

Registration number: 02220030

Ross Ceramics Limited

Annual Report and Financial Statements
for the year ended 31 December 2020



Ross Ceramics Limited

Contents

	Page(s)
Company Information	1
Strategic Report	2 to 4
Directors' Report	5 to 7
Independent Auditors' Report to the members of Ross Ceramics Limited	8 to 11
Income Statement	12
Statement of Comprehensive Income	13
Balance Sheet	14
Statement of Changes in Equity	15
Notes to the Financial Statements	16 to 35

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 2020

The Directors present their Strategic Report on Ross Ceramics Limited (the "Company") together with the audited financial statements for the year ended 31 December 2020.

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 during the year has been:

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

Gross margin deteriorated with the impact of the COVID-19 pandemic, from March 2020 onwards, across the industry, seriously reducing demand for aerospace products. This resulted in the business terminating the employment of all agency staff (63 members of staff). The business further reduced its headcount by 96 employees through a voluntary severance agreement and redeployment within the Rolls-Royce group, in order to reduce the cost base of the business. The Company incurred £1,365,000 of restructuring costs (2019: £nil). The Company also utilised, where possible, the government's Coronavirus Job Retention Scheme (CJRS) in efforts to balance the variance in demand, labour requirement and retaining skills within the business. Amounts received from the CJRS of £2,022,000 (2019: £nil) are presented within other income.

In 2020, the Company participated in the UK Government's Deferred VAT scheme as a result of the COVID-19 pandemic. This scheme extended the deadline for VAT payments due between 20 March 2020 and 30 June 2020 and deferred these to be repayable in equal consecutive monthly instalments from March 2021. The amount deferred at the balance sheet date is £466,000 (2019: £nil).

Revenue as a result of the COVID-19 pandemic reduced to £11,249,000 (2019: £23,304,000). This resulted in reduced profitability for 2020 and a loss before taxation of £4,337,000 (2019: profit £2,258,000).

The reduced product demand has resulted in a reduced requirement for the business to carry inventory. Inventory held at the year-end has fallen to £1,053,000 (2019: £1,781,000).

The company has net assets of £9,458,000 (2019: £12,875,000).

Key performance indicators

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

	2020	2019
	£ 000	£ 000
Turnover	11,249	23,304
(Loss)/profit before taxation	(4,337)	2,258

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.

Ross Ceramics Limited
Strategic Report
for the year ended 31 December 2020 (continued)

Principal risks and uncertainties

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 23. The Company acts in accordance with this policy.

The Directors have determined 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 Turbines 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 processes.

Coronavirus (COVID-19)

The COVID-19 pandemic has significantly impacted the Company's 2020 performance with an unprecedented impact on the aerospace industry causing a demand and revenue reduction of c.60% in the financial year. 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, the voluntary severance programme, the redeployment of staff in Rolls-Royce and reducing load capacity. The Company utilised funding from the UK Government as part of the UK furlough scheme and continues to work closely with trade unions and seek opportunities to redeploy employees.

The Company also continues to maintain a level of buffer stock to avoid potential supply chain disruption to remain self-sufficient. Given 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.

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.

Ross Ceramics Limited
Strategic Report
for the year ended 31 December 2020 (continued)

Section 172(1) statement (continued)

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 2020.

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.

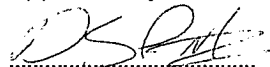
Climate-related corporate reporting

The Company adopts the policies and frameworks set by the Rolls-Royce Holdings plc group which include the sustainability measures set out in the Rolls-Royce Holdings plc Annual Report on page 25. The Company is aligned to the objectives of the Rolls-Royce Holdings plc group. The Directors fully recognise their responsibility to have regard to the impact of the Company's operations on the community and environment.

Streamlined Energy & Carbon Reporting (SECR)

The Company is a subsidiary of the Rolls-Royce Holdings plc group and therefore the SECR disclosures required in relation to both Rolls-Royce Holdings plc and the Company have been included in the Rolls-Royce Holdings plc Annual Report on pages 38 and 39. The Rolls-Royce Holdings plc Annual Report has been prepared for the same financial year as the Company.

Approved by the Board on 17 September 2021 and signed on its behalf by:



D Parrott
Director

Ross Ceramics Limited
Directors' Report
for the year ended 31 December 2020

The Directors present their report together with the audited financial statements for the year ended 31 December 2020.

Directors

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

S Brailey (resigned 11 March 2021)

J Handford (appointed 11 March 2021)

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 (2019: £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 below.

