

Registration number: 02220030

Ross Ceramics Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

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Ross Ceramics Limited

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Ross Ceramics Limited

Company Information

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

Ross Ceramics Limited

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report on Ross Ceramics Limited (the 'Company') together with the audited financial statements for the year ended 31 December 2019.

Principal activities

The principal activities of the Company are to support the technical development of the materials, processes and geometry envelope of turbine blade core technology to support the parent company, Rolls-Royce plc, in satisfying demand for its products for the aerospace and power generation industries.

Business review

The key focus of the business has been:

- Delivery of increased product demand from Rolls-Royce plc and its subsidiaries, as a part of the Rolls-Royce Turbine Systems Supply Chain Unit; and
- Aligning processes with Rolls-Royce plc requirements.

Gross margin improved through the year following lower product testing costs than in 2018 combined with improved efficiencies as demand stabilised after a period of growth. Whilst the Trentham site employed an additional 31 permanent staff in September, labour costs were slightly offset as these employees replaced temporary agency staff who had a higher hourly rate.

Revenue increased to £23,304,000 (2018: £22,076,000). Stability and consolidation enabled an improvement in arrears (customer backlog) and this was delivered with a reduced cost rate mainly achieved through yield improvement activities, which overall resulted in improved profitability to £2,258,000 (2018: £1,211,000).

Stock levels at the Denby site remained broadly static during Q1 and Q2 as customer protection plan stock was already in position from 2018. There was a slight increase in Q3 and Q4 to satisfy the 2019 plan. Trentham during the second half of 2019 successfully increased stock levels to meet the customer protection plan. This has driven the increase in inventory held at the year end of £1,781,000 (2018: £1,379,000).

During the year the Company adopted IFRS16 *Leases* using the modified retrospective approach. This had the effect of introducing Right of Use assets and lease liabilities to the Balance Sheet with a year end balance of £2,397,000 (2018: nil) and £2,139,000 (2018: nil) respectively, as well as changing the nature of cost to the Income Statement. The effect of this is shown in notes 12, 15 and 21.

The company has net assets of £12,875,000 (2018: £10,833,000).

Ross Ceramics Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Key performance indicators

The key financial performance indicators monitored by the business were as follows:

	2019	2018
	£ 000	£ 000
Turnover	23,304	22,076
Profit before taxation	2,258	1,211

Given the nature of the Company's activities, the Directors believe that no further key performance indicators are necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Rolls-Royce Holdings plc group, and which may be relevant to the Company, are disclosed in the Strategic Report in the Rolls-Royce Holdings plc Annual Report which is publicly available from the address in note 24 and do not form part of this report.

Principal risks and uncertainties

The Company acts in accordance with policies set by Rolls-Royce Holdings plc. The Rolls-Royce Holdings plc group has an established, structured approach to risk management which is detailed in the Rolls-Royce Holdings plc Annual Report which is publicly available from the address in note 24.

The Directors have determined that that the principal risks and uncertainties facing the Company are as follows:

- Dual sourcing strategies with customers therefore reducing demand;
- Loss of volume products in key customers;
- Global demand reductions in response to COVID-19 (Aerospace and Industrial Gas Turbine ('IGT')); and
- Single source tooling and single points of failure.

The Company aims to mitigate these risks as far as possible by the following measures:

- Ensuring we are a strategic part of customer dual sourcing plans;
- Working with customers to ensure we are providing them with the best possible casting yield products, so we are contributing to the value chain;
- Managing the cost base in line with demand reductions to remain competitive; and
- Addressing single points of failure and key business risks through our risk management process.

Coronavirus ("COVID-19")

The COVID-19 pandemic has significantly impacted the Company's 2020 performance with an unprecedented impact on the aerospace industries causing a demand reduction of c.50%. The Directors responded quickly to mitigate the impacts resulting from the COVID-19 pandemic, implementing methods to reduce costs and resize the business, with the removal of temporary staff and reducing load capacity. The Company utilised funding from the British Government as part of the United Kingdom ('UK') furlough scheme and continue to work closely with trade unions and look for opportunities to redeploy its employees.

The Company also continue to maintain a level of buffer stock to avoid potential supply chain disruption to remain self-sufficient. With the nature of the trading relationship with its parent undertaking, Rolls-Royce plc, the Company is reliant on Rolls-Royce plc for its liquidity and future cashflows. Further details are provided in the going concern section in note 2.

Ross Ceramics Limited

Strategic Report for the Year Ended 31 December 2019 (continued)

Principal risks and uncertainties (continued)

Brexit

Following the UK's exit from the European Union ('EU') on 31 January 2020, the Directors continue to monitor the potential outcomes for the UK's future relationship with the EU through the Rolls-Royce Holdings plc steering group which has remained active during 2019 and will continue until the outcome is clear and any necessary mitigation plans are in place. It is difficult to evaluate all the potential implications on the Company's operations and the wider economy. However, the Directors believe that the business has limited exposure to any Brexit implications given that operations are located in the UK and the supply chain is located in Norway and the Netherlands.

