

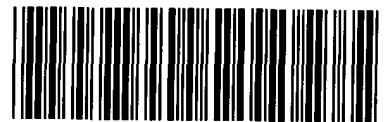
**Company Registration No. 10185111**

**British Steel Holdings Limited**

**Annual Report and Consolidated Financial Statements**

**For the year ended 31 March 2018**

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**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

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**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

**Group Information**

**Directors**  
D M Goldstein  
R Junck  
P R Martin  
M J Meyohas  
N J Meyohas  
R C Perlhagen  
G Reichmann  
A W M J Deelen

**Company Secretary** D P Hargreaves

**Registered office** 31 Hill Street  
London  
W1J 5LS  
United Kingdom

**Auditor** Deloitte LLP  
Statutory Auditor  
Leeds  
United Kingdom

## Strategic Report

The Directors of British Steel Holdings Limited ("the Company") and its subsidiaries (together "the Group"), present their Strategic Report and audited consolidated financial statements for the year ended 31 March 2018. The Company was incorporated on 17 May 2016 and acquired British Steel Limited and its subsidiaries on 1 June 2016 from Tata Steel UK Limited ("TSUK"). This report reflects the second year's consolidated performance of the Group.

In its first 12 months of operation the Group launched the second phase of its transformation plan during 2017/18 and this is expected to deliver further benefits during financial year 2018/19.

### Group background

British Steel – an old name but a new brand – was launched on 1 June 2016. The Group has a current annual turnover of £1.4bn and is a leading European steel producer making circa 2.8 million tonnes of steel per annum.

The business includes an integrated steelworks, in Scunthorpe in the UK, with four blast furnaces (Mary, Bess, Anne and Victoria – the four queens) of which two are in operation, a BOS (Basic Oxygen Steel) route making 1,450 tightly controlled steel specifications, four casters manufacturing slabs, blooms and billets and three mills. The company also converts steel into finished products at its rolling mills in Hayange (France), Teesside and Skinningrove in the North East of England. During financial year 2017/18 the business acquired FNsteel (a rod mill and downstream operations) in Holland – a complementary asset for the existing business structure.

These core manufacturing facilities are complimented by a number of downstream distribution businesses and sales offices across the globe including USA, Germany, Spain, Italy, Sweden, Netherlands, Poland, Singapore and Taiwan.

The company's product range includes sections, wire rod, special profiles and rail supplied to a wide range of demanding global markets. The company also sells semi-finished products including slab, bloom and billet to a growing customer base.

### Principal activities

The principal activities are the manufacture and sale of steel throughout the world. The Group produces carbon steel by the basic oxygen steelmaking method at an integrated steelworks in the UK based in Scunthorpe. Long steel products are manufactured in rolling mills at Scunthorpe, Teesside, Skinningrove, Hayange (France), and Alblasterdam (Holland) including rail, sections, profiles and wire rod.

### Business review

The results of the Group are as follows:

	<b>Year ended 31 March 2018</b>	Period ended 31 March 2017
	<b>£000</b>	£000
(Loss)/profit before taxation	<b>(2,018)</b>	62,025
Corporation tax credit/(charge)	<b>8,427</b>	(1,663)
Profit for the year	<b><u>6,409</u></b>	<u>60,362</u>

The Group's trading performance is shown in the Group's Consolidated Statement of Comprehensive Income on page 15. The Group's Consolidated Statement of Financial Position on page 17 of the financial statements shows that total equity was £82.4m as at 31 March 2018 (2017: 70.5m) and the Company's Statement of Financial Position on page 19 of the financial statements shows that the total equity was £nil (2017: £nil).

The Directors regard sales, adjusted EBITDA and operating profit as the key performance indicators. Adjusted EBITDA is EBITDA that has been adjusted to remove rationalisation costs incurred as part of the major multi-year restructuring and separation programmes implemented in relation to the separation of the British Steel Group from Tata Steel UK Limited. Adjusted EBITDA also excludes any gain on bargain purchase recognised in relation to acquisitions in the year. Management believe adjusted EBITDA as an alternative performance measure provides additional useful information on the underlying trends, performance and position of the Group. A reconciliation between adjusted EBITDA and operating profit is shown in the Consolidated Statement of Comprehensive Income on page 15.

Sales during the year were £1,354m (2017: £991m) and adjusted EBITDA was £21m (2017: £48m) compared to EBITDA of £33m (2017: £87m), however given the one-off unplanned repair and recovery work that had to be undertaken at one of the blast furnaces which resulted in a significant loss of production and sales volume, the directors believe that the reported adjusted EBITDA does not reflect the inherent performance of the business and that the delivery of the second year of the Group's transformation plan means it is in a stronger position looking forward than the 2017/18 results would imply.

