

**ITP Engines UK Limited**

**Annual report and financial statements**

**For the year ended 31 December 2019**

Registered number: 06519506



# **ITP Engines UK Limited**

## **Company information**

### **Board of Directors**

A Santodomingo

Industria de Turbo Propulsores, S.A.U.

### **Company Secretary**

R Beighton

### **Registered Office**

The Whittle Estate  
Cambridge Road  
Whetstone  
Leicester  
LE8 6LH

### **Independent Auditors**

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

### **Bankers**

Barclays Bank plc  
Town Hall Square  
Leicester  
Leicestershire  
LE87 2BB

BNP Paribas  
c/ Serrano 73  
28006  
Madrid  
Spain

# **ITP Engines UK Limited**

## **Strategic report for the year ended 31 December 2019**

### **Business model description and strategy**

The company is part of ITP Aero, an international business that brings together various trading companies in Spain and overseas under a single brand name (ITP Aero), headed by the Spanish parent company Industria de Turbo Propulsores S.A.U. (ITPSAU). ITP Aero is the ninth largest company in the sector worldwide.

ITP Aero contributes to making the aviation industry more sustainable and efficient through a three-pronged strategy of technology development:

- In the short term, focusing on the excellence of manufacturing technologies, including additive manufacturing (3D printing) and digitization.
- In the medium term, ITP Aero is working on the development of new engine architectures with gearbox systems for the optimal functioning of all engine components, as well as technologies for adaptive propulsion systems for supersonic flight, including the new generation of fighter planes.
- In the long term, ITP Aero is investing in technology for hybrid-electric propulsion.

ITP Aero contributes to a more dynamic and transformative civil and defence aviation industry, spanning the entire aircraft engine life cycle - from R&D to in-service support - with extensive experience and expertise, in both commercial and defence aviation.

Since 2017, ITP Aero has been a corporate entity within the Rolls-Royce Group, separate and distinct from the rest of its business or production units, guaranteeing an organisational independence that allows it to comply with all agreements with all its customers.

ITP Aero has its own governing bodies in each of its companies and joint, cross-cutting management for the entire group, responsible for decision-making and the profit and loss account in each applicable area, as well as for looking after the interests of the company and its stakeholders.

The Board of Directors of its parent company (ITPSAU) is the highest governing and administrative body in charge of and ultimately responsible for the direction and performance of ITP Aero and the management of its business. It establishes the strategies and objectives of the company in particular and of ITP Aero as a whole, and supervises and controls the control mechanisms, risk management, compliance and its mode of governance and viability.

In turn, the ITP Aero Executive Committee, headed by the CEO of the parent company ITPSAU, brings together the people who lead each of the company's executive functions and throughout ITP Aero and directs ITP Aero's day-to-day business management and activity in accordance with the objectives set out in the ITP 2020 Strategic Plan.

### **Business environment**

According to the International Monetary Fund and in a context marked by trade tensions between China and the United States, we have seen 2.9% global growth during 2019 and before the impact of COVID-19 pandemic this was expected to increase to 3.3% in 2020 and 3.4% in 2021.

Europe has recorded its seventh consecutive year of growth and, as a result, Euro Area GDP Growth remains unchanged at 1.2%, while forecasts for 2020 have been reduced slightly to 1.4%.

During 2019, energy and raw material prices have continued to rise. According to OPEC (Organisation of the Petroleum Exporting Countries), the average price per barrel of oil reached 70.73 USD compared to 69.52 USD in 2018. In turn, the price of nickel grew from 11.7 to 18.6 USD/kg, compared to 10.6 to 15.7 USD/kg in the previous year. The value of the euro grew from 1.0897 to 1.1516.

The commercial aviation sector has experienced a decline in deliveries in 2019 due to production-related problems with certain aircraft models, such as the Boeing 737 MAX or the cessation of production of the Airbus A380.

While the commercial aircraft order book has declined slightly from the 2018 peak levels, from 14,700 aircraft to just over 14,000 (September 2019), long-term demand for commercial aircraft remains high, with an estimated almost 40,000 units for the next two decades and supported by the prospect of global GDP growth.

The long-term outlook is positive, with an expected 3.8% growth for the double-aisle aircraft market over the next 20 years.

# ITP Engines UK Limited

## Strategic report for the year ended 31 December 2019 (continued)

### Review of business

The financial performance was stable with improved operational performance. We continued to invest to accelerate manufacturing throughput and delivery performance. Manufacturing performance continues to improve.

Overall manufactured sales were 21% higher after a 21% decrease in 2018. New product lines are the key focus, improving the product portfolio in market segments and product lifecycle, with an increase of 58% in the year, in parts for the single aisle segment, compared to a reduction of 13% in 2018. In the defence market sales were down 4%, following a 15% reduction in 2018. Business aviation was 6% higher, following a 7% reduction in 2018.

Engineering sales declined 2% following no change in 2018. Aero rig activity continued to be low, while contribution to group wide programmes was flat (2018 5% reduction). The direct work with customers fell 24% (2018 up 52%). Income from commercial software for the ITP UK product, ESATAN-TMS, rose by 7%, following an 8% increase in 2018.

Free cash flow in the year, before financing activities, was £3,017k compared to £1,644k last year, consisting of cash generated by operations of £4,033k, £586k consumed by variations in working capital and £430k invested in tangible and intangible fixed assets.

A dividend of £6 million was paid in the year. A £3 million credit facility was agreed with our immediate parent and £2 million loan drawn down under this arrangement. At the end of the year cash balance was £5,509k demonstrating financial strength and resilience.

As explained in Notes 1 and 24, the company implemented IFRS16 Leases during the year. This resulted in the recognition within tangible fixed assets of Right-of-use asset £1,417k and a corresponding lease creditor within short term and long term liabilities. There was no material impact on company net assets or key performance indicators.

### Operational and financial review – Key performance indicators

The Directors monitor progress against the business strategy using the following key performance indicators (KPI's).

	2019 £'000	2018 £'000
Sales	25,024	23,095
EBITDA before exceptional items	5,414	5,511
EBITDA before exceptional items % sales	21.6%	23.9%

EBITDA = Earnings before interest, tax, depreciation and amortisation.

### Principal risks and uncertainties

The principal risks facing the company are the general economic climate, and in particular the impacts of COVID-19 pandemic, Brexit, markets and exchange rates.

Demand is subject to the general economic climate. The market risk is managed as much as possible through establishing a role on group long term projects as a centre of excellence for small rotating parts.

We continue to assess potential impacts of leaving the EU. We could be impacted through regulatory relationship with the EU and our operational relationship (customs union and movement of people). We are managing these risks through our operational assessment and applying our business continuity risk management process to Brexit.

The business has a significant net exposure to the US dollar exchange rate. This is managed with derivative financial instruments, through the process of placing forward exchange hedges.

### Going concern assessment

The going concern assessment considers whether it is appropriate to prepare the financial statements on a going concern basis. The existence of COVID-19 has had an impact on the assessment performed by the Directors. The steps taken and judgements made by the Board of Directors are included in note 25 and also in the "Events after the Balance Sheet Date" section of this report.

## **ITP Engines UK Limited**

### **Strategic report for the year ended 31 December 2019 (continued)**

#### **Events after the balance sheet date**

Since early 2020, COVID-19, a new strain of Coronavirus, has spread from China to other countries, including UK.

As the emergence of this pandemic was only noted in 2020 it is a non-adjusting post balance sheet event as at 31 December 2019 for the purposes of these Annual Report and Financial Statements.

