Registered number: 04577881

CELSA MANUFACTURING (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

CELSA MANUFACTURING (UK) LIMITED

COMPANY INFORMATION

Directors	L Sanz Villares F Mesegue A Fort M McKillop
Company secretary	H Arnold
Registered number	04577881
Registered office	Building 58 East Moors Road Cardiff CF24 5NN
Independent auditors	Ernst & Young LLP Statutory Auditor The Paragon Counterslip Bristol BS1 6BX

CELSA MANUFACTURING (UK) LIMITED

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present this strategic report for the year ended 31 December 2020.

Business review

The company's key financial indicator is turnover which for 2020 was £373 million *(2019 – £433 million)*. The decrease year on year is due to both lower volumes and slighty lower pricing year on year.

Principal risks and uncertainties

The company's exposure to the price of raw materials is important; therefore purchase strategies are monitored regularly as well as selling prices.

Coronavirus pandemic (COVID-19)

The global coronavirus pandemic involving the spread of COVID-19 presents a number of different risks and impacts to the business including safety, operational, financial and liquidity risk. The main priority for the company is the Health & Safety of all employees and the company continues to follow Government advice. The company responded rapidly and dynamically to the changing situation which allowed the production operations to continue to operate throughout.

The company's strategy remains the same but key financial indicators have seen a significant impact as a direct result of the pandemic. The company will continue to manage risks and financial indicators in the future, as it has done in previous years.

As a direct result of COVID-19, the company amended its current lending facility with its lenders and introduced a new lender with all facilities being committed to 2023. This financial support provides the company with a financial platform to enable it to continue executing its existing business strategy.

Withdrawal of UK from European Union (BREXIT)

On the 31 December 2020 the transition period between the UK and the EU ended and new rules on exports, imports, tariffs, data and hiring were introduced. For Celsa Manufacturing (UK) Limited a significant proportion of turnover and the supply chain is UK domestic, which reduces the impact of Brexit. As a result, in the period since 31 December 2020 the company has seen no significant impact from the new rules introduced.

Financial risk management objectives and policies

Foreign currency risk

The company's currency risk is controlled by a natural hedge wherever possible and where there is an excess, the company may take out foreign currency contracts accordingly.

Interest rate risk

The company's policy is to manage its cost of borrowings using a mix of debt types.

Credit risk

The company's policy is to insure its trade debtors and exercise strong credit control procedures.

Price risk

The company's products are subject to changing market prices at both selling and purchasing levels. It manages this risk by striving to be a low cost producer.

Financial risk management objectives and policies (continued)

Liquidity risk

The company aims to mitigate liquidity risk by managing cash generation by its operations, and applying cash collection targets. Investment is carefully controlled, with authorisation limits operating at board level and cash payback periods applied as part of the investment appraisal process.

Section 172 Statement

The directors continued to exercise all their duties under Section 172 of The Companies Act 2006. The directors are dedicated to managing and operating the company in a safe, ethical, environmental and socially responsible way. The directors support employees, their safety, their commitment and development and encourage employees to be involved in performance improvement projects through team working and other departmental improvement activities. The company is engaged in employee training and development supported by comprehensive internal and external training platforms. The directors value long-term partnerships and aim to work collaboratively throughout the supply chain with customers, suppliers and other stakeholders. The directors are responsible for establishing and reviewing the short and long-term strategy considering strategic, economic, political and social issues, alongside other regulations and external matters relevant to the company. Through working together with management, the directors support the company in following the long-standing Total Quality Management approach of continuous improvement and innovation.

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

F Mesegue
Director

Date: 12 May 2021

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report and the financial statements for the year ended 31 December 2020.

Going concern

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the company can continue in operational existence for the period of at least 12 months and considered through the period 30 June 2022.

In December 2018, the parent company Celsa (UK) Holdings Limited (the parent) renewed its Term Loan and Asset Based Lending (ABL) facilities. As a result, both facilities are committed until December 2023.The company is part of the guaranteeing group for these facilities and therefore the directors have considered going concern from a group-wide perspective.