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- the interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the Company.

To discharge their Section 172 duties the Company's Directors had regard to the factors set out above in making the principal decisions taken by the Company.

The Company's key stakeholders are its employees, external suppliers and its shareholder, Rolls-Royce plc. The Directors of the Company work closely with Rolls-Royce plc with regular consultation through the technical development of the materials, processes and geometry envelope of turbine blade core technology. Engagement occurs primarily through formal meetings and management level review boards. The Company also engages with suppliers through meetings whereby a wide range of performance and behavioural measures are discussed and considered.

Following these supplier meetings, an output of the various tiered reviews within the organisation and with its stakeholders is shared with the Directors at board meetings with all actions or recommendations documented in board meeting minutes. The Directors believe that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2019.

There is regular engagement with employees and the Company fully recognises the responsibilities to the health and safety of all its employees, visitors, contractors and of the community by adopting the health and safety policies of the Rolls-Royce Holding plc group. The Company engages employees when health and safety matters are considered, and new policies formulated.

Approved by the Board on 10 September 2020 and signed on its behalf by:



D Parrott
Director

Ross Ceramics Limited

Directors' Report for the Year Ended 31 December 2019

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

Directors

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

S Brailey

D Parrott

Qualifying third party indemnity provisions

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were in place during the year and remain in force at the date of this report.

Dividends

The Directors do not recommend the payment of a dividend (2018: £nil).

Financial risk management

The Company has an established, structured approach to risk management. The following risks are considered key by the Directors:

Interest risk

Cash balances are held at floating rates and the Company is therefore exposed to movements in interest rates which is mitigated by the Rolls-Royce Holdings plc group managing the overall interest risk at group level.

Foreign exchange risk

All material cash balances are held in sterling and therefore these balances are not exposed to movements in foreign exchange rates. Purchases in currencies other than sterling are minimal so it is not practicable or necessary to mitigate this risk.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The main customers of the Company are other subsidiary undertakings of the Rolls-Royce Holding plc group, who will be supported by Rolls-Royce plc if required, as set out in the going concern section of note 2.

Future developments

The Directors are confident that the business strategy will continue to deliver results that meet customer expectations, despite the impacts of COVID-19 (as discussed in the Strategic Report on page 3), in the coming years. The Company is focused on deliveries to meet customer demand and core scrap reductions. The business continues to have this as a primary focus and will continue to develop customer service and relationships, aiming to satisfy customer requirements as a clear set of business objectives through its business plan deployment process.

Based on the decline in demand in the power generation element of the business, the Company previously made a decision to cease supply of the majority of power generation products by the end of 2020 allowing the business to focus on the supply of aerospace products aligned to the requirements of the parent company.

Ross Ceramics Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Going Concern

The Directors of the Company have prepared the financial statements on a going concern basis which assumes the Company will be able to meet its future obligations as they fall due and the Company will settle all payments within the agreed terms.

The Directors have received written confirmation from Rolls-Royce plc, the parent undertaking of the smallest group to consolidate the Company's financial statements and the principal trading company of the Rolls-Royce Holdings plc group, of its intention to support the Company with financial and other resources as necessary such that the Company can meet its financial obligations as they fall due. Furthermore, the parent undertaking has confirmed that; it will not seek the repayment of amounts advanced to the Company by the parent and/or other members of the parent's group unless adequate financing has been secured by the Company and it will repay cash deposited by the Company as part of the parent's cash pool sweeping arrangements. This written support is available for at least the next twelve months from the date of approval of these financial statements.

Rolls-Royce Holdings plc, the ultimate parent company of Rolls-Royce plc and the ultimate parent undertaking to consolidate the Company's financial statements, in its published results for the six-month period ended 30 June 2020 included a material uncertainty on going concern in relation to the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

The Rolls-Royce Holdings plc group has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to 28 February 2022 when assessing their going concern. Particular attention has been paid to the impact of the COVID-19 outbreak on the Rolls-Royce Holdings plc group's Civil Aerospace and ITP Aero businesses. An assessment was performed on both a base case scenario (which reflects the Rolls-Royce Holdings plc group current expectations of future trading) and a severe but plausible downside scenario (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce Holdings plc group future financial performance and cash flows. Further details of the base case and downside scenarios modelled by the Rolls-Royce Holdings plc group are included in Note 1 to the published results which are publicly available (www.rolls-royce.com).

After considering the basis of preparation of the Rolls-Royce Holdings plc group interim financial statements, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis. However, the inherent uncertainties outlined in the Rolls-Royce Holdings plc group financial statements represent material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis.

Environmental matters

The Company fully recognises the responsibilities to the health and safety of all its employees, visitors, contractors and of the community by adopting the health and safety policies of the Rolls-Royce Holding plc group. Employees are involved and communicated with on matters of health and safety and are considered an integral part of the Company's health and safety development.

In terms of environmental impact, the Company continues to focus on the health, safety and environment of the business and its employees as a priority. The Company is aligned to the objectives of the Rolls-Royce Holdings plc group to achieve zero waste to landfill by the end of 2020.

