £000
Wages and salaries	17,809	17,888
Social security costs	1,802	1,683
Other pension costs	482	400
	<u>20,093</u>	<u>19,971</u>

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

	2020 Number	2019 Number
Production	405	368
Administration	155	142
	<u>560</u>	<u>510</u>

**10. Directors' remuneration**

The directors received no emoluments for their services to the Company during the year (2019: £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 £1,104,000 (2019: £924,000). These figures include compensation, pension and other benefits.

**11. Interest receivable and similar income**

	2020 £000	2019 £000
Net gain on other financial assets measured at fair value through profit or loss	-	100
Bank interest received	25	76
	<u>25</u>	<u>176</u>

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
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**12. Interest payable and similar expenses**

	2020 £000	2019 £000
Bank interest payable	-	6
	<u>-</u>	<u>6</u>

**13. Tax on profit**

	2020 £000	2019 £000
<b>Corporation tax</b>		
Current tax on profits for the financial year	-	2,837
Adjustments in respect of prior years	34	(15)
<b>Total current tax</b>	<u>34</u>	<u>2,822</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	152	123
Adjustments in respect of prior years	-	13
Adjustments in respect of an increase in the tax rate	181	-
<b>Total deferred tax</b>	<u>333</u>	<u>136</u>
<b>Total tax</b>	<u><u>367</u></u>	<u><u>2,958</u></u>



**TURBINE SURFACE TECHNOLOGIES LIMITED**

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**13. Tax on profit (continued)**

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2019: higher than) the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	2020 £000	2019 £000
Profit before taxation	655	15,529
Profit before taxation by standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	124	2,951
Effects of:		
Non-deductible expenses	28	25
Adjustments in respect of prior years	34	(2)
Tax rate differential on timing differences	-	(16)
Adjustments in respect of an increase in the tax rate	181	-
<b>Total tax charge for the financial year</b>	<b>367</b>	<b>2,958</b>

**Factors that may affect future tax charges**

The Spring Budget 2020 announced that the UK corporation tax rate would remain at 19% rather than reducing to 17% from 1 April 2020. The new law was substantively enacted on 17 March 2020. The prior year UK deferred tax assets and liabilities were calculated at 17%, as this was the enacted rate at the 2019 Balance Sheet date. As the 19% rate has been substantively enacted before 31 December 2020, the UK deferred tax assets and liabilities have been re-measured at 19%.

The resulting charge has been recognised in the income statement except to the extent that they relate to items previously credited or charged to equity. Accordingly, in 2020, £181,000 has been charged to the income statement and £7,000 has been charged to equity.

The Spring 2021 Budget further announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The deferred tax liability has been calculated at 19% as this rate has been substantively enacted at the Balance Sheet date. Had the 25% been substantively enacted on or before 31 December 2020 it would have had the effect of increasing the deferred tax liability by £567,000.

**14. Dividends**

	2020 £000	2019 £000
Dividends paid	2,000	7,000

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**15. Tangible assets**

	Leasehold improvements £000	Plant and machinery £000	Office equipment £000	Total £000
<b>Cost</b>				
At 1 January 2020	2,464	40,091	1,600	44,155
Additions	548	1,322	1	1,871
Disposals	(32)	(1,431)	(306)	(1,769)
At 31 December 2020	2,980	39,982	1,295	44,257
<b>Accumulated depreciation</b>				
At 1 January 2020	899	19,713	966	21,578
Charge for the year	232	2,069	145	2,446
Disposals	(32)	(1,431)	(306)	(1,769)
At 31 December 2020	1,099	20,351	805	22,255
<b>Net book value</b>				
At 31 December 2020	1,881	19,631	490	22,002
At 31 December 2019	1,565	20,378	634	22,577

**16. Stocks**

	2020 £000	2019 £000
Raw materials	7,712	5,833
Work in progress	1,594	3,328
Lineside stock	179	425
	9,485	9,586

Inventories are stated after provisions for impairment of £1,079,000 (2019: £1,050,000).

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

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**17. Debtors**

	2020 £000	2019 £000
Trade debtors	964	219
Amounts owed by related parties	2,922	7,692
Other debtors	507	44
Derivative financial instruments (see note 20)	211	824
Prepayments and accrued income	586	386
	<u>5,190</u>	<u>9,165</u>

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 £69,000 (2019: £Nil).