## **Strategic Report (continued)**

### **Business review (continued)**

The balance sheet shows the Group in a £82.4m (2017: £70.5m) net asset position at the end of the financial year and it continues to invest with £88.5m (2017: £33.5m) incurred on capital expenditure and intangible additions in the current year and a net working capital position of £261.2m (2017: £289.7m) including cash and cash equivalent balance of £22.2m (2017: £53.0m). Included in non-current liabilities are the pension liabilities related to TSP Projects and British Steel France Rail.

The Directors feel that in our second year of trading we have proved that despite a difficult second quarter (due to the one-off unplanned repair and recovery work mentioned above) we have been able to continue turning the business around. We have continued to seek investment and have grown our footprint with the acquisition of new business. Through a continued push to deliver our robust transformation programme, the business has improved operational profitability and continues to move in the right direction.

Together with our shareholder we continued our transformation in line with the principles of entrepreneurship, agility, flexibility and responsiveness. The emphasis on ownership and responsibility remains key to us keeping on track. Changes to our Board and Executive team during the past 12 months have brought fresh ideas and new perspectives to the business. These, in addition to the experienced members of the Board and Executive team who have been with the business for a much longer period of time, give the business a strong leadership base from which to grow.

Under the Board structure we continue to operate five separate Business Units to help deliver the financial results we need. Each of these continues to be managed on their individual profit and loss performance and has clear focus on their own pertinent strategic goals. This approach enables us to operate them as businesses in their own right – it helps us to clearly understand better the challenges, the opportunities and the risks that each area of the business is facing.

Our British Steel vision focusses on three important levels:

- First, locally through positive stakeholder engagement we want to become a leader of business and community re-development in the areas in which we operate;
- Secondly, in the UK (and France) we want to be the national champion in our chosen markets – recognised as the centre of competence for steel making and the partner of choice; and
- Thirdly, internationally we want to be a competitive exporter and the right strategic business partner.

### **Our Business Units**

#### **Primary Products**

This is the supplier of steel for the downstream divisions of British Steel as well as having an established market position for semi-steel products. It is focused on operational efficiency, implementing a set of targeted actions across the whole cost base and further developing long-term strategic relationships in market segments and with customers for primary products that demand high quality BOS grade steels.

#### **Construction**

A supplier of sections and other steel products into the UK and other markets. It seeks to develop an improved product range service offering which will allow the company to offer added value to high value customers through delivering differentiated service and technical solutions.

#### **Rail**

A business with rail mills in the UK and France, offering highly technical and complex product and service solutions into the UK, France and other markets. The Rail division continues to innovate and improve product and service offering, especially to key clients. It uses British Steel's expanding commercial footprint to continue growing sales in European and international markets and leverage quality IP to offer higher value specialist solutions in technically challenging markets.

#### **Rod**

A supplier of rod product into the European market, expanding its technical range and capability of the business to support its continued growth into differentiated and automotive markets, focusing on its service and technical offering into the market. This area of our business has been enhanced in the last 12 months with our acquisition of FNsteel.

#### **Special Profiles**

Bespoke steel profiles predominantly used in the Earth Moving and Mining sectors. We are continuing to develop service and high quality offering with key customers and seeking to expand and improve the product range, continuing to innovate with unique offerings into the market.

## **Strategic Report (continued)**

### **Business transformation**

As mentioned above, during 2017/18 the business launched the second phase of its transformation programme. This focuses on a number of key activities and efficiency projects. The business is also actively seeking to create a culture of continuous improvement and innovation and has invested in a significant employee training programme at all levels to help embed this throughout the organisation.

The Group is operating in a challenging market environment but sees that the pace of improvement continues into 2018/19 with the refreshed Board and Executive team structure supporting the long term strategic prospects of the Group and underpinning the further growth in profitability of the Company.

### **Investments and acquisitions**

The Group continues to invest in the business to maintain the existing capabilities of the business while looking to identify targeted investment opportunities to grow the product range and capability of the business in line with the overall development strategy of the Group, either through organic growth or inorganic growth where it can enhance the footprint and strategic range of the business. A further £88.5m (2017: £33.5m) was spent on capital expenditure and intangible additions during 2017/18. As mentioned above the Group also acquired FNsteel in the Netherlands during 2017/18 and continues to pursue and investigate other potential acquisitions that would complement the existing structure and help achieve the overall vision.

### **Principal risks and uncertainties**

Competitive pressure in Europe is a continuing risk for the Group. The Group manages this risk by competitive pricing, management of product range and availability.

Following the vote in 2016 to leave the European Union (EU), there is considerable uncertainty in regards to interest rates, currency values, consumer disposable income and consumer spending. The Group continues to monitor the position of all the macro elements of the economy, both current and forecast. The Group will adapt any plans as necessary to mitigate any negative effects of the vote to leave the EU, but it is too early at the signing date of these financial statements for any specific plans to be developed or acted upon as the full effects of the vote will not be known for some time.

Similarly the US tariffs have the potential to cause some level of risk but as yet there is still uncertainty about exactly what these will mean for European business. We will make appropriate plans in due course to ensure that any impact by such tariffs has a minimal detriment to our overall business.