During 2020, as a direct result of the COVID-19 pandemic the Celsa UK Group undertook a re-financing, which amended the conditions of its current term loan and ABL facilities with the facilities remaining committed until December 2023. The company introduced a new lender during 2020 with an additional facility committed to June 2023. The debt facilities also contain ring-fencing arrangements designed to protect the lenders. The financial covenants linked to the term loan facilities are managed at the parent level.

The directors have assessed Celsa (UK) Holdings Limited and its subsidiaries' (the group's) forecasted performance over the period to June 2022 with a particular focus on ensuring there is sufficient cash in the business and the business complies with covenants. A base case forecast has been prepared based on a gradual recovery in demand. A downside forecast has been prepared which assumes less favourable economic conditions which impact expected demand levels over the whole going concern period. These cases have been compared to a reverse stress test where volumes would need to reduce by 20% from the base case before there is a breach of one of the covenants. If this situation was to occur the directors have noted that there are mitigating actions available to them that can be implemented prior to any potential breach. Based on the above considerations, the directors have concluded that the reverse stress scenario test is remote.

Having undertaken this work, and noted the facilities that are in place to December 2023, the directors are of the opinion that the parent has access to adequate resources to continue in operational existence for the period of at least 12 months and considered through the period 30 June 2022. The Company benefits from a letter of support from Celsa (UK) Holdings Ltd being provided for at least the next twelve months from the date of signing the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report.

Principal activity

The company's principal activity during the year was the manufacture and re-rolling of steel products.

Results and Dividends

The operating loss for the year before taxation, interest and exceptional items amounted to £4,323 thousand (*2019 – profit of £2,211* thousand).

The directors do not recommend the payment of a dividend (*2019 – £nil*).

Directors

The directors who served during the year were:

L Sanz Villares
F Mesegue
A Fort
M McKillop

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Environmental matters

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to minimise any harm that might be caused by the group's activities. The company operates an Environmental Management System that is certified to ISO14001 which it has now maintained for the fifteenth year.

Future developments

The directors aim to maintain the policies of the company.

The company is fully committed to develop the Total Quality Management approach across the organisation.

The company continues to commit resources to the development of new products and processes where this activity is necessary to the evolution of its business and in order to keep it technologically in the forefront of the marketplace.

Research and development activities

Research and development cost relate to the development of new products

Engagement with employees

During the year employees have been regularly briefed on progress on company and departmental goals and targets; productive performance; market conditions, and points for action through the company team briefing procedure.

Annual meetings are held between management and employee representatives. Matters concerning the company's performance such as production, productivity and quality, trading performance, and capital investment are discussed, together with matters of general interest to employees such as company policies and procedures, health, safety and environmental issues, and welfare matters.

Employees are also encouraged to be involved in performance improvement projects through team working and other departmental improvement activities.

The company operates a Safety Management System that is certified to OHSAS 18001 which it has now maintained for the eleventh year. The full commitment to the Health and Safety policy is a priority for all employees across the company.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate.

Engagement with stakeholders

The directors and the company value long-term partnerships and aim to work collaboratively throughout the supply chain with customers, suppliers and other stakeholders.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

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

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

F Mesegue
Director

Date: 12 May 2021

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

The directors are responsible for preparing the Strategic Report, the Directors' 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 elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They 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 the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in Directors' Reports may differ from legislation in other jurisdictions.

Opinion
We have audited the financial statements of Celsa Manufacturing (UK) Limited for the year ended 31 December 2020 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 22 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view 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; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19
We draw attention to note 2 of the financial statements, which describe the economic consequences the company is facing as a result of the impact of COVID-19 and the group's funding position . Our opinion is not modified in respect of this matter.

Conclusions relating to going concern
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.

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 up until 30 June 2022.

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

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 102 and Companies Act 2006) and compliance with the relevant direct and indirect tax regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations to its operations, including health and safety and GDPR.