Up to the date of signing these financial statements no significant impairments to assets (inventory, trade receivables or fixed assets) has been noted and the Company continues to trade. Customer demand relating to new engine design has been significantly impacted by COVID-19 and a small number of employees have been furloughed, where no other opportunity for redeployment was available. This decision is being constantly monitored by management. Other areas of the business, relating to the provision of goods and services for ongoing projects, are ultimately backed by large multinational companies, and as such demand for these services has been reduced but not significantly so. We have revised our working model such that demand can still be met for these customers without significant increases in costs. This is expected to continue for the remainder of 2020 and 2021.

Management have re-forecasted the expected financial performance and cash flows for the period up to 31 December 2021 and performed additional sensitivity analysis (regarding further reductions in demand) in order to establish whether the current facilities and cash balances would be sufficient to enable the Company to operate as a going concern during this period. The Board of Directors have reviewed and approved this analysis, which has shown that the current cash resources available would be sufficient, even in the sensitized scenarios. This position is partially due to the company having cash of £5.5m as at 31 Dec 2019 and £8.1m as of the end of April 2020 with no significant external debt.

Therefore on the basis of the above, the Directors have approved the financial statements utilising the going concern basis of preparation.

#### **The Environment**

The company, as part of ITP Aero, is committed to the environmental objectives that have been assumed internationally for improved efficiency and sustainability of aviation. In 2009, during the Copenhagen Climate Conference, the Air Transport Action Group (ATAG) defined objectives aimed at achieving an annual 1.5% improvement in fuel efficiency between 2009 and 2020 and a 50% reduction in CO<sup>2</sup> emissions by 2050, compared to 2005 values.

The company's commitment to the environment is part of its strategy. The ITP Aero 2020 Strategic Plan (period 2016-2020) regulates its responsibility to ensure sustainable growth that allows the generation of value in the long term. Thus, the Strategic Plan establishes environmental objectives including the design of more respectful products, the reduction of 50% of CO<sub>2</sub> emissions by 2030, the reduction of environmental risk in work centres and excellence in environmental management.

ITP Aero is committed to the responsible use of resources in all its operations, applying the principle of continuous improvement in all phases of the production chain. ITP Aero has an environmental strategy for waste management, based on the principles of the circular economy, which makes it possible to minimise the potential impact of its activity.

#### **Employees**

One of ITP Aero's strategic objectives revolves around the people who make up the company, whose commitment and leadership is encouraged as a central element of the company.

The compensation policy applied by ITP Aero is established in an objective manner, with no discrimination on the basis of gender. Remuneration is set taking into account mainly the qualification, experience of the professional and the responsibility according to the role in the company, as well as the achievement of objectives.

ITP Aero meets the needs of its employees for work and personal life balance, with tools for flexibility in working time that balance the needs of the company with those of the employee.

In 2018, an employee opinion survey - "Building ITP Aero Together" - was conducted among the company's professionals with 73% participation. This provided a reliable basis for developing the

## **ITP Engines UK Limited**

### **Strategic report for the year ended 31 December 2019 (continued)**

diagnosis of the work climate and obtaining global and area-based conclusions, on which action plans were built in the areas of improvement detected. The Executive Committee regularly monitors compliance with these action plans.

ITP Aero is firmly committed to universal accessibility, and this is reflected in its construction standards that are applied to all new construction or renovation.

As part of ITP Aero's health, safety and environmental policy, the company promotes measures to:

- Create a safe and healthy working environment that supports the well-being of employees and minimises the risk of injury, work-related health problems or environmental incidents,
- Prevent or minimise the negative impact on health, safety and the environment of our activities, products and services, and promote the sustainable use of resources.

The company's employment and recognition policies, procedures and practices ensure the application of the principles of diversity and inclusion with equal treatment and opportunities between women and men.

The Prevention of Harassment at Work Procedure develops the process to be followed when a possible case of harassment of any kind, including sexual harassment, occurs. The People and Anti-Discrimination Policies ensure that situations of discrimination on the basis of gender, among others, are not tolerated.

In the area of employment inclusion of persons with disabilities, ITP Aero not only ensures that its recruitment processes do not exclude these persons when the requirements of the specific position allow it, but also contracts services and products from companies that employ persons with disabilities.

ITP Aero considers that respect and tolerance should be monitored for sensitive differential factors of individuals such as age, race, colour, ethnic origin or nationality, the existence of some kind of disability, marital status, pregnancy or maternity, religion or beliefs, gender identity, sexual orientation and gender change.

The official channel for reporting breaches of the principles of the Code of Conduct or any other corporate guidelines, procedures or principles is the Ethics Line, available to employees and collaborators, as well as third parties (customers, suppliers, institutions...).

To help employees resolve the ethical issues of any such internal dilemma, there is a group called *Local Ethics Advisers* (LEAs) which, in carrying out its compliance deployment functions, preserves proximity to other employees who may need help in this context.

On behalf of the board



**A Santodomingo**  
**Director**

July 20<sup>th</sup>, 2020

# **ITP Engines UK Limited**

## **Directors' report for the year ended 31 December 2019**

The directors present their annual report, together with the audited financial statements of ITP Engines UK Limited ("the company") for the year ended 31 December 2019.

### **Principal activities**

This business has an annual revenue of £25.0 million in the year (2018: £23.1 million) and employs approximately 182 persons (2018: 179), with sites in Lincoln, Rugby and Whetstone in the UK.

The company provides aircraft engine manufacturers with specialist engineering services in turbomachinery design (primarily in compressors and turbines), external systems design, including Engine Build Up (EBU), engine-airframe integration testing services (such as fan blade off and bird strike testing), plus aero or mechanical rig design and development services. It manufactures high-precision rotating engine components, such as compressor blisks, compressor and turbine discs, rotating seals, impellers and airfoils, many of which are supplied in accordance with Revenue Sharing Agreements. The business also has recognised expertise in aero controls, electronics and controls applications, engine health monitoring and provides commercial thermal software products to the space industry.

The business has a strong pedigree and heritage in gas turbine design and engineering which links back to Sir Frank Whittle. Over the past 20 years, the business has developed strong relationships with General Electric, Rolls-Royce, Pratt & Whitney (UTC) and Honeywell as the main aerospace gas turbine manufacturers.

The company is a wholly-owned subsidiary of Industria de Turbo Propulsores, S.A.U. (ITPSAU), which has declared that the company fits with its long term strategy of growth and diversification. The company is seen as providing ITPSAU with a stronger presence in the business aviation and small aircraft engine markets, production experience in complementary rotating engine components, access to complementary software control systems and test rig cells, as well as ongoing working relationships with a broad range of customers worldwide.

### **Financial risk management**

The company's financial risk management is set out in detail in note 12 to the financial statements.

### **Results and dividends**

The results of the company for the year ended 31 December 2019 are set out on page 7. The profit for the year ended 31 December 2019 was £3,263,000 (2018: £3,525,000). A dividend of £6m was paid in the year (2018:£nil).

### **Directors and directors' interests**

The directors who served during the year and up to the date of signing the financial statements were as follows:

A Santodomingo

Industria de Turbo Propulsores, S.A.U.

### **Creditor payment policy and practice**

The company agrees terms and conditions under which business transactions with suppliers are conducted. It is company policy to ensure that suppliers know the terms on which payment will take place when business is agreed. It is company policy that provided a supplier is complying with the relevant terms and conditions, including satisfactory supply of goods and services and the prompt and complete submission of all specified documentation, payment will be made according to the agreed terms and conditions.