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Directors' Report for the Year Ended 31 December 2019 (continued)

Post balance sheet events

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

To help keep employees safe and minimise operational disruption, the Rolls-Royce Holdings plc group have implemented a number of proactive measures, which are aligned with local and national guidelines. This includes introducing remote working practices alongside workplace measures such as social distancing, enhanced hygiene procedures, modified shift systems in the manufacturing facilities and, where necessary, have temporarily closed certain facilities to all but essential personnel in order to sustain modified operations over a longer period. The Directors recognise that the health and safety of employees is paramount and following a pause in production, and implementation of social distancing and hygiene measures, production has now re-started. The Company responded swiftly to demand reductions in 2020 by removing agency labour and furloughing employed staff where feasible to do so. The Company is assessing overall capacity requirements as customers confirm their demands.

In terms of the Company's financial and liquidity position in relation to COVID-19, given the nature of the trading relationship with its parent undertaking Rolls-Royce plc, the Company's liquidity and future cashflows is reliant on Rolls-Royce plc. Although the load has reduced and there will be a prioritisation in task, new projects and investments, the Directors are continuing to regularly engage with the Rolls-Royce plc directors to ensure that there is sufficient group liquidity to provide continued support to the Company.

In response to the change in outlook for the Company the Directors recognise that the impact of COVID-19 is likely to reduce the demand on ceramic cores and have assessed the subsequent conditions on the balance sheet as at 31 December 2019. The Directors have determined that there is no material financial impact resulting in the impairment of assets.

Employees

The Rolls-Royce Holdings plc group, of which the Company is a part, is committed to continuing communication and dialogue with employees. The existence of a Rolls-Royce Holdings plc group wide intranet enables engagement and communication with employees throughout the group on a single platform. The Company and employee representatives continue to work closely together to improve the quality of employee engagement and participation in the development of the business. The Company consults widely over changes to the Rolls-Royce group pension scheme for UK employees. The Company actively encourages employee share ownership in the ultimate parent company, Rolls-Royce Holdings plc.

The Company's investment in training and development programmes ensures that all employees have the opportunity to attain the highest level of skill and employees are encouraged to take responsibility for their personal development. Opportunities are available to extend their competency levels using a range of the latest education and training techniques. The use of Appraisal Systems and Personal Development Planning enabled managers to support employees in their careers.

Ross Ceramics Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

Employees (continued)

The Company's policy on diversity and equality continues to develop in consultation with employee representatives and the Company continues to be committed to equal opportunities and developing a diverse and inclusive workforce. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Ross Ceramics Incentive Scheme is self-funded and based on the profitability of the Company. Payments are based on the achievement of specific performance targets, for example, financial improvements and Scrap levels. Any payments are made at two points in the year, mid-year and year end.

In 2019, the Company met the set targets and paid incentives to 121 employees at mid-year and 263 at year end. The Rolls-Royce All Employee Bonus Scheme which employees are aligned to, was successful in making bonus payments as was the Rolls-Royce Management Bonus Scheme which the Company's managers are aligned to.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Ross Ceramics Limited

Directors' Report for the Year Ended 31 December 2019 (continued)

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 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 of 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 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.

Approved by the Board on 10 September 2020 and signed on its behalf by:



D Parrott
Director

Ross Ceramics Limited

Independent Auditors' Report to the members of Ross Ceramics Limited

Report on the audit of the financial statements

Opinion

In our opinion, Ross Ceramics Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Other Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Going Concern section included within the "Significant accounting policies" to the financial statements concerning the Company's ability to continue as a going concern.

The Company is reliant on its parent company for ongoing support, including not seeking repayment of existing intercompany loans and to repay any amounts deposited by the Company as part of the parent company's cash pool sweeping arrangements. Rolls-Royce Holdings plc, the ultimate parent company, in its published results for the six-month period ended 30 June 2020, included material uncertainties on going concern in relation to the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. Accordingly, there can be no certainty that the support required by the Company will in fact be made available.

These conditions, along with the other matters explained in the Going Concern section included within the "Significant accounting policies" note to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Ross Ceramics Limited

Independent Auditors' Report to the members of Ross Ceramics Limited (continued)

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 9, 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.

Ross Ceramics Limited

Independent Auditors' Report to the members of Ross Ceramics 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.

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.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

Ross Ceramics Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	3	23,304	22,076
Cost of sales		<u>(18,998)</u>	<u>(19,263)</u>
Gross profit		4,306	2,813
Administrative expenses		<u>(2,031)</u>	<u>(1,619)</u>
Operating profit	4	2,275	1,194
Finance income	5	11	17
Finance costs	6	<u>(28)</u>	<u>-</u>
Profit before taxation		2,258	1,211
Tax on profit	10	<u>(267)</u>	<u>(243)</u>
Profit for the financial year		<u>1,991</u>	<u>968</u>

The above results were derived from continuing operations.

The notes on pages 17 to 40 form an integral part of these financial statements.