- We understood how the Company is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains and communicates its policies and procedures in these areas. We understood any controls put in place by management to reduce the opportunities for fraudulent transactions.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur through internal team conversations and inquiry of management and those charged with governance. Through these procedures we determined there to be a risk of management override associated with manipulation of accounts such as revenue and provisions to meet loan covenants. We also noted a fraud risk around revenue recognition, and in particular manual revenue journals throughout the period. We performed detailed journal entry testing over manual revenue journals and used lower testing thresholds in performing our substantive procedures for accounts identified to be susceptible to higher risk of management override.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures included verifying that material transactions are recorded in compliance with FRS 102 and where appropriate Companies Act 2006. Compliance with other operational laws and regulations was covered through our inquiry with no indication of non-compliance identified.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Ernst & Young LLP

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John Howarth (Senior statutory auditor)
for and on behalf of Ernst & Young LLP Statutory Auditor

Bristol, UK
13 May 2021

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £000	*2019* *£000*
Turnover	3	**372,822**	*432,838*
Change in stocks of finished goods and work in progress		**1,424**	*135*
Raw materials and consumables		**(277,029)**	*(323,594)*
Other operating and external charges		**(58,235)**	*(63,573)*
Staff costs	5	**(25,770)**	*(27,283)*
Depreciation	10	**(17,535)**	*(16,312)*
Operating (loss) / profit before interest and tax		**(4,323)**	*2,211*
Exceptional costs		**(762)**	*(2,300)*
Total operating loss		**(5,085)**	*(89)*
Interest payable and similar expenses	7	**(4,052)**	*(3,438)*
Loss before tax		**(9,137)**	*(3,527)*
Amortisation of financing costs		**(2,094)**	*(1,598)*
Loss on ordinary activities before taxation		**(11,231)**	*(5,125)*
Tax on loss	8	**(1,834)**	*(586)*
Loss for the financial year		**(13,065)**	*(5,711)*

There were no recognised gains and losses for 2020 or 2019 other than those included in the profit and loss account.

The notes on pages 13 to 26 form part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note		2020 £000		*2019 £000*
Fixed assets					
Tangible assets	10		**167,201**		*173,323*
Current assets					
Stocks	11	**11,665**		*10,242*	
Debtors	12	**117,399**		*76,605*	
Cash at bank and in hand		**16,484**		*14,851*	
		145,548		*101,698*	
Creditors: amounts falling due within one year	13	**(200,737)**		*(203,915)*	
Net current liabilities			**(55,189)**		*(102,217)*
Total assets less current liabilities			**112,012**		*71,106*
Creditors: amounts falling due after more than one year	14		**(123,864)**		*(69,996)*
Net (liabilities)/assets			**(11,852)**		*1,110*
Capital and reserves					
Called up share capital	17		**66,135**		*66,135*
Revaluation reserve			**23,723**		*26,886*
Profit and loss account			**(101,710)**		*(91,911)*
			(11,852)		*1,110*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 12 May 2021.

L Sanz Villares	**F Mesegue**	**A Fort**	**M McKillop**
Director	Director	Director	Director
Date: 12 May 2021	Date: 12 May 2021	Date: 12 May 2021	Date: 12 May 2021

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

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2019	**66,135**	**29,593**	**(89,462)**	**6,266**
Loss for the year	-	-	(5,711)	(5,711)
Transfer in respect of depreciation on revalued land and buildings	-	(3,262)	3,262	-
Transfer of deferred tax from revaluation reserve	-	555	-	555
At 1 January 2020	**66,135**	**26,886**	**(91,911)**	**1,110**
Loss for the year	-	-	(13,065)	(13,065)
Transfer in respect of depreciation on revalued land and buildings	-	(3,266)	3,266	-
Transfer of deferred tax from revaluation reserve	-	103	-	103
At 31 December 2020	**66,135**	**23,723**	**(101,710)**	**(11,852)**

The notes on pages 13 to 26 form part of these financial statements.

1. General information

Celsa Manufacturing (UK) Limited ('the company') is a private company limited by shares and is incorporated and domiciled in Wales. The address of its registered office is Building 58, East Moors Road, Cardiff, CF24 5NN.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A.

This information is included in the consolidated financial statements of Celsa (UK) Holdings Limited as at 31 December 2020 and these financial statements may be obtained from Building 58, East Moors Road, Cardiff, CF24 5NN.

2. Accounting policies (continued)

2.3 Going concern

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the company can continue in operational existence for the period of at least 12 months and considered through the period 30 June 2022.

In December 2018, the parent company Celsa (UK) Holdings Limited (the parent) renewed its Term Loan and Asset Based Lending (ABL) facilities. As a result, both facilities are committed until December 2023.The company is part of the guaranteeing group for these facilities and therefore the directors have considered going concern from a group-wide perspective.