The company's average creditor payment period at 31 December 2019 was 44 days (2018: 45 days).

# **ITP Engines UK Limited**

## **Directors' report for the year ended 31 December 2019 (continued)**

### **Research and development**

It is the policy of the company to maintain and enhance the competitive position of its software products through ongoing development of capability, as well as improving technologies used in Engineering. Research and development expenditure of £283,000 (2018: £352,000) was charged to the statement of comprehensive income.

### **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 customers and suppliers, its immediate shareholder, Industria de Turbo Propulsores SAU, and its ultimate shareholder, Rolls-Royce plc. The Directors of the Company work closely with Industria de Turbo Propulsores SAU in devising strategies for developing technologies, allocating resources and meeting customer demands and expectations. Constant dialogue is maintained with customers through dedicated project teams and feedback obtained from regular questionnaires. Corporate governance and compliance are critical aspects determined by Industria de Turbo Propulsores, SAU, who coordinate with Rolls-Royce plc on such matters, and are implemented in the Company through policies, procedures and training. 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 meetings, an output of the various tiered reviews within the organisation and with its stakeholders is shared with the Directors. 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 Industria de Turbo Propulsores, SAU group, which are determined in consultation with the Rolls-Royce Holding plc group. The Company engages with employees when health and safety matters are considered, and new policies formulated.

### **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 regulations.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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:



## **ITP Engines UK Limited**

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union 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 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.

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.

### **Statement of disclosure of information to auditors**

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

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

On behalf of the board



A Santodomingo

**Director**

July 20<sup>th</sup>, 2020

# ITP Engines UK Limited

## Independent auditors' report to the members of ITP Engines UK Limited

### Report on the audit of the financial statements

#### Opinion

In our opinion, ITP Engines UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 statement of comprehensive income, the cash flow statement, 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 include the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

#### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statement 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 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 Director's 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 described below.

# ITP Engines UK Limited

## Independent auditors' report to the members of ITP Engines UK Limited (continued)

### *Strategic Report and Directors' Report*

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

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

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

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's (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 statement is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *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 required 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.



Andrew Dymond (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
East Midlands  
20 July 2020

# ITP Engines UK Limited

## Statement of comprehensive income for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
<b>Revenue</b>	2	<b>25,024</b>	23,095
Cost of sales		(19,153)	(17,125)
<b>Gross profit</b>		<b>5,871</b>	5,970
Distribution costs		(777)	(662)
Administrative expenses		(950)	(793)
<b>Operating profit</b>	3	<b>4,144</b>	4,515
Finance costs	5	(112)	(92)
<b>Profit on ordinary activities before taxation</b>		<b>4,032</b>	4,423
Income taxation charge	6	(769)	(898)
<b>Profit for the financial year attributable to owners</b>		<b>3,263</b>	3,525
<b>Other comprehensive income / (expense): Items that may be subsequently reclassified to profit or loss</b>			
Cash flow hedges		300	(294)
<b>Other comprehensive income / (expense) for the year, net of tax</b>		<b>300</b>	(294)
<b>Total comprehensive income for the year</b>		<b>3,563</b>	3,231

The above results relate entirely to continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial years stated above and their historical cost equivalents.

The notes on pages 15 to 36 form an integral part of these financial statements.

**ITP Engines UK Limited - Registered number: 06519506**

# ITP Engines UK Limited

## Statement of changes in equity for the year ended 31 December 2019

	Share capital	Share premium	Retained earnings	Other reserves	Total equity
	£'000	£'000	£'000	£'000	£'000
<b>Balances as at 1 January 2018</b>	800	3,200	6,882	(44)	10,838
<b>Comprehensive income</b>					
Profit for the financial year	-	-	3,525	-	3,525
<b>Other comprehensive expense</b>					
Cash flow hedges (note 17)	-	-	-	(294)	(294)
Total other comprehensive expense	-	-	-	(294)	(294)
<b>Total comprehensive income for the year</b>	-	-	3,525	(294)	3,231
<b>Balance as at 31 December 2018</b>	800	3,200	10,407	(338)	14,069
<b>Balances as at 1 January 2019</b>	800	3,200	10,407	(338)	14,069
<b>Comprehensive income</b>					
Profit for the financial year	-	-	3,263	-	3,263
<b>Other comprehensive income</b>					
Cash flow hedges (note 17)	-	-	-	300	300
Total other comprehensive income	-	-	-	300	300
<b>Total comprehensive income for the financial year</b>	-	-	3,263	300	3,563
<b>Transactions with owners</b>					
Dividends relating to prior years	-	-	(6,000)	-	(6,000)
<b>Transactions with owners</b>	-	-	(6,000)	-	(6,000)
<b>Balance as at 31 December 2019</b>	800	3,200	7,670	(38)	11,632

The notes on pages 15 to 36 form an integral part of these financial statements.

# ITP Engines UK Limited

## Balance sheet as at 31 December 2019

	Note	31 December 2019 £'000	31 December 2018 £'000
<b>Non-current assets</b>			
Property, plant and equipment	7	4,207	3,115
Intangible assets	8	47	64
Derivative financial instruments	13	54	-
Deferred tax asset	11	-	41
		<b>4,308</b>	<b>3,220</b>
<b>Current assets</b>			
Inventories	9	3,731	3,811
Trade and other receivables	10	5,964	5,674
Derivative financial instruments	13	54	-
Cash and cash equivalents	14	5,509	6,722
		<b>15,258</b>	<b>16,207</b>
<b>Total assets</b>		<b>19,566</b>	<b>19,427</b>
<b>Current liabilities</b>			
Trade and other payables	15	(4,059)	(4,435)
Current income tax liability		(389)	(431)
Derivative financial instruments	13	(119)	(223)
Borrowings	12	(149)	-
		<b>(4,716)</b>	<b>(5,089)</b>
<b>Net current assets</b>		<b>10,542</b>	<b>11,118</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	13	(92)	(269)
Borrowings	12	(3,119)	-
Deferred tax liability	11	(7)	-
		<b>(3,218)</b>	<b>(269)</b>
<b>Net assets</b>		<b>11,632</b>	<b>14,069</b>
<b>Capital and reserves</b>			
Share capital	16	800	800
Share premium	16	3,200	3,200
Other reserves	17	(38)	(338)
Retained earnings	18	7,670	10,407
<b>Total equity</b>		<b>11,632</b>	<b>14,069</b>

The financial statements on pages 11 to 36 were approved by the Board of Directors on and signed on its behalf by:

A Santodomingo  
Director



# ITP Engines UK Limited

## Cash flow statement for the year ended 31 December 2019

		Year ended 31 December 2019	Year ended 31 December 2018
	Note	£'000	£'000
<b>Cash flows from operating activities</b>	20	<b>4,124</b>	2,669
Interest paid on loans from Industria de Turbo Propulsores, S.A.		(32)	(19)
Income tax paid		(645)	(255)
<b>Net cash flows generated from operating activities</b>		<b>3,447</b>	2,395
<b>Cash flows from investing activities</b>			
Payments made to acquire property, plant and equipment	7	(427)	(677)
Payments to acquire intangible software	8	(3)	(74)
<b>Net cash flows used in investing activities</b>		<b>(430)</b>	(751)
<b>Cash flows from financing activities</b>			
Principal elements of lease payments		(209)	-
Finance elements of lease payments		(21)	-
Long term loan received / (repaid) from immediate parent	19	2,000	(1,721)
Dividends paid to company's shareholders		(6,000)	-
<b>Net cash flows used in financing activities</b>		<b>(4,230)</b>	(1,721)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(1,213)</b>	(77)
Cash and cash equivalents at 1 January		6,722	6,799
<b>Cash and cash equivalents at 31 December</b>	14	<b>5,509</b>	6,722

# **ITP Engines UK Limited**

## **Notes to the financial statements for the year ended 31 December 2019**

### **1 Principal accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### **Basis of preparation**

The financial statements of the company for the financial year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the European Union), IFRS Interpretations Committee (IFRS IC) interpretations issued and effective or issued and early adopted as at 31 December 2019 and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) being revalued at fair value through the statement of comprehensive income.