Future developments

The Directors are confident that the business strategy will continue to deliver results that meet expectations in the coming years. The Company is focused on deliveries to meet customer demand and core scrap reductions. The Company 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.

The Company remains a key supplier to the Rolls-Royce Holdings plc group. The Directors expect that financial performance will gradually recover in line with the pace of recovery in the Civil Aerospace sector of the Rolls-Royce Holdings plc group.

Going Concern

The financial statements have been prepared on a going concern basis. The Company has net current assets of £274,000 (2019: £3,570,000) as a result of reductions in working capital, notably inventory and trade receivables during the financial year following the impact of COVID-19. The Company has prepared cash flow forecasts to assess the Company's debt and cash position, including the ability to meet its day to day working capital requirements and settling the net intercompany liability position which is due to other companies of the Rolls-Royce Holdings plc group and includes intercompany borrowings of £1,300,000 which is repayable on demand.

Ross Ceramics Limited
Directors' Report
for the year ended 31 December 2020 (continued)

Going Concern (continued)

Due to this and the nature of the Company's trading with Rolls-Royce Holdings plc group companies, the Company is reliant on Rolls-Royce plc for ongoing financial support.

Rolls-Royce plc has provided written confirmation of its intention to continue to provide financial support, as necessary, for a period of at least 12 months from the date of signing these financial statements, to ensure the Company has adequate resources to maintain its operational existence and to meet its financial demands for the foreseeable future. The Directors have considered the forecast cash flows and liquidity of Rolls-Royce plc for a period to February 2023 and are satisfied they have the potential to provide financial support as required.

After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company's financial statements 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.

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.

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. Any payments are made at two points in the year, mid-year and year end. Due to the unprecedented situation the business faced during the year 2020, the Company did not make any payments relating to this scheme.

Ross Ceramics Limited
Directors' Report
for the year ended 31 December 2020 (continued)

Employees (continued)

The Rolls-Royce All Employee Bonus Scheme and the Rolls-Royce Management Bonus Scheme which a number of the Company's employees are aligned to, has also not made any payments relating to the year 2020. For the reasons as outlined above.

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.

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.

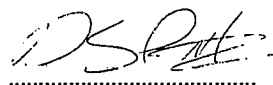
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies 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 17 September 2021 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 2020 and of its loss 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 2020; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 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.

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.

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 and tax compliance legislation, 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:

- Discussions throughout the audit with management and the company's in-house legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing minutes of meetings of those charged with governance;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Assess completeness of journal entries using data analysis tools and adopting a risk based approach by setting criteria to identify journals entries for testing, for example unusual journal entries due to unexpected account combinations;
- 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; and
- Challenging assumptions and judgements made by management in determining accounting estimates (because of the risk of management bias), in particular in relation to impairment assessments.

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

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

Ross Ceramics Limited

Independent auditors' report to the members of Ross Ceramics 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
17 September 2021

Ross Ceramics Limited
Income Statement
for the year ended 31 December 2020

	Note	2020 £ 000	As restated 2019 £ 000
Revenue	3	11,249	23,304
Cost of sales		<u>(14,834)</u>	<u>(18,998)</u>
Gross (loss)/profit		(3,585)	4,306
Other income	4	2,022	-
Administrative expenses		<u>(2,478)</u>	<u>(1,564)</u>
Operating (loss)/profit	4	(4,041)	2,742
Finance income	8	3	11
Finance costs	9	<u>(299)</u>	<u>(495)</u>
(Loss)/profit before taxation		(4,337)	2,258
Taxation	10	<u>806</u>	<u>(267)</u>
(Loss)/profit for the financial year		<u>(3,531)</u>	<u>1,991</u>

The above results were derived from continuing operations.

The 2019 results have been restated to show foreign exchange differences classified within net financing. See note 2 for more detail.

The notes on pages 16 to 35 form an integral part of these financial statements.

Ross Ceramics Limited
Statement of Comprehensive Income
for the year ended 31 December 2020

	2020 £ 000	2019 £ 000
(Loss)/profit for the financial year	<u>(3,531)</u>	<u>1,991</u>
Total comprehensive (expense)/income for the year	<u>(3,531)</u>	<u>1,991</u>

The notes on pages 16 to 35 form an integral part of these financial statements.