During 2020, as a direct result of the COVID-19 pandemic the Celsa UK Group undertook a re-financing, which amended the conditions of its current term loan and ABL facilities with the facilities remaining committed until December 2023. The company introduced a new lender during 2020 with an additional facility committed to June 2023. The debt facilities also contain ring-fencing arrangements designed to protect the lenders. The financial covenants linked to the term loan facilities are managed at the parent level.

The directors have assessed Celsa (UK) Holdings Limited and its subsidiaries' (the group's) forecasted performance over the period to June 2022 with a particular focus on ensuring there is sufficient cash in the business and the business complies with covenants. A base case forecast has been prepared based on a gradual recovery in demand. A downside forecast has been prepared which assumes less favourable economic conditions which impact expected demand levels over the whole going concern period. These cases have been compared to a reverse stress test where volumes would need to reduce by 20% from the base case before there is a breach of one of the covenants. If this situation was to occur the directors have noted that there are mitigating actions available to them that can be implemented prior to any potential breach. Based on the above considerations, the directors have concluded that the reverse stress scenario test is remote.

Having undertaken this work, and noted the facilities that are in place to December 2023, the directors are of the opinion that the parent has access to adequate resources to continue in operational existence for the period of at least 12 months and considered through the period 30 June 2022. The Company benefits from a letter of support from Celsa (UK) Holdings Ltd being provided for at least the next twelve months from the date of signing the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report.

2.4 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate.

2. Accounting policies (continued)

2.5 Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and group companies and is attributable to the manufacture and re-rolling of steel products. Turnover is recognised upon shipment.

2.6 Operating leases

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

2.7 Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

2.8 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Profit and Loss Account in the same period as the related expenditure.

2.9 Deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatments of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

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

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2.10 Exceptional items

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

2. Accounting policies (continued)

2.11 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Freehold buildings	-	3 - 50 years
Plant and machinery	-	3 - 30 years
Fixtures and fittings	-	10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Assets in the course of construction are not depreciated until the project is completed and the assets are commissioned.

2.12 Revaluation of tangible fixed assets

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The decrease of an asset's carrying amount as a result of a revaluation shall be recognised in equity to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

2.13 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

2. Accounting policies (continued)

2.14 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

2.15 Pensions

The company operates a defined contribution scheme. Contributions are charged to the profit and loss account as they fall due.

2.16 Capitalised finance cost

Interest occurring on borrowings to finance specific capital projects is capitalised, gross of tax related credits until completion of the project. It also includes any accrued interest in addition to the cash paid interest on the borrowings.

2.17 Deferred financing costs

Financing costs incurred on refinancing borrowings are deferred and amortised over the life of the borrowings.

2.18 Basic financial instruments

(i) Financial assets

Financial assets, including trade and other receivables, amounts due from group companies and cash and bank balances are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are settled.

2. Accounting policies (continued)

(ii) Financial liabilities

Financial liabilities, including bank loans and amounts due to group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

3. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and group companies and is attributable to the manufacture and re-rolling of steel products.

All turnover arose within the United Kingdom.

4. Operating loss

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

	2020	*2019*
	£000	*£000*
Auditors' remuneration - audit services	**147**	*154*
Operating lease rentals - land and buildings	**160**	*160*
- plant and machinery	**351**	*296*
CJRS grant	**(996)**	*-*
Exchange losses/(gains)	**1,288**	*(1,116)*

5. Staff Costs

Staff costs were as follows:

	2020 £000	*2019* *£000*
Wages and salaries	**22,647**	*23,965*
Social security costs	**2,152**	*2,330*
Other pension costs	**971**	*988*
	25,770	*27,283*

The average monthly number of employees during the year was as follows:

	2020 No.	*2019* *No.*
Administration	**143**	*141*
Manufacturing	**572**	*539*
	715	*680*

6. Directors' remuneration

The directors of this company have not received any payment from it directly. The holding company of the Group, (Celsa (UK) Holdings Ltd) have paid the remuneration to all the directors of the Group (Holdings and fellow subsidiaries). The amount apportioned for the directors giving service to this company add up to £173,820 (*2019 – £193,493*).