Ross Ceramics Limited

Statement of Other Comprehensive Income for the Year Ended 31 December 2019

	2019 £ 000	2018 £ 000
Profit for the financial year	<u>1,991</u>	<u>968</u>
Total comprehensive income for the year	<u><u>1,991</u></u>	<u><u>968</u></u>

Ross Ceramics Limited

**(Registration number: 02220030)
Balance Sheet as at 31 December 2019**

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Property, plant and equipment	11	8,737	7,381
Right-of-use assets	12	2,397	-
Deferred tax assets	10	108	-
		11,242	7,381
Current assets			
Inventories	13	1,781	1,379
Trade and other receivables	14	3,130	4,280
Cash at bank and in hand		2,401	2,430
		7,312	8,089
Current liabilities			
Trade and other payables	17	(3,540)	(4,411)
Loans and borrowings	15	(202)	-
		(3,742)	(4,411)
Net current assets		3,570	- 3,678
Total assets less current liabilities		14,812	11,059
Creditors: Amounts falling due after more than one year			
Loans and borrowings	15	(1,937)	-
Provisions for liabilities	10	-	(226)
		-	(226)
Net assets		12,875	10,833
Equity			
Called up share capital	19	150	150
Other reserves		1,319	1,268
Retained earnings		11,406	9,415
		12,875	10,833
Total equity		12,875	10,833

The financial statements on pages 13 to 40 were approved and authorised for issue by the Board on 10 September 2020 and signed on its behalf by:



D Parrott
Director

Ross Ceramics Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2019	150	1,268	9,415	10,833
Profit for the financial year	-	-	1,991	1,991
Total comprehensive income	-	-	1,991	1,991
Share based payment transactions	-	50	-	50
Related tax movements	-	1	-	1
At 31 December 2019	150	1,319	11,406	12,875

	Called up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total equity £ 000
At 1 January 2018	150	1,168	8,447	9,765
Profit for the financial year	-	-	968	968
Total comprehensive income	-	-	968	968
Share based payment transactions	-	99	-	99
Related tax movements	-	1	-	1
At 31 December 2018	150	1,268	9,415	10,833

The notes on pages 17 to 40 form an integral part of these financial statements.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The Company is a private company limited by shares, incorporated and domiciled in the East Midlands, United Kingdom.

The principal activity of the Company is to support the technical development of the materials, processes and geometry envelope of turbine blade core technology to support the parent company, Rolls-Royce plc, in satisfying demand for its products for the aerospace and power generation industries.

The address of its registered office is:

Moor Lane
Derby
Derbyshire
DE24 8BJ

2 Significant accounting policies

The significant accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Basis of preparation

The financial statements of Ross Ceramics Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 2006.

In these financial statements the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- IFRS 2 *Share Based Payments* in respect of group settled share based payments;
- Comparative period reconciliations for tangible fixed assets;
- The requirements of IAS 24 *Related Party Transactions* and has, therefore, not disclosed transactions between the Company and other entities part of a wholly owned group;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management; and
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 119(a) to (c), 123, 125 and 126 of IFRS 15 *Revenue from Contracts with Customers*.

New standards, amendments and IFRIC interpretations

IFRS 16 *Leases* is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the Company's financial statements, see further detail in note 21. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a financial impact on the Company's financial statements.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements require the use of certain critical estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

Key accounting estimates and assumptions

Inventory valuation and provisioning

Inventory valuation is based upon costs of production contained within the inventory management system. The Directors review the carrying value of inventory on a periodic basis and make provisions against the carrying value of inventory where they consider the realisable value to be lower. Where a finished item has not been sold within 6 months of manufacture with no visible order arising, this is provided for in full (See note 13).

Depreciation

Property, plant and equipment are depreciated over the useful lives for which the Company expects to derive benefit from those assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancements, future investments, economic utilisation and physical condition of the assets (See note 11).

Critical accounting judgement - Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined pension scheme with other companies in the Rolls-Royce Holdings plc group. In the judgement of the Directors, the Company does not have sufficient information on the plan assets and liabilities to be able to reliable account for its share of the defined benefit obligations and plan assets and therefore the scheme is accounted for as a defined contribution scheme.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Going concern

The Directors of the Company have prepared the financial statements on a going concern basis which assumes the Company will be able to meet its future obligations as they fall due and the Company will settle all payments within the agreed terms.

The Directors have received written confirmation from Rolls-Royce plc, the parent undertaking of the smallest group to consolidate the Company's financial statements and the principal trading company of the Rolls-Royce Holdings plc group, of its intention to support the Company with financial and other resources as necessary such that the Company can meet its financial obligations as they fall due. Furthermore, the parent undertaking has confirmed that it will not seek the repayment of amounts advanced to the Company by the parent and/or other members of the parent's group unless adequate financing has been secured by the Company and it will repay cash deposited by the Company as part of the parent's cash pool sweeping arrangements. This written support is available for at least the next twelve months from the date of approval of these financial statements.