#### **Going concern**

The going concern assessment considers whether it is appropriate to prepare the financial statements on a going concern basis. As noted in the Events after the Balance Sheet Date (see note 25) the impact of Coronavirus (COVID-9) has had an impact on the going concern assessment performed by the Board of Directors. The steps taken and judgements made by the Board of Directors are included in note 25 and also in the "Events after the Balance Sheet Date" section of the Strategic report. The directors have made appropriate enquiries and confirm that they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore the Board has concluded it is appropriate to use the going concern basis of preparation for the financial statements of the company, as described in the Strategic Report.

#### **General information**

The company is a limited company incorporated and domiciled in England and Wales. The address of its registered office is set out on page 1.

#### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services. Revenue includes income from the sale of process scrap and is shown net of value added tax, returns, rebates and discounts.

Invoicing to the customer is usually carried out in stages and is independent of the recognition of revenue in the financial statements.

Revenue arising from the supply of manufactured products either as components or assembled products is recognised when the significant risks and rewards of ownership transfer to a third party, this is usually on despatch of each consignment. Under certain of the manufacturing programmes we receive advanced or staged payments. Revenue recognition is independent of this.

Revenue from supply of services is recognised in proportion to the stage of completion based on the value of services provided. Amounts invoiced in advance of the service being provided are treated as deferred income.

#### **Operating lease**

Costs in respect of operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

#### **Current taxation**

The charge for current tax is based on the results for the year adjusted for items such as enhanced research and development tax credit that are not subject to taxation and for expenditure which cannot be deducted in computing the tax charge. The tax is calculated using taxation rates that have been enacted or substantially enacted at the balance sheet date.



# **ITP Engines UK Limited**

## **Notes to the financial statements for the year ended 31 December 2019 (continued)**

### **1 Principal accounting policies (continued)**

#### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

#### **Foreign currencies**

A significant proportion of sales and purchases are in US dollars. Exposures to other currencies are of much lower size and are not normally hedged. Hedging arrangements are primarily forward contracts to buy or sell the currency into sterling at the forecast cash flow date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred into equity as qualifying cash flow hedges.

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined using averaging. In respect of finished goods and work-in-progress, cost includes appropriate production overheads. Net realisable value is the estimated selling price in the ordinary course of the business, less applicable variable selling expenses.

A review is undertaken on a line-by-line basis and provision is made as appropriate, where in the opinion of the directors, any inventory lines are believed to be slow moving or obsolete.

#### **Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. As codified in IFRS9 an allowance for expected credit losses has been calculated. This is measured at a probability weighted amount that considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions of the customers. This is updated at each reporting date to reflect changes in credit risk since initial recognition. This is calculated regardless of whether the receivable is overdue or not.

The amount of the loss is recognised in the income statement within 'distribution costs'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'distribution costs' in the income statement.

#### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and bank and cash balances.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 1 Principal accounting policies (continued)

#### Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any provision for impairment. The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of property, plant and equipment, less any assigned residual value, on a straight line basis over the expected useful economic lives of the assets concerned. Leasehold improvements are depreciated over the maximum remaining period of the lease. The principal annual rates used for this purpose are:

Right of use asset	10% per annum
Plant and machinery	10% per annum
Fixtures and fittings	20% per annum
Tooling and equipment	33% per annum
Computer hardware infrastructure	20% per annum
Computer hardware equipment	33% per annum
Infrastructure	10% per annum

Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### Intangible assets

##### (a) Goodwill

Goodwill is the excess of acquisition cost over the fair value of the identifiable net assets of the business acquired, at the acquisition date. Goodwill relating to acquisitions of subsidiaries is included in intangible assets. The goodwill recognised separately is subject to impairment tests annually and is stated at its cost less the accumulated impairment loss. Gains and losses on the sale of a company include the carrying amount of goodwill relating to the company sold.

Goodwill is assigned to cash generating units (CGUs) in order to test for impairment losses. These assignments are made to those CGUs that are expected to generate profits from the business combinations from which the goodwill arises.

##### (b) Computer software

Software licenses acquired are capitalised on the basis of the costs incurred in their acquisition and preparation for the use of the specific program. These costs are amortised over the assets' estimated useful lives over a maximum period of six years.

Expenses relating to software development or maintenance are recognised when incurred.

##### (c) Research and development expenses

Research expenses are recognised as an expense when incurred.

##### (d) Contractual arrangements and customer relationships

Upon acquisition of the former Alstom Aerospace business identifiable, material separable, contractual rights and customer relationships, which had economic rights that could be reliably measured, were recognised. These were initially valued using the Multi-period Excess Earnings Method. The recognised value was amortised over the remaining useful life in line with their estimated cash flow profile.

#### Employee benefit costs

The company operates a defined contribution pension scheme. The company pays contributions to an external pension administrator and has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 1 Principal accounting policies (continued)

#### Trade and other 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. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### Provisions

Provisions for liabilities and charges are recognised when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. General provisions are not held. Provisions for liabilities are charged against profits. The effect of the time value of money is not considered to be material and therefore the provisions are not discounted.

Liquidated damages are included in the assessment of the costs to complete of a project if an incident has occurred where it is probable in the opinion of management to result in the payment of liquidated damages. Other specific risk provisions and contingencies are assessed on a contract by contract basis and included in the forecast project costs.

#### Derivative financial instruments and hedges

Derivative financial instruments are initially recognised at fair value at contract inception and are subsequently remeasured at their fair value. The recognition of gains or losses arising from changes in the fair value in each period depends on whether the derivative is designated as a hedging instrument and, if so, on the nature of the item hedged. The company designates certain derivatives as:

- (a) Hedges of the fair value of recognised liabilities (*fair value hedge*); or
- (b) Hedges of a specific risk related to a recognised liability or highly expected transaction (*cash flow hedge*).

The company documents at the inception of the transaction the relationship between the hedge instruments and the items hedged, as well as their objectives for risk management and the strategy for undertaking various hedging transactions. The company also documents its assessment, both at the beginning and on an ongoing basis, as to whether the derivatives used in the hedge transactions are highly effective for offsetting changes in fair value or in cash flows of the items hedged.

The fair values of derivative instruments used for hedging purposes are shown in Note 13. The movements in the hedging reserve in capital and reserves are shown in the statement of changes in net equity and further detailed in Note 17. The total fair values of the hedging derivatives are classified as non-current assets or liabilities if the maturity remaining of the item hedged is more than 12 months and as current assets or liabilities if the maturity remaining of the item hedged is less than 12 months.

#### (a) Fair value hedge

Changes in the fair value of designated derivatives that qualify as fair value hedges are recognised in the income statement, together with any change in the fair value of the hedged asset or liability that is attributable to the risk hedged.