7. Interest payable and similar expenses

	2020 £000	*2019* *£000*
Loans and overdrafts	**4,052**	*3,438*

8. Taxation

	2020 £000	*2019 £000*
Current tax		
Adjustments in respect of previous periods	**1,210**	*(1,119)*
Total current tax	**1,210**	*(1,119)*
Deferred tax		
Adjustments in respect of previous years	**1,369**	*16*
Deferred tax (credit)/charge for the year	**(745)**	*1,689*
Total deferred tax	**624**	*1,705*
Taxation on loss on ordinary activities	**1,834**	*586*

Factors affecting tax charge for the year

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

	2020 £000	*2019 £000*
Loss on ordinary activities before tax	**(11,231)**	*(5,125)*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	**(2,134)**	*(974)*
Effects of:		
Expenses not allowed for tax purposes	**(26)**	*122*
Depreciation on assets ineligible for capital allowances	**767**	*767*
Changes in tax rates	**(1,137)**	*9*
Deferred tax not recognised	**1,785**	*1,765*
Adjustments to tax charge in respect of prior periods	**2,579**	*(1,103)*
Total tax charge for the year	**1,834**	*586*

8. Taxation (continued)

Factors that may affect future tax charges

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%.

Deferred tax should be measured at the tax rates that are expected to apply to the period when the timing difference is reversed, based on rates that have been enacted or substantively enacted by the balance sheet date. As at 31 December 2020 the rate substantively enacted for periods after 1 April 2020, when the timing differences were expected to reverse, was 19%, therefore deferred tax has been recognised at this rate.

In the 3 March 2021 Budget it was announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date any deferred tax asset/liabilities recognised would need to be updated to reflect this rate change.

9. Deferred taxation

	2020	*2019*
	£000	*£000*
At beginning of year	**8,229**	*9,379*
Charged to profit and loss account	**(624)**	*(1,705)*
Charged to other comprehensive income	**103**	*555*
At end of year	**7,708**	*8,229*

The deferred tax asset is made up as follows:

	2020	*2019*
	£000	*£000*
Capital allowances in advance of depreciation	**(12,898)**	*(12,106)*
Unutilised tax losses	**22,703**	*22,758*
Other timing differences	**3,226**	*1,968*
Revaluation of assets	**(5,323)**	*(4,391)*
	7,708	*8,229*

10. Tangible fixed assets

	Freehold buildings £000	Plant and machinery £000	Fixtures and fittings £000	Assets *in* course of construction £000	Total £000
Cost or valuation					
At 1 January 2020	**32,574**	**228,137**	**496**	**4,252**	**265,459**
Additions	**-**	**11,413**	**-**	**-**	**11,413**
At 31 December 2020	**32,574**	**239,550**	**496**	**4,252**	**276,872**
Depreciation					
At 1 January 2020	**7,344**	**84,372**	**420**	**-**	**92,136**
Charge for the year	**1,224**	**16,296**	**15**	**-**	**17,535**
At 31 December 2020	**8,568**	**100,668**	**435**	**-**	**109,671**
Net book value					
At 31 December 2020	**24,006**	**138,882**	**61**	**4,252**	**167,201**
At 31 December 2019	*25,230*	*143,765*	*76*	*4,252*	*173,323*

The net book value of tangible fixed assets above includes £2,744 thousand (*2019 – £2,994 thousand*) in respect of capitalised finance costs.

The company applied the transitional arrangements of Section 35 of FRS 102 and the fair value valuation as the deemed cost for freehold buildings and plant and machinery. The items are being depreciated from the transition date. As the assets are depreciated or sold an appropriate transfer is made from the revaluation reserve to retained earnings.

Plant, machinery and buildings were independently revalued on the basis of open market value and by Intervalor Consultancy Group S.A. in December 2015, which was the date of the last full valuation.