As the business develops and employs more technology this results in an increased risk relating to cyber security. There are risk strategies in place to mitigate this risk which include a cyber security education programme for all staff, appropriate security and updates of all systems and devices, firewalls, backups, critical back office systems being hosted in an ISO27001 certified data centre and the implementation of a managed security consultancy service to advise on new and emerging threats.

Financial instrument risks are covered under the Financial Instruments section.

The Group's ultimate parent company is Olympus Steel 2 Limited, a company incorporated in Jersey, the accounts of which are neither consolidated nor publicly available. The Directors consider Marc Meyohas, Nathaniel Meyohas and Storfond Limited the ultimate controlling parties of the Company.

The Group has access to considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

Approved by the Board on 12 July 2018 and signed on its behalf by:



**G Reichmann**  
Director

## **Directors' Report**

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 March 2018.

### **Results and dividends**

The Group profit for the financial year amounted to £6.4m (2017: £60.4m). The Directors do not recommend a dividend payment. The Directors are optimistic for the future prospects for the group's businesses.

### **Directors**

The Directors who held office during the period and to the date of this report were as follows:

P Bernscher (appointed 2 May 2017, resigned 20 December 2017)

D M Goldstein

R Junck (appointed 2 May 2017)

P R Martin (appointed 2 May 2017)

S A Mason (appointed 2 May 2017, resigned 4 October 2017)

M J Meyohas

N J Meyohas

R C Perlhagen

G Reichmann (appointed 1 November 2017)

A W M J Deelen (appointed 4 May 2018)

The Company has indemnified its current Directors. The indemnity arrangements are qualifying indemnity provisions under the Companies Act 2006 and are currently in force at the date of this Annual Report.

### **Working responsibility - Environment**

British Steel recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by its activities. All of the Group's manufacturing sites operate under the control of an Environmental Management System certified to ISO 14001.

The Group actively looks for ways to improve its efficiencies, small and large. It carries out a robust programme of detailed energy audits. It also captures its process gases and uses them to generate electricity and steam to power its manufacturing processes. Manufacturing facilities are operated to maximise the volume of by-product materials generated for use by others such as blast furnace slag in concrete and steel making slag in civil engineering.

Where it is not possible to re-use our by-products internally, we operate recycling centres to reduce by-products to landfill. The company's sites are home to a wide variety of wildlife, including some rare and protected species such as great-crested newts, water voles, badgers and bats.

### **Working responsibility – Sustainability**

The Group has a record of developing innovative products and processes that contribute to a lower carbon future.

Sustainability is embedded in our company ethos, and we are committed to leading the UK steel industry in this arena. It earns a 'very good' rating under the sustainability standard BES 6001 which recognises it makes its products using responsibly sourced materials. Achieving the BES 6001 standard certifies it can continually improve in energy efficiency, greenhouse gas emissions and waste management, and engage positively with the communities in which it operates.

### **Working responsibility – Communities**

The Group supports its local communities through a strategy known as the 'Building Stronger Communities programme'. This initiative, which includes in-kind support, brings sustainable benefits to large groups of individuals with themes covering learning and skills, health, safety and wellbeing and protecting and enhancing the environment.

## **Directors' Report (continued)**

### **Employees**

Details of the number of employees and related costs can be found in note 8 to the financial statements.

Within British Steel there are well established and effective arrangements at each business location for communication and consultation with trade union representatives to systematically provide employees with information on matters of concern to them. Well-developed policies and procedures operate in all parts of the business for the purpose of consulting and negotiating with trade unions and employee representatives on a regular basis, so that views of employees can be taken into account in making decisions that are likely to affect their interests.

British Steel's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities and employs them where suitable work can be found. The requirements of job applicants and existing members of staff who have a disability are reviewed to ensure that reasonable adjustments are made to enable them to perform as well as possible during the recruitment process and while employed. All reasonable measures are taken to ensure that disabled employees are given the opportunity and facilities to participate fully in the workplace, in training and in career development and promotion opportunities. In addition, every effort is made to find appropriate alternative jobs for those who become disabled while working for the business.

### **Employee involvement**

British Steel is committed to involving all employees in the performance and development of the company. Employees are encouraged to discuss matters of interest and subjects affecting day-to-day operations with local management. They also get regular opportunities to talk to the Executive team through things such as the quarterly all-employee WebEx. Employees are also encouraged to use continuous improvement techniques and to challenge things that they feel could be done differently.

### **Research and development**

The Group invests in research and development in order to bring about changes in product and process developments.

### **Slavery and human trafficking statement**

Section 54 of the Modern Slavery Act 2015 requires relevant organisations carrying on business in the UK to publish a statement setting out the steps taken to ensure that no slavery or human trafficking is taking place within the organisation or supply chains. A supplier visit will be carried out for any new, material supplier. Periodic reviews are then carried out by asking suppliers to resubmit a questionnaire response and evidence. The Board of British Steel has approved a statement setting out the measures taken by the Group during the financial year ending 31 March 2018.