Rolls-Royce Holdings plc, the ultimate parent company of Rolls-Royce plc and the ultimate parent undertaking to consolidate the Company's financial statements, in its published results for the six-month period ended 30 June 2020 included a material uncertainty on going concern in relation to the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

The Rolls-Royce Holdings plc group has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to 28 February 2022 when assessing their going concern. Particular attention has been paid to the impact of the COVID-19 outbreak on the Rolls-Royce Holdings plc group's Civil Aerospace and ITP Aero businesses. An assessment was performed on both a base case scenario (which reflects the Rolls-Royce Holdings plc group current expectations of future trading) and a severe but plausible downside scenario (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce Holdings plc group future financial performance and cash flows. Further details of the base case and downside scenarios modelled by the Rolls-Royce Holdings plc group are included in Note 1 to the published results which are publicly available (www.rolls-royce.com).

After considering the basis of preparation of the Rolls-Royce Holdings plc group interim financial statements, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis. However, the inherent uncertainties outlined in the Rolls-Royce Holdings plc group financial statements represent material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the goods supplied, stated net of value added taxes.

Revenue is recognised when control of goods is transferred to a customer. A five-step recognition model is used to apply the standard as follows: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenue when (or as) each performance obligation is satisfied. The revenue of the Company come from the sale of goods that are recognised at a point in time. Sales of goods in the Income Statement are recognised by the Company when control of the goods has been transferred, being when the customer takes possession of the goods and that all performance obligations have been fulfilled.

Finance income

Interest receivable is credited to the Income Statement using the effective interest method.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the Company at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Functional and presentational currency

The functional and presentational currency of the Company is Pound Sterling.

Rounding of amounts

All amounts in the financial statements and notes have been rounded to the nearest thousand Pounds Sterling unless otherwise stated.

Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Taxation (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of tangible assets, less their estimated residual value, over their expected useful lives on the following bases:

Land and buildings - freehold buildings over 50 years, leasehold over the shorter of the remaining lease term and 50 years

Other property, plant and equipment - 2 to 15 years

Furniture, fittings and equipment - 5 to 8 years

Assets under construction - not depreciated

No depreciation is provided on freehold land.

Property, plant and equipment are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount. An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amounts.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised as a gain or loss within Administrative expenses in the Income Statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand that is readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables are amounts due from customers and group undertakings for goods sold in the ordinary course of business and are classified as financial assets and are subject to IFRS 9 expected credit loss model. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value on a first-in, first-out basis. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, including depreciation of property, plant and equipment, that have been incurred in bringing the inventory to their present location and condition. Net realisable value represents the estimated selling prices less all estimated costs of completion.

A full provision is recognised against any raw materials not used within a 12 month period and any work in progress is fully provided for if not used within a 2 month period. If a finished item has not been sold within 6 months of manufacture with no visible order arising, this is also fully provided for.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised 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 the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Leases

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Payments made under operating lease arrangements were charged to the income statement on a straight-line basis over the lease term for the financial year ended 31 December 2018.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentive receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for termination of the lease, if the lease term reflects the Company exercising that option.

Where leases commence after the initial transition date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Lease liabilities denominated in foreign currencies are revalued at each reporting period date using the rate prevailing at the reporting period date.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability or a revaluation of the liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Company, in which case the asset is depreciated to the end of the useful life of the asset.

Payments associated with the short-term leases are recognised on a straight-line basis as an expense in the Income Statement. Short-term leases are leases with a lease term of 12 months or less.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined benefit pension obligation

The Company participates in a group wide defined benefit pension scheme (Rolls-Royce plc as the sponsoring company) providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 'Employee Benefits', accounts for the scheme as if it were a defined contribution scheme.

As a result, the amount charged to the Income Statement represents the contributions payable to the scheme in respect of the accounting period.

Further disclosure relating to the scheme is given in the consolidated financial statements of Rolls-Royce Holdings plc, which are available from the address given in note 24.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Significant accounting policies (continued)

Share based payments

The parent company on behalf of the Company provides share-based payment arrangements to certain employees. These are equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant.

The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest, except where additional shares vest as a result of the Total Shareholder Return (TSR) performance condition in the Performance Share Plan.

The costs of these share-based payments are treated as a capital contribution from the parent company. Any payments made by the Company to its parent company, in respect of these arrangements, are treated as a return of this capital contribution.

The fair values of the share-based payment arrangements are measured as follows:

- i) ShareSave plans - using the binomial pricing model;
- ii) Performance Share Plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the TSR market-based performance condition;
- iii) Annual Performance Related Award plan deferred shares and free shares under the Share Incentive Plan - share price on the date of the award.

Financial assets and liabilities

Classification

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Impairment of financial assets

In relation to the impairment of financial assets the expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

Financial liabilities

Financial liabilities primarily consist of trade and other payables and leases.