Ross Ceramics Limited
Balance Sheet
as at 31 December 2020
(Registration number: 02220030)

	Note	2020 £ 000	2019 £ 000
Non-current assets			
Property, plant and equipment	11	8,558	8,737
Right-of-use assets	12	2,218	2,397
Deferred tax assets	10	274	108
		11,050	11,242
Current assets			
Inventories	13	1,053	1,781
Trade and other receivables	14	2,047	3,130
Cash and cash equivalents		734	2,401
		3,834	7,312
Current liabilities			
Trade and other payables	17	(3,425)	(3,540)
Lease liabilities	15	(135)	(202)
		(3,560)	(3,742)
Net current assets		274	3,570
Total assets less current liabilities		11,324	14,812
Non-current liabilities			
Lease liabilities	15	(1,866)	(1,937)
Net assets		9,458	12,875
Equity			
Called up share capital	20	150	150
Other reserves		1,433	1,319
Retained earnings		7,875	11,406
Total equity		9,458	12,875

The financial statements on pages 12 to 35 were approved and authorised for issue by the Directors on 17 September 2021 and signed on its behalf by:


.....

D Parrott
Director

The notes on pages 16 to 35 form an integral part of these financial statements.

Ross Ceramics Limited
Statement of Changes in Equity
for the year ended 31 December 2020

	Called up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2020	150	1,319	11,406	12,875
Loss for the financial year	-	-	(3,531)	(3,531)
Total comprehensive expense	-	-	(3,531)	(3,531)
Share based payment transactions	-	114	-	114
At 31 December 2020	150	1,433	7,875	9,458

	Called up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 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

The notes on pages 16 to 35 form an integral part of these financial statements.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020

1 General information

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

The address of its registered office is Moor Lane, Derby, Derbyshire, DE24 8BJ. The address of the principal place of business is Derby Road, Denby, Ripley, DE5 8NX.

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.

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:

- The following paragraphs of IAS 1, *Presentation of financial statements*:
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS); and
 - 111 (statement of cash flows information).
- IAS 7, *Statement of cash flows*;
- Paragraphs 30 and 31 of IAS 8 Accounting policies, changes in accounting estimates and error (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- The requirements in IAS 24 *Related party disclosures*, to disclose related party transactions entered into between two or more members of a group;
- Paragraphs 45(b) and 46 to 52 of IFRS 2, *Share-based payment* (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- Paragraph 38 of IAS 1, *Presentation of financial statements* – comparative information requirements in respect of paragraph 73(e) of IAS 16 *Property, plant and equipment*;
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a), 120 to 127 and 129 of IFRS 15: *Revenue from Contracts with Customers*;
- IFRS 7 *Financial Instruments: Disclosures*; and
- Paragraph 17 of IAS 24, *Related party disclosures* (key management compensation).

New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards, no new standards or IFRIC interpretations that are effective for the year ended 31 December 2020 that have a material impact on the Company's financial statements.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (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:

Inventory valuation and provisioning

Inventory valuation assumptions are based on:

- costs of production contained within the inventory management system;
- the carrying value of inventory and its realisable value - the Directors review this on a periodic basis and make provisions against the carrying value of inventory where they consider the realisable value to be lower; and
- sales of finished goods - 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).

In the year ended 31 December 2020, the inventory provision was £740,000 (2019: £370,000).

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 reliably account for its share of the defined benefit obligations and plan assets and therefore the scheme is accounted for as a defined contribution scheme.

Going concern

The financial statements have been prepared on a going concern basis. The Company has net current assets of £274,000 (2019: £3,570,000) as a result of reductions in working capital, notably inventory and trade receivables during the financial year following the impact of COVID-19. The Company has prepared cash flow forecasts to assess the Company's debt and cash position, including the ability to meet its day to day working capital requirements and settling the net intercompany liability position which is due to other companies of the Rolls-Royce Holdings plc group and includes intercompany borrowings of £1,300,000 which is repayable on demand. Due to this and the nature of the Company's trading with Rolls-Royce Holdings plc group companies, the Company is reliant on Rolls-Royce plc for ongoing financial support.

Rolls-Royce plc has provided written confirmation of its intention to continue to provide financial support, as necessary, for a period of at least 12 months from the date of signing these financial statements, to ensure the Company has adequate resources to maintain its operational existence and to meet its financial demands for the foreseeable future. The Directors have considered the forecast cash flows and liquidity of Rolls-Royce plc for a period to February 2023 and are satisfied they have the potential to provide financial support as required.