### **Going concern**

The Directors expect that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future as both the Company and the Group have adequate net assets. The business retains a strong liquidity position, with significant headroom in its asset based lending facilities and a revolving cash facility from Olympus Steel. Subsequent to the year end the Group's borrowing facilities have been extended, with the earliest potential maturity now being June 2021. As part of this going concern review a number of sensitivities were undertaken around sales volumes, levels of gross margin and changes in exchange rates, to ensure the business would continue to be a going concern in more adverse market conditions.

The Directors' assessment of going concern considers the impact of the risks and uncertainties set out in the strategic report. After considering the impact of reasonably possible downside sensitivity analysis and after making enquiries and considering relevant uncertainties, the Directors' have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Thus we continue to adopt the going concern basis in preparing the annual financial statements.

### **Dividends**

There has been no interim dividend paid or declared in the period.



## **Directors' Report (continued)**

### **Financial instruments**

The principal financial instruments held by the Group are as follows:

- Cash, trade and other receivables and trade and other payables;
- Bank borrowings, including bank loans, term loans and overdrafts;
- Forward contracts;
- Contingent consideration; and
- Investments in subsidiaries and other Group companies.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks and they are summarised below.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of borrowings. At 31 March 2018, 100% (2017: 100%) of the Group's borrowings are on floating interest rates.

#### **Liquidity risk**

The Group monitors its risk of a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of secured and unsecured bank loans and overdrafts. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding.

#### **Exchange rate risk**

Exchange rate risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's investments in foreign subsidiaries.

The Group manages its exchange rate risk by hedging transactions that are expected to occur within a maximum 12 month period for sales and purchases.

#### **Disclosure of information to the auditor**

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Independent Auditor**

Deloitte LLP have expressed their willingness to continue in office as auditor.

Approved by the Board of Directors on 12 July 2018 and signed on its behalf by:



**G Reichmann**  
Director

## **Directors' Responsibilities Statement**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial period. Under that law they have elected to prepare the Group financial statements in accordance with International Financial reporting Standards ("IFRSs") as adopted by the EU and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

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 Group and parent company and of their profit or loss for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 may differ from legislation in other jurisdictions

## Independent Auditor's Report to the Members of British Steel Holdings Limited

### Report on the audit of the financial statements

#### Opinion

##### In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of British Steel Holdings Limited (the "parent company") and its subsidiaries (together the "Group") which comprise:

- the Consolidated statement of comprehensive income;
- the Consolidated and Parent company statement of financial position;
- the Consolidated and Parent company statement of changes in equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 32

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### 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 group and the parent 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 as applied to listed entities, 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.

#### Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• revenue recognition – cut-off;</li> <li>• completeness and accuracy of purchase price allocation fair value adjustments; and</li> <li>• recoverability of research and development tax credit receivables.</li> </ul>
<b>Materiality</b>	<p>The materiality that we used for the Group financial statements in the current year was £6.0 million which was determined on the basis of revenue. The materiality that we used for the parent company financial statements in the current year was £3.7 million which was determined on the basis of total assets.</p>
<b>Scoping</b>	<p>Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.</p>

## Independent Auditor's Report to the Members of British Steel Holdings Limited (continued)

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:




- the directors' use of the going concern basis of accounting in 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 group's or the parent 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.

**We have nothing to report in respect of these matters.**




### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.




These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition – cut-off	
<b>Key audit matter description</b> 	Revenue of £1,352 million (note 4) is initially recognised on dispatch of the goods from the site and is then subjected to manual adjustments following management review to align recognition with completion of performance obligations. This to take account of the fact that there are a range of sale terms agreed with customers, meaning that in some instances the risks and rewards of ownership will not transfer from British Steel to the customer until the point at which the stock is delivered to the customer location. Since some stock is shipped overseas, it can take in excess of a month for stock to be received by the customer. Therefore, due to the varied terms of sale, the need for non-systematic accounting treatment and manual adjustments, a key audit matter has been identified in relation to the cut-off of revenue.
<b>How the scope of our audit responded to the key audit matter</b> 	The following procedures have been performed: <ul style="list-style-type: none"> <li>- evaluated the design and implementation of key controls in place to prevent fraud in revenue recognition cut-off;</li> <li>- determined the basis of the manual revenue adjustment and the underlying assumptions regarding delivery days to overseas destinations to ensure consistency with the requirements of IAS18 and alignment with the Group's revenue recognition policy;</li> <li>- tested management's assumptions regarding delivery days; and</li> <li>- tested the accuracy and completeness of the IAS 18 revenue adjustment by tracing a sample of dispatches through to supporting shipping documentation.</li> </ul>
<b>Key observations</b> 	The results of our testing were satisfactory. We concur with the basis of revenue recognition and are satisfied that revenue is appropriately stated.