Analysis of the land and buildings and plant & machinery valued at the date of transition to FRS 102 using the deemed cost exemption:

	2020 £000	*2019 £000*
Historical net book value equivalent	**139,185**	*142,045*
Revaluation	**28,016**	*31,278*
Net book value	**167,201**	*173,323*

11. Stocks

	2020 £000	*2019 £000*
Consumables	**11,665**	*10,242*

12. Debtors

		2020 £000	*2019 £000*
Trade debtors		**1,255**	*1,677*
Amounts owed by group undertakings		**106,028**	*62,081*
Other debtors		**2,136**	*2,843*
Prepayments and accrued income		**272**	*1,775*
Deferred taxation	9	**7,708**	*8,229*
		117,399	*76,605*

Amounts falling due after more than one year included above are:

Deferred tax asset	9	**7,708**	*8,229*

13. Creditors: Amounts falling due within one year

		2020 £000	*2019 £000*
Bank loans	15	**11,593**	*4,000*
Trade creditors		**118,378**	*118,443*
Amounts owed to group undertakings		**56,435**	*72,579*
Other taxation and social security		**616**	*617*
Accruals and deferred income		**13,715**	*8,276*
		200,737	*203,915*

Amounts owed to group undertakings are non-interest bearing and payable on standard payment terms.

14. Creditors: Amounts falling due after more than one year

		2020 £000	*2019 £000*
Bank loans	15	**73,443**	*46,584*
Amounts owed to group undertakings		**46,014**	*19,489*
Accruals and deferred income		**4,407**	*3,923*
		123,864	*69,996*

Amounts owed to group undertakings are either non-interest bearing or bear interest at LIBOR +1%. All are repayable by 31 December 2023.

15. Loans

Analysis of the maturity of loans is given below:

	2020 £000	*2019 £000*
Amounts falling due:		
Within one year	**11,593**	*4,000*
In two to five years	**81,618**	*53,202*
	93,211	*57,202*
Less: deferred financing costs	**(8,175)**	*(6,618)*
	85,036	*50,584*

The total limits made available to the Celsa UK Group (Celsa (UK) Holdings Limited) as at 31st December 2020 are as follows:

Term Loan Facilities	£93.2m
Asset Based Lending Working Capital Facilities	£160.0m
	£253.2m

The Term Loan is repayable by instalments until December 2023. Interest is charged at spread above LIBOR per annum. The main financial covenants linked to the Celsa UK term loan facilities are debt leverage and interest coverage.

Celsa UK Group has an Asset Based Lending working capital facility up to £160m committed until December 2023 secured by a fixed charge on the trade debtors and inventory, and various plant and equipment. Interest is payable at a spread above LIBOR per annum.

16. Deferred income

Government grants	**2020**	*2019*
	£000	*£000*
At 1 January	**3,923**	*3,429*
Amounts received during the year	**975**	*899*
Amounts recognised in profit and loss account	**(491)**	*(405)*
At 31 December	**4,407**	*3,923*

17. Share capital

	2020	*2019*
	£000	*£000*
Allotted, called up and fully paid		
66,134,703 *(2019 - 66,134,703)* Ordinary shares shares of £1 each	**66,135**	*66,135*

A single £1 B ordinary share was re-designated as a single £1 Ordinary share on 18 February 2019. The Ordinary share confers on the holder all the rights of an Ordinary share to participate at general meetings, in dividends and on the distribution of available assets on a return of capital of the company.

18. Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. There are £142 thousand of unpaid contributions outstanding at 31 December 2020 (2019 – £nil).

19. Commitments under operating leases

At 31 December 2020 the company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020	*2019*
	£000	*£000*
Not later than 1 year	**556**	*457*
Later than 1 year and not later than 5 years	**1,428**	*1,581*
Later than 5 years	**988**	*1,147*
	2,972	*3,185*

20. Exceptional costs

	2020	*2019*
	£000	*£000*
Exceptional operating costs	**762**	*2,300*
	762	*2,300*

The exceptional costs for the current year relate directly to COVID-19 operating actions.The exceptional costs for the prior year relate to costs arising from a one off extraordinary and unexpected shutdown in one of the mills in 2015 which are payable in following years.

21. Related party transactions

The company is exempt from disclosing related party transactions as they are with companies that are wholly owned within the Group.

22. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Celsa (UK) Holdings Limited, a company incorporated in England & Wales. The ultimate parent undertaking and controlling party is Catalunya Steel SL, which is a company incorporated in Spain.

The smallest and largest group in which the results of the company are consolidated is that headed by Celsa (UK) Holdings Limited, whose financial statements are available from Building 58, East Moors Road, Cardiff CF24 5NN.