# **ITP Engines UK Limited**

## **Notes to the financial statements for the year ended 31 December 2019 (continued)**

### **1 Principal accounting policies (continued)**

#### **Derivative financial instruments and hedges (continued)**

##### **(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognised in Other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are released to the income statement in the year in which the hedged item affects results (for example, when the sale foreseen that is being hedged takes place).

The gain or loss relating to the effective part of forward contracts in foreign currency that hedge sales of exports and purchases of imports are recognised in the income statement under "Revenue" and "Cost of Sales", respectively. However, when the forecast transaction which is hedged results in the recognition of a non-financial asset (for example, inventories or tangible assets), the gains or losses previously deferred in equity are transferred from equity and included in the initial cost measurement of the asset or liability involved.

The deferred amounts are finally recognised in cost of sales in the case of inventories, or in depreciation expenses, in the case of property, plant and equipment. When the hedging instrument matures or is sold or when a hedge transaction ceases to comply with the requirements for the application of hedge accounting, the gains or losses accumulated in equity to that date will remain in equity and will be taken to the income statement when the forecast transaction is finally recognised in the income statement. However, if the transaction is no longer likely to take place, the gains or losses accumulated in equity are immediately taken to the income statement.

#### **Impairment of non-financial assets**

Assets with indefinite useful lives, for example, land or goodwill, are not subject to depreciation/amortization and are tested annually for impairment. Other assets that are depreciated are subject to impairment tests provided that an event or change in circumstances indicates that the carrying value of the asset may not be recoverable. An impairment loss is recognised when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value of an asset, less selling costs, and value in use. Impairment losses assigned to goodwill are not reversed. For the purposes of evaluating impairment losses, assets are grouped into CGUs, i.e. the lowest level at which separate cash flows may be identified. The non-financial assets, other than goodwill, that have been impaired are reviewed at each balance sheet date in the event that losses have been reversed.

#### **Segmental reporting**

The company considers that it only operates in a single aerospace business segment. Its main markets are based in the UK, United States of America and Europe.

#### **Critical accounting estimates and judgements**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingencies at the balance sheet date. If in future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified, as appropriate, in the period in which the circumstances change. The following areas are considered of greater complexity and/or particularly subject to the Management estimate:

- Management estimate is involved in assessing the exposures in the provisions (including inventory, property, bad debt and returns) and hence in setting the level of the required provisions.
- There are no critical estimates or significant judgements in the financial statements.

# **ITP Engines UK Limited**

## **Notes to the financial statements for the year ended 31 December 2019 (continued)**

### **1 Principal accounting policies (continued)**

#### **Investments**

Shares and loans in subsidiary undertakings are stated at cost less provision for impairment.

#### **New accounting standards**

The following accounting standard which is relevant to the Company is effective for the 2019 reporting of the Company:

##### **IFRS 16 Leases**

The Company adopted IFRS16 on 1 January 2019 using the modified retrospective approach. Under the specific transitional provisions in the standard, comparative information has not been restated.

On adoption of IFRS16 the company recognised additional lease liabilities in relation to leases which had been previously classified as operating leases under the previous principles of IAS 17 Leases. These liabilities were recognised at the present value of the remaining lease payments, discounted using the company's incremental borrowing rate as of 1 January 2019. The associated right-of-use assets are measured at the amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. Lease contracts with a duration of less than 12 months will continue to be expensed to the income statement on a straight-line basis over the lease term.

Details of the impact of adoption of IFRS16 are set out in Note 24.

There are no new standards which have been published but are not yet effective which are expected to have a significant impact on the financial statements of the Company.

#### **Consolidation**

These financial statements contain information about the company's investment, Powerjets (Research and Development) Limited. These financial statements do not contain consolidated financial information. The company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its parent, Industria de Turbo Propulsores S.A., see note 23.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 2 Revenue

Revenue by destination:	2019	2018
	£'000	£'000
United Kingdom	674	1,758
Rest of Europe	14,238	12,497
United States of America	10,015	8,754
Rest of World	97	86
<b>Revenue</b>	<b>25,024</b>	<b>23,095</b>
Revenue by category:	2019	2018
	£'000	£'000
Sale of goods	12,537	10,398
Revenue from services	12,487	12,697
<b>Revenue</b>	<b>25,024</b>	<b>23,095</b>

All revenue relates to serving the aerospace market.

### 3 Operating profit

Operating profit is stated after charging / (crediting):	2019	2018
	£'000	£'000
Raw materials and consumables used	5,687	3,326
Employee benefit expense (note 4)	8,351	7,759
R&D expenditure credit	(189)	(193)
Depreciation of property, plant and equipment (note 7)	811	562
Amortisation and impairment (note 8)	20	14
(Reversal of) / Impairment of inventories	(223)	(621)
Fees payable to the company's auditors for the audit of the Company	37	38
Royalty expenses	426	407
Operating lease rentals – property	130	171
Operating lease rentals – plant and equipment	25	26

#### Auditors' remuneration and services provided

Services provided by the company's auditors and network firms are analysed as follows:

	2019	2018
	£'000	£'000
<b>Audit services</b>		
Audit of the company's financial statements	37	38
<b>Total services provided</b>	<b>37</b>	<b>38</b>

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 4 Directors and employees

The average monthly number of employees, including directors was:	2019	2018
	Number	Number
Production	172	171
Sales	1	1
Administration	9	7
	<b>182</b>	<b>179</b>

Their aggregate remuneration comprised:	2019	2018
	£'000	£'000
Wages and salaries	7,193	6,681
Social security costs	674	627
Other pension costs	484	451
	<b>8,351</b>	<b>7,759</b>

The company provides a defined contribution pension scheme for its employees.

#### Directors' emoluments

None of the directors received any emoluments for their services to the company during the year (2018: £0). There are no (2018: none) directors who are accruing benefits under defined contribution schemes. The directors are remunerated by fellow group companies in their capacities as executives in those companies.

#### Key management remuneration

The remuneration of the key management personnel of the company is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

Key management consists of the members of the company management team.

	2019	2018
	£'000	£'000
Salaries and other short-term employee benefits	995	1,016
Post-employment benefits	62	58
	<b>1,057</b>	<b>1,074</b>

### 5 Finance costs

	2019	2018
	£'000	£'000
Interest payable	(32)	(19)
Finance lease	(21)	-
Net foreign exchange losses	(59)	(73)
<b>Finance cost</b>	<b>(112)</b>	<b>(92)</b>

**ITP Engines UK Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2019 (continued)**

**6 Income taxation charge**

The taxation charge for the year is analysed below:	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current taxation</b>		
UK Corporation taxation charge on profits	<b>792</b>	843
Adjustment in respect of prior year	-	93
<b>Current taxation</b>	<b>792</b>	936
<b>Deferred taxation:</b>		
Current year deferred taxation charge	<b>(14)</b>	5
Adjustment in respect of prior year	<b>(9)</b>	(43)
<b>Income taxation charge</b>	<b>769</b>	898

The current taxation is higher (2018: higher) than the standard rate of corporation tax in the UK. A reconciliation is shown below:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit on ordinary activities before taxation</b>	<b>4,032</b>	4,423
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	<b>766</b>	840
Effects of:		
Permanent disallowable items and impact of change in tax rates	<b>12</b>	8
Adjustment in respect of prior year	<b>(9)</b>	50
<b>Total taxation charge</b>	<b>769</b>	898

**Factors affecting current and future tax charges**

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured on the basis that the rate would reduce to 17% from 1 April 2020.



# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 7 Property, plant and equipment

	Right of use asset	Plant and machinery	Fixtures, fittings, tooling and equipment	Leasehold improve- ments	Computing hardware and infra- structure	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>						
As at 1 January 2018	-	10,132	1,026	-	1,124	12,282
Transfers	-	(24)	(81)	433	(328)	-
Additions	-	202	108	288	79	677
Disposals	-	(83)	(5)	-	-	(88)
<b>As at 31 December 2018</b>	<b>-</b>	<b>10,227</b>	<b>1,048</b>	<b>721</b>	<b>875</b>	<b>12,871</b>
Adoption of IFRS16	1,417	-	-	-	-	1,417
Additions	60	31	22	247	127	487
Disposals	-	(334)	(13)	-	(4)	(351)
<b>As at 31 December 2019</b>	<b>1,477</b>	<b>9,924</b>	<b>1,057</b>	<b>968</b>	<b>998</b>	<b>14,424</b>
<b>Accumulated Depreciation</b>						
As at 1 January 2018	-	(7,798)	(547)	-	(937)	(9,282)
Transfers	-	4	57	(382)	321	-
Disposals	-	83	5	-	-	88
Charge for the year	-	(330)	(130)	(13)	(89)	(562)
<b>As at 31 December 2018</b>	<b>-</b>	<b>(8,041)</b>	<b>(615)</b>	<b>(395)</b>	<b>(705)</b>	<b>(9,756)</b>
Charge for the year	(183)	(356)	(144)	(40)	(88)	(811)
Disposals	-	334	12	-	4	350
<b>As at 31 December 2019</b>	<b>(183)</b>	<b>(8,063)</b>	<b>(747)</b>	<b>(435)</b>	<b>(789)</b>	<b>(10,217)</b>
<b>Net book amount</b>						
<b>As at 31 December 2019</b>	<b>1,294</b>	<b>1,861</b>	<b>310</b>	<b>533</b>	<b>209</b>	<b>4,207</b>
As at 31 December 2018	-	2,186	433	326	170	3,115

Depreciation expense of £811,000 (2018: £562,000) has been charged in cost of sales. Right of use assets are treated as finance leases under IFRS16 (2018: none). The impact of adoption of IFRS16 is shown in Note 24.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 8 Intangible assets

	Goodwill	Contractual Arrange- ment	Customer Relation- ships	Software	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
As at 1 January 2018	404	1,132	31	1,147	2,714
Additions	-	-	-	74	74
<b>As at 31 December 2018</b>	<b>404</b>	<b>1,132</b>	<b>31</b>	<b>1,221</b>	<b>2,788</b>
Additions	-	-	-	3	3
<b>As at 31 December 2019</b>	<b>404</b>	<b>1,132</b>	<b>31</b>	<b>1,224</b>	<b>2,791</b>
<b>Accumulated amortisation</b>					
As at 1 January 2018	(404)	(1,132)	(31)	(1,143)	(2,710)
Amortisation charge	-	-	-	(14)	(14)
<b>As at 31 December 2018</b>	<b>(404)</b>	<b>(1,132)</b>	<b>(31)</b>	<b>(1,157)</b>	<b>(2,724)</b>
Amortisation charge	-	-	-	(20)	(20)
<b>As at 31 December 2019</b>	<b>(404)</b>	<b>(1,132)</b>	<b>(31)</b>	<b>(1,177)</b>	<b>(2,744)</b>
<b>Net book amount</b>					
<b>As at 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>47</b>
As at 31 December 2018	-	-	-	64	64

Amortisation expense of £20,000 (2018: £14,000) has been charged in cost of sales.

As goodwill is fully impaired no impairment testing has been carried out.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 9 Inventories

	2019	2018
	£'000	£'000
Raw materials	1,234	1,115
Work in progress	2,181	2,110
Finished goods	316	586
	<b>3,731</b>	<b>3,811</b>

There is no material difference between the balance sheet value of inventories and their replacement cost. Inventories are shown after deduction of inventory provisions £848,000 (2018:£1,014,000).

### 10 Trade and other receivables

	2019	2018
	£'000	£'000
Trade receivables	2,771	4,067
Amounts owed by parent company	2,531	1,171
Other receivables	397	161
Prepayments and accrued income	265	275
	<b>5,964</b>	<b>5,674</b>

Amounts owed by parent company are payable on standard customer trading terms.  
The fair value of trade and other receivables does not differ materially from their book value.

The carrying amounts of the company's trade and other receivables are denominated in the following currencies:

	2019	2018
	£'000	£'000
UK pound	3,546	2,973
US dollar	2,400	2,642
Euro	18	59
<b>Total</b>	<b>5,964</b>	<b>5,674</b>

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 10 Trade and other receivables (continued)

Trade receivables are highly concentrated into a few customers whose parent companies have a high credit rating as follows:

Dunn and Bradstreet credit rating	Number of customers	% of balance 2019	Number of customers	% of balance 2018
3A1 – tangible net worth £7-15m, minimal risk	-	-	1	30.5%
5A2 – tangible net worth > £35m, low risk	-	-	1	1.2%
5A3 - tangible net worth > £35m, moderate risk	1	19.8%	2	62.9%
5A4 – tangible net worth > £35m, above average risk	1	71.6%	-	-
Not evaluated	Remainder	8.6%	Remainder	5.4%
<b>Total</b>		<b>100%</b>		<b>100%</b>

Balances exclude ITP Group intercompany balances, as the credit risk is considered to be negligible for these balances. Parent company guarantees have been provided on the company's behalf by Industria de Turbo Propulsores, S.A.U.

Trade receivables of £434,000 (2018: £718,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables from individual customers as at 31 December:

	2019			2018		
	Weighted average loss rate	Gross carrying amount £'000	Loss allowance £'000	Weighted average loss rate	Gross carrying amount £'000	Loss allowance £'000
Current	0.5%	2,351	(12)	2.6%	3,440	(90)
Past due 1 – 30 days	-	156	-	0.2%	509	(1)
Past due 31 – 60 days	0.7%	274	(2)	-	170	-
More than 61 days past due	-	4	-	-	39	-
	<b>0.5%</b>	<b>2,785</b>	<b>(14)</b>	<b>2.2%</b>	<b>4,158</b>	<b>(91)</b>

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 11 Deferred tax (liability) / asset

	2019	2018
	£'000	£'000
At 1 January	41	(67)
Income statement credit (note 6)	23	38
Tax (charge) / credit direct to equity (note 17)	(71)	70
At 31 December	(7)	41
Current portion	-	-
Non-current portion	(7)	41
	(7)	41

Deferred income tax assets are recognised in respect of tax losses and temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. In the current year, this has resulted in the recognition of a deferred tax asset in respect of UK losses amounting to £nil (2018: £nil). The losses can be carried forward against specific future taxable income. The company had unrecognised deferred taxation assets of £nil at 31 December 2019 (2018: £nil).

### 12 Financial instruments

#### Financial risk factors

The company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), liquidity risk, capital risk and credit risk. The company's financial risk management objective is to understand the nature and impact of the financial risks and exposures facing the business.

#### Foreign currency risk

The majority of the company's business is transacted in sterling and US dollars. The principal currency of the company is sterling. The company is exposed to foreign exchange risk principally via transactional exposure arising from the future sales and purchases that are denominated in a currency other than the functional currency of the transacting company.