**Independent Auditor's Report to the Members of British Steel Holdings Limited (continued)**

<b>The completeness and accuracy of purchase price allocation fair value adjustments</b>	
<b>Key audit matter description</b> 	<p>During the year ended 31 March 2018 the Group completed the acquisition of the entire share capital of FNsteel B.V. (note 2). The acquisition is accounted for in accordance with the requirements of IFRS3 "Business Combinations" and this requires judgement to be applied in the process of identification and valuation of intangible assets and the determination of other fair value adjustments to the net assets within the acquired business. This process is inherently complex and a risk exists that intangible assets may be incorrectly identified and valued.</p>
<b>How the scope of our audit responded to the key audit matter</b> 	<p>The following procedures have been performed:</p> <ul style="list-style-type: none"> <li>- evaluated the design and implementation of key controls related to acquisition accounting;</li> <li>- engaged internal valuation specialists to audit the final purchase price allocation report including compliance with IFRS 3 "Business Combinations" and challenging management to justify the key assumptions in the business plan;</li> <li>- performed focused testing on the completeness and accuracy of the fair value adjustments; and</li> <li>- assessed the appropriateness of the useful economic lives of assets as determined by management.</li> </ul>
<b>Key observations</b> 	<p>The results of our testing were satisfactory. We concur that the judgements made by management in identifying and valuing intangible assets within the acquired business, and for determining fair value adjustments, are reasonable.</p>

<b>Recoverability of research and development tax credit receivables</b>	
<b>Key audit matter description</b> 	<p>During the year the Group has recognised receivables of £25m in relation to research and development ("R&amp;D") tax credits (note 1). These credits relate to qualifying expenditure incurred in the three years since incorporation.</p> <p>This is the first time that the group has submitted a claim of this nature and size so there is currently no successful claims history (however we note that similar, but smaller, claims were submitted under the previous ownership). The judgemental nature of key assumptions underlying the calculation of qualifying expenditure, coupled with the ongoing assessment by HMRC, gives rise to a significant risk of recoverability of the recognised asset.</p>
<b>How the scope of our audit responded to the key audit matter</b> 	<p>The following procedures have been performed:</p> <ul style="list-style-type: none"> <li>- evaluated the design and implementation of key controls related to R&amp;D tax credits;</li> <li>- engaged internal R&amp;D tax specialists to audit the calculations performed and assumptions adopted by management;</li> <li>- held discussions with management, their tax advisors, the British Steel technical team and the British Steel in house tax team to understand and challenge the assumptions in management's detailed claim for 2015/16;</li> <li>- detailed testing on the underlying detail in the claims.</li> </ul>
<b>Key observations</b> 	<p>The results of our testing were satisfactory. We concur that the judgements made by management in recognising the R&amp;D tax credits are reasonable.</p>

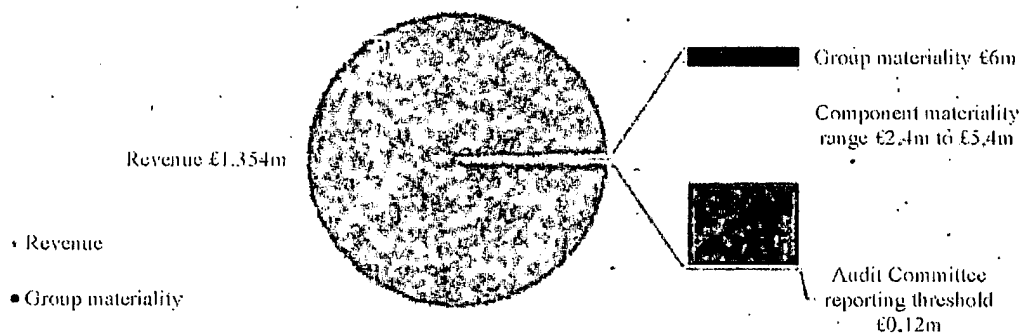
## Independent Auditor's Report to the Members of British Steel Holdings Limited (continued)

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Materiality</b>	£6.0 million	£3.7 million
<b>Basis for determining materiality</b>	0.44% of revenue	2% of total assets
<b>Rationale for the benchmark applied</b>	We determined materiality based on revenue as this is the key metric used by management, investors, analysts and lenders, with shareholder value being driven by revenue movements.	We determined materiality based on total assets as the parent company is highly leveraged.



We agreed with the directors that we would report to the directors all audit differences in excess of £120,000 for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## Independent Auditor's Report to the Members of British Steel Holdings Limited (continued)

### An overview of the scope of our audit

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Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Full scope audit procedures were performed by local audit teams to component materiality for all trading entities, with component materiality ranging from £2.4 million to £5.4 million, covering 100% of revenue. All of these entities are subject to a local statutory audit.

Component auditors were directed and supervised by the Group audit team. Procedures included attendance on planning and closing calls for British Steel France Rail S.A.S. and a visit to FNsteel B.V., followed by regular status update calls with the component audit team and a review of work papers related to key audit matters.