**18. Cash at bank and in hand**

	2020 £000	2019 £000
Cash at bank and in hand	<u>15,930</u>	<u>16,912</u>

**19. Creditors: amounts falling due within one year**

	2020 £000	2019 £000
Trade creditors	984	2,735
Amounts owed to related parties	5,614	6,243
Corporation tax	65	1,470
Other taxation and social security	1,959	1,702
Other creditors	-	106
Derivative financial instruments (see note 20)	520	355
Accruals and deferred income	3,523	3,533
	<u>12,665</u>	<u>16,144</u>

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 2020**

**20. Financial instruments**

**(a) Carrying amount of financial instruments**

The carrying amounts of the financial assets and liabilities include:

	2020 £000	2019 £000
<b>Financial assets</b>		
Assets measured at fair value through profit or loss	211	824
Assets measured at amortised cost	3,886	7,912
	<u>4,097</u>	<u>8,736</u>
<b>Financial liabilities</b>		
Liabilities measured at fair value through profit or loss	(520)	(355)
Liabilities measured at amortised cost	(10,030)	(12,512)
	<u>(10,550)</u>	<u>(12,867)</u>

During the year, derivative financial instruments were cancelled with a fair value of £117,000 (2019: £Nil), due to the reduction in the forecast USD denominated purchases the Company expected to occur during the financial year. As a result, this amount has been recycled from the cash flow hedge reserve as a charge to Cost of Sales, as the hedged item is no longer expected to occur.

**(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
<b>Forward exchange contracts:</b>					
Assets	211	211	65	132	14
Liabilities	(520)	(520)	(205)	(100)	(215)

**TURBINE SURFACE TECHNOLOGIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

**20. 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	5 years and over £000
<b>Forward exchange contracts:</b>						
Assets	824	824	366	214	226	18
Liabilities	(355)	(355)	(322)	(33)	-	-

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.

**21. Deferred taxation**

	2020 £000
At beginning of year	1,598
Credited to profit or loss	336
Charged to other comprehensive expense	(141)
<b>At end of year</b>	<b>1,793</b>

The provision for deferred taxation is made up as follows:

	2020 £000	2019 £000
Opening deferred tax liability	1,598	1,667
Accelerated capital allowances	336	139
Forward exchange contracts	(141)	(208)
	<b>1,793</b>	<b>1,598</b>

No net reversal of the deferred tax liability is expected to occur in the next reporting period (2019: £69,000).

## TURBINE SURFACE TECHNOLOGIES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 22. Called up share capital

	2020 £000	2019 £000
<b>Allotted, called up and fully paid</b>		
2,200,100 (2019: 2,200,100) Ordinary 'A' shares of £1 (2019: £1) each	2,200	2,200
2,200,100 (2019: 2,200,100) Ordinary 'B' shares of £1 (2019: £1) each	2,200	2,200
	<u>4,400</u>	<u>4,400</u>

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.

#### 23. 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.

#### 24. Capital commitments

The Company had contractual commitments to purchase tangible fixed assets at 31 December 2020 totalling £470,000 (2019: £1,134,000).

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 2020

#### 25. 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 2020 is £1,284,000 (2019: £1,689,000).

Total contributions payable by the Company to the scheme during the year totalled £21,000 (2019: £22,000).

The Company provides a defined contribution scheme for its employees. The amount recognised as an expense during the year totalled £482,000 (2019: £400,000). Amounts accrued at year end is £Nil (2019: £Nil).

#### 26. Commitments under operating leases

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

	2020 £000	2019 £000
Less than one year	485	465
Between one and five years	1,748	1,773
More than five years	416	850
	<u>2,649</u>	<u>3,088</u>

During the year £485,000 (2019: £465,000) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases.

#### 27. 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.

# **TURBINE SURFACE TECHNOLOGIES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

### **27. Related parties (continued)**

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

#### **Year ended 31 December 2020**

	Rolls-Royce plc (1) £000	Chromalloy United Kingdom Limited (2) £000	Chromalloy Gas Turbines LLC (3) £000	TRT Limited (5) £000
Sales to related party	62,801	9	-	9
Purchases from related party	21	396	5,986	-
Recharges to related party	2,738	38	-	10
Recharges from related party	7	372	99	-
Amounts due from related party	2,909	1	4	8
Amounts due to related party	5,578	36	-	-

#### **Year ended 31 December 2019**

	Rolls-Royce plc (1) £000	Chromalloy United Kingdom Limited (2) £000	Chromalloy Gas Turbines LLC (3) £000	TRT Limited (5) £000
Sales to related party	101,840	3	-	-
Purchases from related party	-	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	-

### **28. 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.