The company uses foreign currency hedges to mitigate this foreign currency risk. The level of the company's exposure to foreign currency risk is reviewed by the board.

#### Foreign exchange sensitivity

At 31 December 2019, if sterling had weakened / strengthened by 10% against US dollar with all other variables held constant the post-tax profit for the year would have been £20,000 (2018 £137,000) higher / lower, mainly as a result of foreign exchange gains / losses on translation of US dollar denominated trade receivables. Profit is less sensitive to movement in sterling / US dollar exchange rates in 2019 than 2018 because more of the trade receivables qualified for hedge accounting.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 12 Financial instruments (continued)

#### Interest rate risk

Borrowings are from the parent company ITPSAU and are at a floating rate plus a fixed risk premium (2018: none). The company does not have a significant exposure to interest rate risk as interest payments are not material to the company, and hence no interest rate sensitivity has been shown.

#### Credit risk

Credit risk arises from cash and cash equivalents, deposits and debts with banks and financial institutions as well as credit exposures to customers.

The company controls credit risk from a treasury perspective by only entering into transactions involving financial instruments with authorised counter-parties with a high credit rating, and by ensuring that such positions are monitored regularly, see note 10. Credit risk on cash and short-term deposits is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies.

Amounts recoverable from customers are reviewed on an ongoing basis and appropriate provision made for bad and doubtful debts (note 10). Provision requirements are determined with reference to historical customer default rates for various customer segments with similar patterns.

#### Liquidity risk

Liquidity is managed by maintaining sufficient cash and availability of funding through an adequate amount of working capital facilities. Cash flow requirements are monitored by short and long-term rolling forecasts. In addition, the company's liquidity management policy involves projecting cash flows in the major currencies and considers the level of liquid assets necessary to meet these, monitoring working capital levels and liquidity ratios.

The undiscounted contractual maturity dates of the company's financial liabilities, including interest charges where applicable, are shown below. All trade payables are contractually due within 12 months and therefore the fair values do not differ from their carrying values.

	2019			2018		
	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Within 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Borrowings and lease creditor	149	3,119	-	-	-	-
Derivative financial instruments	211	-	-	492	-	-
Trade and other payables, excluding statutory liabilities	4,899	-	-	4,083	-	-
	5,259	3,119	-	4,575	-	-

#### Capital risk management

The company's objectives when managing capital are to safeguard the company's liability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issues new shares or sell assets.

A £3m credit facility from the parent company ITPSAU was agreed during the year (2018: none). There were no external banking commitments entered into during 2019 or 2018 so gearing ratios are not applicable.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 12 Financial instruments (continued)

#### Financial assets and liabilities

Financial instruments by category:	Loans and receivables	Assets at fair value through the income statement	Derivatives used for hedging	Total
	£'000	£'000	£'000	£'000
<b>Assets as per balance sheet</b>				
Cash and cash equivalents	5,509	-	-	5,509
Derivative financial instruments	-	-	108	108
Trade and other receivables excluding	5,314	-	-	5,314
<b>31 December 2019</b>	<b>10,823</b>	<b>-</b>	<b>108</b>	<b>10,931</b>
31 December 2018	12,053	-	-	12,053

	Other financial liabilities at amortised cost	Liabilities at fair value through the income statement	Derivatives used for hedging	Total
	£'000	£'000	£'000	£'000
<b>Liabilities as per balance sheet</b>				
Borrowings and lease creditor	3,268	-	-	3,268
Derivative financial instruments	-	-	211	211
Trade and other payables, excluding	4,899	-	-	4,899
<b>31 December 2019</b>	<b>8,167</b>	<b>-</b>	<b>211</b>	<b>8,378</b>
31 December 2018	4,083	-	492	4,575

Current assets are held at fair value. A provision of £64,000 (2018: £91,000) is held against trade receivables.

At the 2019 and 2018 year ends, the company did not have any held for trading or available for sale financial assets or liabilities.

All financial instruments are classified as Level 2 in the fair value hierarchy. Loans and receivables and other financial liabilities are valued at the expected transaction value taking into account impairment provisions where necessary. Derivatives are valued at market value based on their maturity date using quoted exchange rates at the balance sheet date.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 13 Derivative financial instruments

	2019	2019	2018	2018
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Forward foreign exchange contracts – cash flow hedges	108	(211)	-	(492)
Less: non-current portion	54	(92)	-	(269)
<b>Current portion</b>	<b>54</b>	<b>(119)</b>	<b>-</b>	<b>(223)</b>

The derivative financial instruments are all forward foreign exchange contracts. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged items is more than 12-months and as a current asset or liability if the maturity of the hedged items is less than 12-months.

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2019 is £14.55 million sell USD (2018: £11.63 million) and £nil buy USD (2018: £nil). The ineffective portion recognised in Finance income and costs in the profit or loss that arises from cash flow hedges is £nil (2018: £nil).

The hedged highly probable transactions denominated in foreign currency are expected to occur at various dates over the next 4 years. Gains and losses recognised in the hedging reserve in equity (note 17) on forward exchange contracts at 31 December 2019 are recognised in the income statement in the period or periods in which the hedged forecast transaction affects the income statement.

### 14 Cash and cash equivalents

	2019	2018
	£'000	£'000
Cash at bank and on hand	5,509	6,722
<b>Total</b>	<b>5,509</b>	<b>6,722</b>

### 15 Trade and other payables

	2019	2018
	£'000	£'000
Trade payables	2,281	2,336
Amounts owed to parent company	323	308
Amounts owed to associated companies	40	7
Other tax and social security	208	165
Accruals and deferred income	1,207	1,619
	<b>4,059</b>	<b>4,435</b>

Amounts owed to parent and associated companies are payable on normal trading terms. The fair value of trade and other payables does not differ from the book value.



# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 16 Share capital and share premium

	2019	2018
<b>Authorised</b>		
Ordinary shares of £1 each	1,000,000	1,000,000
Number of shares in issue		
At start of year	800,001	800,001
Issued in year	-	-
<b>At 31 December</b>	<b>800,001</b>	<b>800,001</b>
	2019 £	2018 £
<b>Allotted and fully paid</b>		
Nominal Value of £1 each	800,001	800,001
Share Premium	3,200,000	3,200,000
<b>Total</b>	<b>4,000,001</b>	<b>4,000,001</b>

### 17 Other reserves

	2019 £'000	2018 £'000
At 1 January	(338)	(44)
Fair value losses / (gains) on derivatives in hedge relationships	198	(296)
Losses on cash flow hedges recycled to revenue	173	52
Losses on cash flow hedges recycled to cost of sales	-	20
Tax (charge) / credit on cash flow hedge movements	(71)	(70)
<b>At 31 December</b>	<b>(38)</b>	<b>(338)</b>

Where a hedged item qualifies for hedge accounting the fair value of the corresponding hedging instrument is retained in a cash flow hedge reserve, and is recycled to the income statement to offset any foreign exchange impact of hedged transactions. This reserve is non-distributable.

### 18 Retained earnings

	2019 £'000	2018 £'000
At 1 January	10,407	6,893
IFRS9 adjustment	-	(11)
Profit for the financial year	3,263	3,525
Dividends for prior years	(6,000)	-
<b>At 31 December</b>	<b>7,670</b>	<b>10,407</b>

**ITP Engines UK Limited**  
**Notes to the financial statements**  
**for the year ended 31 December 2019 (continued)**

**19 Related parties**

Amounts owed to / by parent and associated companies

Amounts owed to / by parent and associated companies and ultimate parent and associated companies in total at the 2018 and 2019 year ends are disclosed within notes 10 and 15.