### Other information

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

**We have nothing to report in respect of these matters.**

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

### Responsibilities of directors

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As explained more fully in the statement of directors' responsibilities, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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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.

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

**Independent Auditor's Report to the Members of British Steel Holdings Limited (continued)**

**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.

**Report on other legal and regulatory requirements**

**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 the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and or the parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**Matters on which we are required to report by exception**

*Adequacy of explanations received and accounting records*

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

*Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

**We have nothing to report in respect of this matter.**



Matthew Hughes BSc (Hons), ACA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Leeds, United Kingdom  
12 July 2018



**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

**Consolidated Statement of Comprehensive Income**  
**for the year ended 31 March 2018**

	Note	Year ended 31 March 2018 £000	Period from 17 May 2016 to 31 March 2017 £000
Revenue	4	1,354,382	990,554
Operating costs	5	(1,331,753)	(909,860)
<b>Operating profit</b>		<b>22,629</b>	<b>80,694</b>
<b>EBITDA before rationalisation costs and gain on bargain purchase</b>		<b>21,102</b>	<b>47,847</b>
Rationalisation costs	7	(3,108)	(11,085)
Gain on bargain purchase	2/5	15,465	49,822
<b>EBITDA</b>		<b>33,459</b>	<b>86,584</b>
Depreciation and amortisation	5	(10,830)	(5,890)
<b>Operating profit</b>		<b>22,629</b>	<b>80,694</b>
Finance income	10	1,936	10
Finance expense	11	(26,583)	(18,679)
<b>(Loss)/profit before taxation</b>		<b>(2,018)</b>	<b>62,025</b>
Tax on (loss)/profit	12	8,427	(1,663)
<b>Profit for the financial year/period</b>		<b>6,409</b>	<b>60,362</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gains and losses in the year/period		3,685	(9,065)
Deferred tax on defined benefit pension schemes		(1,852)	7,235
		<b>1,833</b>	<b>(1,830)</b>
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange rate movements on currency net investments		3,649	8,557
		<b>3,649</b>	<b>8,557</b>
<b>Other comprehensive income for the year/period</b>		<b>5,482</b>	<b>6,727</b>
<b>Total comprehensive income for the year/period</b>		<b>11,891</b>	<b>67,089</b>

**Consolidated Statement of Comprehensive Income (continued)**  
**for the year ended 31 March 2018**

	Note	Year ended 31 March 2018 £000	Period from 17 May 2016 to 31 March 2017 £000
<b>(Loss)/profit attributable to:</b>			
Owners of the parent		6,678	60,362
Non-controlling interest	3	(269)	-
		<u>6,409</u>	<u>60,362</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		12,160	67,089
Non-controlling interest	3	(269)	-
		<u>11,891</u>	<u>67,089</u>

All results derive from continuing operations.

The notes on pages 23 to 63 form an integral part of these financial statements.

**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

**Consolidated Statement of Financial Position**  
**as at 31 March 2018**

	Note	31 March 2018 £000	31 March 2017 £000
<b>Non current assets</b>			
Property, plant and equipment	13	171,401	95,017
Intangibles	14	4,659	-
Deferred tax assets	16	38,745	28,820
Retirement benefit asset	24	2,452	1,001
Trade and other receivables	18	4,000	-
		<u>221,257</u>	<u>124,838</u>
<b>Current assets</b>			
Inventories	17	375,760	303,480
Trade and other receivables	18	257,900	241,604
Prepayments and accrued income	18	12,459	14,086
Current tax receivable	18	6,232	993
Derivative financial instruments	18	1,986	360
Cash and cash equivalents	19	22,237	52,952
		<u>676,574</u>	<u>613,475</u>
<b>Total assets</b>		<u><u>897,831</u></u>	<u><u>738,313</u></u>
<b>Current liabilities</b>			
Trade and other payables	20	(323,987)	(241,534)
Current tax liabilities	20	-	(251)
Bank loans and overdrafts	21	(51,859)	(45,770)
Obligations under finance leases	22	(2,448)	(2,133)
Provisions	25	(37,096)	(34,046)
		<u>(415,390)</u>	<u>(323,734)</u>
<b>Non current liabilities</b>			
Trade and other payables	20	(7,141)	-
Bank loans	21	(284,427)	(227,788)
Obligations under finance leases	22	(17,932)	(20,204)
Deferred tax liabilities	16	(8,046)	(6,086)
Retirement benefit obligations	24	(46,471)	(48,889)
Provisions	25	(36,013)	(41,092)
		<u>(400,030)</u>	<u>(344,059)</u>
<b>Total liabilities</b>		<u><u>(815,420)</u></u>	<u><u>(667,793)</u></u>
<b>Net assets</b>		<u><u>82,411</u></u>	<u><u>70,520</u></u>
<b>Equity</b>			
Called up share capital	26	-	-
Retranslation reserve	26	12,206	8,557
Actuarial reserves	26	3	(1,830)
Retained earnings	26	67,040	60,362
		<u>79,249</u>	<u>67,089</u>
Non-controlling interest	3	3,162	3,431
<b>Total equity</b>		<u><u>82,411</u></u>	<u><u>70,520</u></u>

**Consolidated Statement of Financial Position (continued)**  
**as at 31 March 2018**

The notes on pages 23 to 63 form an integral part of these financial statements.