- Derivatives are classified and measured at Fair Value through the Income Statement;
- All other financial liabilities are classified and measured at amortised cost.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

3 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2019	2018
	£ 000	£ 000
Sale of goods	<u>23,304</u>	<u>22,076</u>

A geographical analysis of revenue is presented as follows:

	2019	2018
	£ 000	£ 000
United Kingdom	15,460	13,680
Rest of Europe	3,968	3,885
North America	1,514	2,643
Rest of World	2,362	1,868
	<u>23,304</u>	<u>22,076</u>

4 Operating profit

Arrived at after charging

	2019	2018
	£ 000	£ 000
Depreciation expense (recognised in cost of sales)	1,019	617
Write-down of inventory to net realisable value (recognised in cost of sales)	41	79
Inventory recognised as an expense (recognised in cost of sales)	14,686	15,961
Foreign exchange loss (recognised in administrative expenses)	467	508
Operating lease expense - property (recognised in cost of sales)	-	143
Operating lease expense - plant and machinery (recognised in cost of sales)	-	21
Depreciation on right-of-use assets (recognised in administrative expenses)	<u>82</u>	<u>-</u>

5 Finance income

	2019	2018
	£ 000	£ 000
Interest receivable	<u>11</u>	<u>17</u>

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

6 Finance costs

	2019 £ 000	2018 £ 000
Interest on Right-of-use liability (Note 15)	28	-

7 Staff costs

The aggregate payroll costs are as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	8,596	7,292
Social security costs	802	689
Other pension costs	642	522
Share-based payment	50	99
	10,090	8,602

The monthly average number of persons employed (including Directors) by the Company during the year, analysed by category was as follows:

	2019 No.	2018 No.
Salaried staff	58	54
Weekly paid	249	212
	307	266

8 Directors' remuneration

All Directors fees or emoluments were paid by Rolls-Royce plc and the amount attributable to the qualifying services provided by the Directors of the Company cannot be reliably estimated. No charge has been made in the current or prior years for the service of Directors.

9 Auditors' remuneration

The fee for the audit of these financial statements is £50,000 (2018: £45,000) and is borne by the parent company and not recharged to Ross Ceramics Limited.

£Nil (2018: £nil) was paid to the Company's auditors for non-audit services.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10 Tax on profit

Tax charged in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	602	132
Deferred taxation		
Origination and reversal of timing differences	(144)	88
Adjustments in respect of prior periods	(191)	23
Total deferred taxation	(335)	111
Tax expense in the income statement	267	243

Tax included directly in equity £1,000 (2018: £1,000) related to Share Based Payments.

The tax on profit before tax for the year is lower than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	2,258	1,211
Corporation tax at standard rate	429	230
Adjustments to tax charge in respect of prior periods	(191)	23
Impact of change in tax rate	17	(11)
Expenses not deductible for tax purpose	12	1
Total tax charge	267	243

The 2020 Budget announced that the UK corporation tax rate will no longer reduce to 17% from 1 April 2020 and will remain at 19%. The deferred tax asset has been calculated at 17% as this rate has been substantively enacted at the Balance Sheet date. Had the 19% been substantively enacted on or before 31 December 2019 it would have had the effect of increasing the deferred tax asset by £13,000.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

10 Tax on profit (continued)

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000
2019	
Accelerated tax depreciation	104
Share-based payment	4
	108

The deferred tax asset has been recognised to the extent that the Company expects to make sufficient taxable profits against which it could be offset in future periods.

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2018			
Accelerated tax depreciation	-	(252)	(252)
Share-based payment	26	-	26
	26	(252)	(226)

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	(252)	356	-	104
Share-based payment	26	(21)	(1)	4
Net tax assets/(liabilities)	(226)	335	(1)	108

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	(131)	(121)	-	(252)
Share-based payment	17	10	(1)	26
Net tax assets/(liabilities)	(114)	(111)	(1)	(226)

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

11 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Assets under construction £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation					
At 1 January 2019	1,422	449	1,641	13,874	17,386
Additions	-	-	1,233	1,385	2,618
Disposals	(623)	-	-	-	(623)
Transfers	-	-	(929)	929	-
At 31 December 2019	799	449	1,945	16,188	19,381
Depreciation					
At 1 January 2019	731	449	-	8,825	10,005
Charge for the year	33	-	-	986	1,019
Eliminated on disposal	(380)	-	-	-	(380)
At 31 December 2019	384	449	-	9,811	10,644
Carrying amount					
At 31 December 2019	415	-	1,945	6,377	8,737
At 31 December 2018	691	-	1,641	5,049	7,381

Included within the net book value of land and buildings above is £240,000 (2018: £252,000) in respect of finance leases relating to the Denby pottery site.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Right-of-use assets

	Land and Buildings	Plant and Equipment	Total
	£ 000	£ 000	£ 000
Cost			
At 31 December 2018	-	-	-
Impact of adopting IFRS16 Leases (see note 21)	-	75	75
At 1 January 2019	-	75	75
Additions	2,426	-	2,426
Disposals	-	(22)	(22)
At 31 December 2019	<u>2,426</u>	<u>53</u>	<u>2,479</u>
Depreciation			
At 1 January 2019	-	-	-
Depreciation charge	62	20	82
At 31 December 2019	<u>62</u>	<u>20</u>	<u>82</u>
Carrying amount			
At 31 December 2019	<u>2,364</u>	<u>33</u>	<u>2,397</u>
At 1 January 2019	-	75	75

13 Inventories

	2019 £ 000	2018 £ 000
Raw materials and consumables	427	372
Work in progress	716	431
Finished goods and goods for resale	638	576
	<u>1,781</u>	<u>1,379</u>

There is no significant difference between replacement cost of work in progress and finished goods for resale and their carrying amounts.