After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company's financial statements on a going concern basis.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Change in accounting policy

The income statement has been represented in line with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 21 requires recognition of foreign exchange differences in profit and loss in the period of which they arise. In 2019, £467,000 of foreign exchange losses were included within administrative expenses. In 2020, foreign exchange differences will be classified within net financing as the Directors consider this to be a more relevant presentation for the impact of foreign exchange and to be consistent with the Rolls-Royce group policy. This change increased operating profit in 2019 by £467,000 and increased net financing costs by the same amount. There is no impact on the net profit reported in the 2019 restated figures.

Revenue recognition

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

Revenue is recognised when control of manufactured ceramic cores, materials or tooling 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 (e.g. ceramic cores, materials or tooling); (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. 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.

Government grants

Government grants received are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Grants related to income are presented as part of Other Income in the income statement.

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. Exchange differences arising on foreign exchange transactions and the retranslation of monetary items into functional currencies are included within net financing.

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

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Functional and presentational currency

The functional and presentational currency of the Company is Pound Sterling. All amounts in the financial statements and notes have been rounded to the nearer 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.

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.

Provision for taxation is made at the current rate and for deferred taxation at the projected rate on all timing differences which have originated, but not reversed at the Balance Sheet date.

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:

Freehold land and buildings - over 50 years

Short and long leasehold buildings - over the shorter of the remaining lease term and 50 years

Furniture, fittings and equipment - 2 to 15 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.

The Directors have reclassified the categories of property, plant and equipment to better reflect the nature of those balances. There is no impact on overall cost or accumulated depreciation. See note 12 for more detail.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand that is readily convertible to a known amount of cash and is 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.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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.

Leases

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.

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.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (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 are 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 23.

Share-based payments

Rolls-Royce plc, 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.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Share-based payments (continued)

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, excluding expected dividends.

Financial assets and liabilities

Classification

All recognised financial assets that are within the scope of IFRS 9 *Financial Instruments* 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 2020 (continued)

3 Revenue

The analysis of the Company's other gains and losses for the year is as follows:

	2020	2019
	£ 000	£ 000
Sale of goods	11,249	23,304

A geographical analysis of revenue is presented as follows:

	2020	2019
	£ 000	£ 000
United Kingdom	7,706	15,460
Rest of Europe	2,309	3,968
North America	589	1,514
Rest of World	645	2,362
	11,249	23,304

4 Operating (loss)/profit

Arrived at after crediting/(charging)

	2020	2019
	£ 000	As restated £ 000
Income from government grants	2,022	–
Depreciation on property, plant and equipment ¹	(993)	(1,019)
Write-down of inventory to net realisable value ¹	(370)	(41)
Restructuring ²	(1,365)	–
Inventory recognised as an expense ¹	(9,514)	(14,686)
Impairment of trade receivables ²	(5)	(10)
Depreciation on right-of-use assets ²	(179)	(82)

¹ Recognised in cost of sales.

² Recognised in administrative expenses

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 March 2020 to December 2020 and this is shown under Income from government grants.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

5 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	7,556	8,596
Social security costs	656	802
Other pension costs	690	642
Share-based payment	114	50
	<u>9,016</u>	<u>10,090</u>

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

	2020 No.	2019 No.
Salaried staff	50	58
Weekly paid	<u>238</u>	<u>249</u>
	<u>288</u>	<u>307</u>

6 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.

7 Auditors' remuneration

The fee for the audit of these financial statements is £61,000 (2019: £50,000) and is borne by the parent company and not recharged to Ross Ceramics Limited.

£Nil (2019: £nil) was paid to the Company's auditors for non-audit services.

8 Finance income

	2020 £ 000	2019 £ 000
Interest receivable	<u>3</u>	<u>11</u>

9 Finance costs

	2020 £ 000	2019 As restated £ 000
Foreign exchange loss	(236)	(467)
Interest on lease liability (Note 15)	<u>(63)</u>	<u>(28)</u>
	<u>(299)</u>	<u>(495)</u>

The 2019 results have been restated to show foreign exchange differences classified within net financing. See note 2 for more detail.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

10 Taxation

Tax (credited)/charged in the income statement:

	2020	2019
	£ 000	£ 000
Current tax		
UK corporation tax	(640)	602
Total current tax (credit)/charge	<u>(640)</u>	<u>602</u>
Deferred taxation – origination and reversal of timing differences		
In respect of the year	(159)	(144)
In respect of prior periods	6	(191)
In respect of an increase in the tax rate	<u>(13)</u>	<u>-</u>
Total deferred taxation	<u>(166)</u>	<u>(335)</u>
Tax (credit)/expense in the income statement	<u><u>(806)</u></u>	<u><u>267</u></u>

In 2020 there was no tax included directly in equity relating to Share Based Payments (2019: £1,000).