These financial statements of British Steel Holdings Limited were authorised for issue by the Board of Directors on 12 July 2018 and were signed on its behalf by:



**G Reichmann**  
*Director*

**Company number: 10185111**

**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

**Company Statement of Financial Position**  
**as at 31 March 2018**

	Note	31 March 2018 £000	31 March 2017 £000
<b>Current assets</b>			
Trade and other receivables	18	185,995	171,353
<b>Total assets</b>		<u>185,995</u>	<u>171,353</u>
<b>Non current liabilities</b>			
Other interest-bearing loans and borrowings	21	(185,995)	(171,353)
<b>Total liabilities</b>		<u>(185,995)</u>	<u>(171,353)</u>
<b>Net assets</b>		<u>-</u>	<u>-</u>
<b>Equity</b>			
Called up share capital	26	-	-
<b>Total equity</b>		<u>-</u>	<u>-</u>

The notes of pages 23 to 63 form an integral part of these financial statements.

The Company reported a profit for the year ended 31 March 2018 of £nil (2017: £nil).

These financial statements of British Steel Holdings Limited were authorised for issue by the Board of Directors on 12 July 2018 and were signed on its behalf by:



**G Reichmann**  
*Director*

**Company number: 10185111**

**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

**Consolidated Statement of Changes in Equity**  
**as at 31 March 2018**

	Share capital £000	Retranslation reserve £000	Actuarial gains and losses £000	Retained earnings £000	Total £000	Non-controlling interest £000	Total equity £000
Balance at 17 May 2016	-	-	-	-	-	-	-
Profit for the financial period	-	-	-	60,362	60,362	-	60,362
Actuarial gains and losses	-	-	(9,065)	-	(9,065)	-	(9,065)
Deferred tax on defined benefit pension schemes	-	-	7,235	-	7,235	-	7,235
Retranslation of foreign subsidiaries	-	8,557	-	-	8,557	-	8,557
<b>Total comprehensive income for the period</b>	-	8,557	(1,830)	60,362	67,089	-	67,089
<b>Transactions with owners in their capacity as owners:</b>							
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	3,431	3,431
<b>Total transactions with owners in their capacity as owners</b>	-	-	-	-	-	3,431	3,431
<b>Balance as at 31 March 2017</b>	-	8,557	(1,830)	60,362	67,089	3,431	70,520
Balance at 1 April 2017	-	8,557	(1,830)	60,362	67,089	3,431	70,520
Profit for the financial year	-	-	-	6,678	6,678	(269)	6,409
Actuarial gains and losses	-	-	3,685	-	3,685	-	3,685
Deferred tax on defined benefit pension schemes	-	-	(1,852)	-	(1,852)	-	(1,852)
Retranslation of foreign subsidiaries	-	3,649	-	-	3,649	-	3,649
<b>Total comprehensive income for the year</b>	-	3,649	1,833	6,678	12,160	(269)	11,891
<b>Balance as at 31 March 2018</b>	-	12,206	3	67,040	79,249	3,162	82,411

The notes on page 23 to 63 form an integral part of these financial statements.

**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

**Company Statement of Changes in Equity**  
**as at 31 March 2018**

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 17 May 2016	-	-	-
Result for the financial period	-	-	-
<b>Total comprehensive result for the period</b>	-	-	-
<b>Balance as at 31 March 2017</b>	-	-	-
Balance at 1 April 2017	-	-	-
Result for the financial year	-	-	-
<b>Total comprehensive result for the year</b>	-	-	-
<b>Balance as at 31 March 2018</b>	-	-	-

The notes on pages 23 to 63 form an integral part of these financial statements.

**British Steel Holdings Limited**  
**Annual Report and Consolidated Financial Statements**  
**For the year ended 31 March 2018**