Inventories are stated after provisions for impairment of £370,000 (2018: £329,000).

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

14 Trade and other receivables

	2019 £ 000	2018 £ 000
Trade receivables	821	749
Amounts due from group undertakings	1,872	3,083
Amounts due from related parties	223	222
Prepayments and accrued income	214	226
	<u>3,130</u>	<u>4,280</u>

Amounts due from group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15 Loans and borrowings

	2019 £ 000	2018 £ 000
Non-current loans and borrowings		
Lease liabilities	<u>1,937</u>	<u>-</u>
	2019	2018
	£ 000	£ 000
Current loans and borrowings		
Lease liabilities	<u>202</u>	<u>-</u>

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Loans and borrowings (continued)

	2019	2018
	£ 000	£ 000
Depreciation of right-of-use assets	82	-
Interest expense	28	-
Future minimum lease payments on finance leases at 31 December:		
Within one year	202	-
In one to two years	194	-
In two to five years	542	-
After five years	1,703	-
Total gross payments	2,641	-
Impact of finance expense	(502)	-
Carrying amount of liability	2,139	-

During the financial year the Company renewed a property lease for a 15 year term.

On adoption of IFRS 16 *Leases*, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.96%.

Under the specific transitional provisions using the modified retrospective approach within IFRS 16 *Leases*, comparative information has not been restated. The reclassifications and the adjustments arising from the new leasing rules have been recognised in the opening balance sheet on 1 January 2019. Thus, the future minimum lease payments for the prior year presented below are based on IAS 17 *Leases*, while the current year figures above are based on IFRS 16 *Leases*.

Operating leases

The total future value of minimum lease payments is as follows:

	2019	2018
	£ 000	£ 000
Within one year	-	35
In two to five years	-	53
	-	88

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Loans and borrowings (continued)

The amount of non-cancellable operating lease payments recognised as an expense during the year was £nil (2018: £164,000).

Following transition to IFRS 16 *Leases* the Company no longer accounts for operating lease payments, see note 2 for further details.

16 Share-based payments

During the year, the Company participated in the following share-based payment plans operated by Rolls-Royce Holdings plc:

Performance Share Plan (PSP)

Scheme description

This plan involves the award of shares to participants subject to performance conditions. Vesting of the performance shares is based on the achievement of both non-market based conditions (EPS and cash flow per share) and a market based performance condition (Total Shareholder Return - TSR) over a three year period.

ShareSave share option plan

Scheme description

Based on a three or five year monthly savings contract, eligible employees are granted share options with an exercise price of up to 20% below the share price when the contract is entered into. Vesting of the options is not subject to the achievement of a performance target.

The plan is HM Revenue and Customs approved.

Annual Performance Related Award (APRA) plan deferred shares

Scheme description

A proportion of the APRA annual incentive scheme is delivered in the form of a deferred share award. The release of deferred share awards is not dependent on the achievement of any further performance conditions other than that participants remain employed by the Company for two years from the date of the award in order to retain the full number of shares. During the two year deferral period, participants are entitled to receive dividends, or equivalent, on the deferred shares.

As share options are exercised throughout the year, the weighted average share price during the year of 906p (2018: 883p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2019 was 683p (2018: 830p). There were no exercisable options as at 31 December 2019 (2018: Nil).

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Share-based payments (continued)

	Share Save Number thousands	Share Save Weighted average remaining contractual life Years
At 31 December 2019		
600-699p	181	3.20
700-799p	63	2.10
900-999p	1	Nil
	245	2.90

	Share Save Number thousands	Share Save Weighted average remaining contractual life Years
At 31 December 2018		
600-699p	83	1.20
700-799p	82	3.10
900-999p	13	0.10
	178	2.00

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

17 Trade and other payables

	2019 £ 000	2018 £ 000
Trade payables	528	1,901
Amounts due to group undertakings	1,054	789
Social security and other taxes	501	120
Other payables	39	-
Accrued expenses and deferred income	802	1,469
Corporation tax	616	132
	3,540	4,411

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

18 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £595,000 (2018 - £Nil).

19 Called up share capital

Allotted and fully paid shares

	2019		2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	150	150	150	150

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

Any proxy appointed by a member will be entitled to vote on a show of hands or a poll, with each member entitled to one vote. The Company may declare dividends by ordinary resolution but no dividend should exceed the amount recommended by the Directors.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Related party transactions

Summary of transactions with joint ventures

Xian XR Aero Components Co. Limited is a 49% owned joint venture within the Rolls-Royce Holdings plc group. The following transactions occurred between this joint venture and the Company:

Income and receivables from related parties

	Joint ventures
	£ 000
2019	
Sale of goods	815
Amounts due from related parties	223
	Joint ventures
	£ 000
2018	
Sale of goods	842
Amounts due from related parties	222

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21 Impact of adopting IFRS 16 Leases

For leases previously classified as operating leases, the Company recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 *Leases* are only applied after that date.