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

10 Taxation (continued)

The tax assessed for the year is higher than (2019 - lower than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are reconciled below:

	2020	2019
	£ 000	£ 000
(Loss)/profit before tax	<u>(4,337)</u>	<u>2,258</u>
(Loss)/profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%).	(824)	429
Effects of:		
Expenses not deductible	25	12
Adjustments in respect of prior periods	6	(191)
Impact of change in tax rate	<u>(13)</u>	<u>17</u>
Total tax (credit)/charge	<u>(806)</u>	<u>267</u>

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 deferred tax asset was 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 deferred tax asset has been re-measured at 19%.

The resulting credit has been recognised in the income statement. Accordingly, in 2020, £13,000 has been credited to the income statement (2019: £17,000 charged to the income statement).

The Spring 2021 Budget further announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The deferred tax asset 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 asset by £86,000.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

10 Taxation (continued)

Deferred tax

Deferred tax assets and liabilities

	Asset
	£ 000
2020	
Accelerated tax depreciation	274
	<u>274</u>
	Asset
	£ 000
2019	
Accelerated tax depreciation	104
Share-based payment	4
	<u>108</u>

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.

Deferred tax movement during the year:

	At 1 January 2020 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	104	170	-	274
Share-based payment	4	(4)	-	-
Net tax assets	<u>108</u>	<u>166</u>	<u>-</u>	<u>274</u>

Deferred tax movement during the prior 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 (liabilities)/assets	<u>(226)</u>	<u>335</u>	<u>(1)</u>	<u>108</u>

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

11 Property, plant and equipment

	Freehold land and buildings £ 000	Long leasehold buildings £ 000	Fixtures, fittings and equipment £ 000	Assets under construction £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost						
At 1 January 2020	799	-	449	1,945	16,188	19,381
Reclassification	(229)	84	16,333	-	(16,188)	-
Additions	-	-	43	773	-	816
Disposals	-	-	(477)	-	-	(477)
Transfers	-	-	2,678	(2,678)	-	-
At 31 December 2020	570	84	19,026	40	-	19,720
Accumulated depreciation						
At 1 January 2020	384	-	449	-	9,811	10,644
Reclassification	(120)	68	9,863	-	(9,811)	-
Eliminated on disposals	-	-	(475)	-	-	(475)
Charge for the year	9	1	983	-	-	993
At 31 December 2020	273	69	10,820	-	-	11,162
Carrying amount						
At 31 December 2020	297	15	8,206	40	-	8,558
At 31 December 2019	415	-	-	1,945	6,377	8,737

The Directors have reclassified the categories of property, plant and equipment to better reflect the nature of those balances. There is no impact on overall cost or accumulated depreciation.

The cost of non-depreciable land included above is £102,286 (2019: £102,286).

In accordance with the requirements of IAS 36 *Impairment of Assets*, the carrying value of the non-current assets have been assessed by reference to value in use. Value in use has been estimated using cash flows from the most recent forecasts prepared by management, which are consistent with past experience and external sources of information on market conditions.

The principal value in use assumptions considered to be individually significant are:

- Trading assumptions are based on current and known future programmes, estimates of load volumes and long-term economic forecasts;
- cash flows beyond management's forecasts are assumed to grow at 2.0%; and
- a pre-tax discount rate 11.0%.

No impairment was identified. There is no reasonable change in assumption that would give rise to an impairment.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

12 Right-of-use assets

	Land and buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost			
At 1 January 2020	<u>2,426</u>	<u>53</u>	<u>2,479</u>
At 31 December 2020	<u>2,426</u>	<u>53</u>	<u>2,479</u>
Accumulated depreciation			
At 1 January 2020	62	20	82
Charge for the year	<u>158</u>	<u>21</u>	<u>179</u>
At 31 December 2020	<u>220</u>	<u>41</u>	<u>261</u>
Carrying amount			
At 31 December 2020	<u>2,206</u>	<u>12</u>	<u>2,218</u>
At 31 December 2019	<u>2,364</u>	<u>33</u>	<u>2,397</u>

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

13 Inventories

	2020 £ 000	2019 £ 000
Raw materials and consumables	433	427
Work in progress	138	716
Finished goods and goods for resale	482	638
	<u>1,053</u>	<u>1,781</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 £740,000 (2019: £370,000).