During the year ended 31 December 2019, the company entered into the following transactions with related parties:

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<b>Transactions during the year</b>		
<b>Parent company</b>		
Sales of goods and services to immediate parent	<b>12,792</b>	10,944
Purchase of goods and services from immediate parent	<b>1,950</b>	1,931
Royalties payable to immediate parent	<b>426</b>	407
Management fee payable to immediate parent	<b>13</b>	13
Loan received from immediate parent	<b>2,000</b>	-
Loan interest payable to immediate parent	<b>32</b>	19
<b>Associates and other related parties</b>		
Purchase of goods and services from ITP Group subsidiaries	<b>20</b>	18
Purchase of goods and services from RR Group subsidiaries	<b>12</b>	-
<b>Balances as at 31 December</b>		
<b>Parent company</b>		
Trade receivable from immediate parent	<b>2,531</b>	1,171
Trade payable immediate parent	<b>323</b>	308
Current loan immediate parent	<b>2,000</b>	-
<b>Associates and other related parties</b>		
Trade payable ITP Group subsidiaries	<b>28</b>	7
Trade payable RR Group subsidiaries	<b>12</b>	-

Parent company guarantees have been provided on the company's behalf by Industria de Turbo Propulsores, S.A.U. and support has also been provided for bank guarantees in respect of value added tax arrangements for importation of goods. All transactions with related parties are on arm's length terms.

The £2 million loan received in the year from the immediate parent was received under a three year £3 million credit facility agreed March 2019. This is repayable in full upon expiry of the facility term, but may be repaid by the company at any time before that. It has been classified as long term liability.

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 20 Cash flows from operating activities

	Note	2019 £'000	2018 £'000
<b>Profit on ordinary activities before taxation</b>		<b>4,032</b>	4,423
Adjustments for:			
Depreciation	7	811	562
Amortisation and impairment	8	20	14
Net finance expense / (income)	5	112	92
Loss / (profit) on fixed asset disposal		1	-
RDEC		(189)	(193)
Changes in working capital:			
Decrease in inventories	9	80	303
(Increase) in trade and other receivables	10	(290)	(1,640)
(Decrease) in trade and other payables	15	(376)	(778)
(Loss) on the settlement / roll of derivatives		(33)	(44)
Foreign exchange loss		(44)	(70)
<b>Cash flows from operating activities</b>		<b>4,124</b>	2,669

### 21 Commitments

#### (a) Capital commitments

Capital expenditure contracted for at the end of the reporting year, but not yet incurred is property, plant and equipment: £nil (2018: £nil), intangible £nil (2018: £nil).

#### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019 £'000	2018 £'000
No later than 1 year	25	20
Later than 1 year and no later than 5 years	41	19
Later than 5 years	-	-
<b>Total</b>	<b>66</b>	39

Prior year figures have been restated to exclude commitments for property leases now accounted under IFRS16. Post year end the landlord condition initiating the new lease for the Whetstone building was completed, and the lease qualified for accounting under IFRS16. A lease creditor of £1,371,000 will be recognised.

#### (c) Contingent liabilities

The Company has no contingent liabilities (2018: £nil).

# ITP Engines UK Limited

## Notes to the financial statements for the year ended 31 December 2019 (continued)

### 22 Investments in subsidiary

	2019	2018
	£	£
<b>Shares in group undertakings – cost and carrying amount</b>		
At 1 January	1	1
Additions	-	-
<b>At 31 December</b>	<b>1</b>	<b>1</b>

On 6 April 2011 Power Jets (Research and Development) Limited was acquired as a wholly owned dormant subsidiary.

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by Company	Principal business activity
Power Jets (Research and Development) Limited	England and Wales	£1 ordinary	100%	Dormant company

The directors consider the value of the investment is supported by the underlying assets of the subsidiary. The registered address is the same as the company.

### 23 Ultimate parent undertaking and controlling party

The immediate parent company is Industria de Turbo Propulsores, S.A.U., a company incorporated in Spain, which is the parent undertaking of the smallest group to consolidate these results with publically available financial statements. Copies of the consolidated financial statements can be obtained from the Company Secretary at Parque Tecnologica de Zamudio edificio 300, 48170 Zamudio, Vizcaya, Spain.

The ultimate parent company and controlling party is Rolls Royce plc., a company incorporated in England. The consolidated financial statements of that company are available from the registered office at 62 Buckingham Gate, London, SW1E 6AT.

### 24 Impact of adopting IFRS16 Leases

The following table reconciles the operating lease obligations under the previous accounting standard, IAS 17 Leases, to the lease liability recorded under IFRS16 on transition:

	£'000
Operating lease commitments as reported at 31 December 2018	1,357
Discounted using the incremental borrowing rate at the date of initial application	(23)
<b>Impact of adopting IFRS16 at 1 January 2019</b>	<b>1,334</b>
Of which are:	
Current lease liabilities	86
Non-current lease liabilities	1,248

The recognised right-of-use asset £1,417,000 relates to Land and Buildings.

# **ITP Engines UK Limited**

## **Notes to the financial statements for the year ended 31 December 2019 (continued)**

### **25 Events after the balance sheet date**

Since early 2020, COVID-19, a new strain of Coronavirus, has spread from China to other countries, including UK. The impact on global economies, and more specifically the worldwide travel industry, were becoming clearer as many airlines significantly reduced their operations in response to increasing global and domestic restrictions on travel. Whilst at the time of reporting, these restrictions are starting to decrease, with signs of increasing support being made available to the various national airlines, the impact on demand for air travel is as yet uncertain.

As the emergence of this pandemic was only noted in 2020 it is a non-adjusting post balance sheet event as at 31 December 2019 for the purposes of these Annual Report and Financial Statements.

Up to the date of signing these financial statements no significant impairments to assets (inventory, trade receivables or fixed assets) has been noted and the Company continues to trade. Customer demand relating to new engine design has been, as is forecasted to be throughout 2020 / 21, significantly impacted by COVID 19 in only a proportion of the Company's operations. In this area a small number of employees have already been furloughed, where no other opportunity for redeployment was available. This decision is being constantly monitored by management. Other areas of the business, relating to the provision of goods and services for ongoing projects, are ultimately backed by large multinational companies, and as such demand for these services has been reduced but not significantly so. We have revised our working model such that demand can still be met for these customers without significant increases in costs. This is expected to continue for the remainder of 2020 and 2021. Our final area of operation relates to income generated from ESATAN-TMS software licensing and a majority of this is paid annually in advance and therefore a good proportion of 2020 revenues have already been received in cash prior to the UK lockdown in March 2020.

Management have re-forecasted the expected financial performance and cash flows for the period up to 31 December 2021 and performed additional sensitivity analysis (regarding further reductions in demand) in order to establish whether the current facilities and cash balances would be sufficient to enable the Company to operate as a going concern during this period. The Board of Directors have reviewed and approved this analysis, which has shown that the current cash resources available would be sufficient, even in the sensitized scenarios. This position is partially due to the company having cash of £5.5m as at 31 Dec 2019 and £8.1m as of the end of April 2020 with no significant external debt.

Therefore on the basis of the above, the Directors have approved the financial statements utilising the going concern basis of preparation.