The following table reconciles the operating lease obligations under the previous accounting standard, IAS 17 *Leases*, to the lease liability recorded under IFRS 16 *Leases* on transition:

	£ 000
Operating lease commitments as reported at 31 December 2018	(88)
Discounted using the incremental borrowing rate at the date of initial application	13
Impact of adopting IFRS 16 Leases	(75)
At 1 January 2019	(75)
Finance lease liabilities recognised as at 31 December 2018	-
Lease liability recognised as at 1 January 2019	(75)
of which are:	
Current lease liabilities	(27)
Non-current lease liabilities	(48)
The recognised right-of-use assets relate to the following types of asset:	
	1 January 2019
	£ 000
Plant and Equipment	75
Total right-of-use assets	75

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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

21 Impact of adopting IFRS 16 Leases (continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Condensed balance sheet

	Previous accounting as at 31 December 2018	IFRS16 Leases Impact	As at 1 January
	£ 000	£ 000	£ 000
Non-current assets			
Property plant and equipment	7,381	-	7,381
Right-of-use assets	-	75	75
	<u>7,381</u>	<u>75</u>	<u>7,456</u>
Current assets			
Inventories	1,379	-	1,379
Trade and other receivables	4,280	-	4,280
Cash at bank and in hand	2,430	-	2,430
	<u>8,089</u>	<u>-</u>	<u>8,089</u>
Current liabilities			
Trade and other payables	(4,411)	-	(4,411)
Borrowings and lease liabilities	-	(27)	(27)
Net current assets	<u>3,678</u>	<u>(27)</u>	<u>3,651</u>
Total assets less current liabilities	<u>11,059</u>	<u>48</u>	<u>11,107</u>
Borrowings and lease liabilities	-	(48)	(48)
Provisions for liabilities and charges	(226)	-	(226)
Net assets	<u>10,833</u>	<u>-</u>	<u>10,833</u>
Equity			
Called up share capital	150	-	150
Other reserves	1,268	-	1,268
Retained earnings	9,415	-	9,415
Total equity	<u>10,833</u>	<u>-</u>	<u>10,833</u>

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Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Contingent liabilities

In January 2017, after full cooperation, other companies within the Rolls-Royce plc group concluded deferred prosecution agreements ('DPA') with the SFO and the US Department of Justice ('DoJ') and a leniency agreement with the MPF, the Brazilian federal prosecutors. Following the expiry of its term, the DPA with the US DoJ was dismissed by the US District Court on 19 May 2020. Other authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities relating against those other companies within the Rolls-Royce plc group or individuals. In addition, we could still be affected by actions from customers and customers' financiers. The Directors are not currently aware of any matter that are likely to lead to a material financial loss over and above the penalties imposed to date, but cannot anticipate all the possible actions that may be taken or their potential consequences.

23 Post balance sheet events

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

To help keep employees safe and minimise operational disruption, the Rolls-Royce Holdings plc group have implemented a number of proactive measures, which are aligned with local and national guidelines. This includes introducing remote working practices alongside workplace measures such as social distancing, enhanced hygiene procedures, modified shift systems in the manufacturing facilities and, where necessary, have temporarily closed certain facilities to all but essential personnel in order to sustain modified operations over a longer period. The Directors recognise that the health and safety of employees is paramount and following a pause in production and implementation of social distancing and hygiene measures, production has now re-started. The Company responded swiftly to demand reductions in 2020 by removing agency labour and furloughing employed staff where feasible to do so. The Company is assessing overall capacity requirements as customers confirm their demands.

In terms of the Company's financial and liquidity position in relation to COVID-19, given the nature of the trading relationship with its parent undertaking Rolls-Royce plc, the Company's liquidity and future cash flows are reliant on Rolls-Royce plc. Although the load has reduced and there will be a prioritisation in task, new projects and investments, the Directors are continuing to regularly engage with the Rolls-Royce plc directors to ensure that there is sufficient group liquidity to provide continued support to the Company.

Ross Ceramics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

23 Post balance sheet events (continued)

In response to the change in outlook for the Company, the Directors recognise that the impact of COVID-19 is likely to reduce the demand on ceramic cores and have assessed the subsequent conditions on the balance sheet as at 31 December 2019. The Directors have determined that there is no material financial impact resulting in the impairment of assets.

24 Parent of group in whose consolidated financial statements the Company is consolidated

The Company's immediate parent is Vinters Engineering Limited.

The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. Rolls-Royce plc is the parent undertaking of the smallest group to consolidate these financial statements.

Both sets of financial statements are available upon request from Kings Place, 90 York Way, London, United Kingdom, N1 9FX.