14 Trade and other receivables

	2020 £ 000	2019 £ 000
Trade receivables	146	821
Amounts due from group undertakings	1,030	1,872
Amounts due from group undertakings on group relief	640	–
Amounts due from related parties	8	223
Prepayments and accrued income	223	214
	<u>2,047</u>	<u>3,130</u>

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

Trade receivables are stated after provisions for impairment of £15,000 (2019: £10,000). No provision (2019: nil) has been recognised for expected credit losses on amounts due from group undertakings.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

15 Lease liabilities

	2020 £ 000	2019 £ 000
Non-current		
Lease liabilities	1,866	1,937
Current		
Lease liabilities	135	202
Depreciation of right-of-use assets	179	82
Interest expense	63	28
Future minimum lease payments on leases at 31 December:		
Within one year	194	202
In one to two years	181	194
In two to five years	542	542
After five years	1,522	1,703
Total gross payments	2,439	2,641
Impact of finance expense	(438)	(502)
Carrying amount of liability	2,001	2,139

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 31 December 2020 was 3.04% (2019: 1.96%).

16 Shared-based payments

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

Long Term Incentive Plan (LTIP)

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 & Customs approved.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

16 Shared-based payments (continued)

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 203p (2019 adjusted: 311p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2020 was 111p (2019 adjusted: 234p), these prices were rebased following the rights issue in November 2020. There were no exercisable options as at 31 December 2020 (2019: Nil).

Share options outstanding:

	ShareSave No. (Thousand)	ShareSave Weighted average remaining contractual life Years
At 31 December 2020		
200p – 299p	277	3.2
300p – 399p	–	–
	<u>277</u>	<u>3.2</u>
	ShareSave No. (Thousand)	ShareSave Weighted average remaining contractual life Years
At 31 December 2019		
600p – 699p	181	3.20
700p – 799p	63	2.10
900p – 999p	1	–
	<u>245</u>	<u>2.90</u>

The range of exercise prices of options outstanding at 31 December 2020 was between 617p and 962p (2019: 617p and 962p).

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

17 Trade and other payables

Amounts due within one year:

	2020 £ 000	2019 £ 000
Trade payables	244	528
Amounts due to group undertakings	1,640	1,054
Social security and other taxes	660	501
Other payables	–	39
Accrued expenses and deferred income	881	802
Amounts due to group undertakings for group relief	–	616
	<u>3,425</u>	<u>3,540</u>

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

In 2020, the Company participated in the UK Government's Deferred VAT scheme as a result of the COVID-19 pandemic. This scheme extended the deadline for VAT payments due between 20 March 2020 and 30 June 2020 and deferred these to be repayable in equal consecutive monthly instalments from March 2021. The amount deferred at the balance sheet date is £466,000 (2019: £nil).

18 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £7,000 (2019 - £595,000).

19 Post-retirement benefits

The Company is a participating employer in the Rolls-Royce UK Pension Fund which is a multi-employer defined benefit scheme. The assets of the scheme are held in a separate fund administered by trustees and invested independently of the finances of the Rolls-Royce Holdings plc group ('Group'). The scheme is funded by annual contributions from the Company and scheme members.

As at 31 December 2020 the Rolls-Royce UK Pension Fund is £883,000,000 in surplus (2019: £1,141,000,000).

In accordance with IAS 19 *Employee Benefits*, the net defined benefit cost is recognised in the financial statements of Rolls-Royce plc, the Group entity that is legally the sponsoring employer for the plan. This Company has recognised a cost of £671,000 (2019: £642,000) representing its contributions paid to the Group for the period. On 29 July 2020, the Group announced a consultation with the active members of the UK scheme on a proposal to close the scheme to future accrual on 31 December 2020. This consultation was concluded and the closure of the scheme was confirmed. As such, the Company expects to have a material reduction in contributions in 2021.

The IAS 19 disclosure relating to the schemes is given in the Group financial statements of Rolls-Royce Holdings plc, which are publicly available from the address in note 23.

Ross Ceramics Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

20 Called-up share capital

	2020		2019	
	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.

21 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
2020	
Sale of goods	278
Amounts due from related parties	8
2019	
Sale of goods	815
Amounts due from related parties	223

22 Contingent liabilities

In January 2017, after full cooperation, the Rolls-Royce Holdings plc Group ('the 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 DoJ was dismissed by the US District Court on 19 May 2020. Certain 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 against the Group or individuals. In addition, the Group could still be affected by actions from customers and customers' financiers. The Directors are not currently aware of any matters 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.

Ross Ceramics Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

23 Parent and ultimate parent undertaking

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.