**Consolidated Cash Flow Statement**  
**for the period ended 31 March 2018**

	Note	31 March 2018	31 March 2017
		£000	£000
<b>Cash flows (used in)/from operating activities</b>			
(Loss)/profit on ordinary activities before taxation		(2,018)	62,025
Adjustments for:			
Depreciation, amortisation and impairment	13/14	10,830	5,890
Finance expense	11	26,583	18,679
Finance income	10	(1,936)	(10)
Negative goodwill released to income	2	(15,465)	(49,822)
Currency translation		743	3,068
Loss on disposal		24,796	1,708
Adjustment for pension funding		(1,921)	(1,800)
<b>Operating cash flows before working capital</b>		<b>41,612</b>	<b>39,738</b>
(Increase)/decrease in trade and other receivables	18	(4,296)	43,142
Increase in inventories	17	(52,418)	(116,911)
Decrease in trade and other payables	20	51,257	12,143
Decrease in provisions	25	(10,705)	(9,107)
<b>Cash flows used in operations</b>		<b>25,450</b>	<b>(30,995)</b>
Income taxes paid		(1,979)	(4,110)
Interest paid		(6,145)	(1,452)
<b>Net cash used in operating activities</b>		<b>17,326</b>	<b>(36,557)</b>
<b>Cash flows for investing activities</b>			
Interest received		-	10
Acquisition of a business		(3,618)	22,285
Acquisition of plant, property and equipment and intangibles		(86,421)	(34,427)
<b>Net cash used in investing activities</b>		<b>(90,039)</b>	<b>(12,132)</b>
<b>Cash flows from financing activities</b>			
Proceeds from new loan	32	43,211	105,725
Payment of finance lease liabilities	32	(2,807)	(3,808)
<b>Net cash from financing activities</b>		<b>40,404</b>	<b>101,917</b>
<b>Net increase in cash and cash equivalents</b>		<b>(32,309)</b>	<b>53,228</b>
<b>Cash and cash equivalents at the beginning of the year/period</b>		<b>52,952</b>	<b>-</b>
Effect of exchange rate fluctuations on cash held		1,594	(276)
<b>Cash and cash equivalents at the end of the year/period</b>		<b>22,237</b>	<b>52,952</b>

The notes on pages 23 to 63 form an integral part of these financial statements.



## **Notes to the financial statements**

### **1. Accounting policies**

British Steel Holdings Limited ("the Company") is a private company, limited by shares, incorporated, domiciled and registered in England and Wales in the UK. The registered number is 10185111 and the registered address is 31 Hill Street, London, W1J 5LS, United Kingdom.

#### **Basis of preparation**

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as "the Group"). The parent company financial statements present information about the Company as a separate entity and not about the Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101.

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 March 2018 the company has decided to adopt FRS 101 and the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) Reduced Disclosure Framework as issued by the Financial Reporting Council incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and July 2016.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of a cash-flow statement and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The company has taken advantage of the exemption in Section 408 of the Companies Act 2006 from the requirement to present a separate profit and loss account for the parent company.

The accounting policies set out below have, unless otherwise stated, been applied consistently in these Group and parent company financial statements.

The financial statements are presented in pounds sterling since this is the currency in which the majority of the Company's transactions are denominated.

Judgements made by the Directors, in the applications of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next period are discussed below.

#### **Critical accounting judgements and key sources of estimation uncertainty**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the:

- (i) reported amounts of assets and liabilities;
- (ii) disclosure of contingent assets and liabilities at the date of the accounts; and
- (iii) reported amounts of income and expenses during the period.

Critical accounting judgements and the key sources of estimation uncertainty in applying the Group's accounting policies arise in relation to provisions created for rationalisation and related costs, environmental remediation and legal claims. Each of these areas relies upon a number of estimates and judgements which are subject to uncertainty and which may lead to an adjustment within the next financial year.

Estimates in calculating provisions for rationalisation and related costs, environmental remediation and legal claims are based on previous experience, third party advice and are reassessed on a regular basis. Judgement is required in assessing the scale costs and timing of those costs.

#### **Critical accounting judgements**

The following are critical judgments, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group Accounts.

## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Critical accounting judgements (continued)**

##### **(a) Fair value adjustments**

Fair value adjustments for business combinations are determined in accordance with IFRS 3, 'Business Combinations'. The Group measures the assets and liabilities acquired through a business combination at fair value. Similarly, consideration (including consideration in shares), contingent consideration and any stake in the acquiree held prior to the business combination are also measured at fair value.

When significant influence is acquired in an associate, or joint control is acquired in a joint venture, British Steel also remeasures its share in the assets and liabilities in that associate or joint venture to its acquisition-date fair value. Where possible, fair value adjustments are based on external appraisals or valuation models. Valuation methods rely on various assumptions such as estimated future cash flows, remaining useful economic life etc.

Fair value measurements that cannot be fully based on observable market parameters involve judgement that could affect estimated fair value.

#### **Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year, are discussed below.

##### **(a) Employment benefits**

The Group operates three defined benefit pension schemes. All post-employment benefits associated with these schemes have been accounted for in accordance with IAS 19 "Employee Benefits". As detailed within the Accounting Policies, in accordance with IAS 19, all actuarial gains and losses have been recognised immediately through the Consolidated Statement of Comprehensive Income.

For all defined benefit pension schemes, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions and judgments have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality. See note 24 for further details.

##### **(b) Taxation**

Accruals for corporation tax contingencies require the Directors to estimate the level of corporation tax that will be payable based upon the interpretation of applicable tax legislation on a country-by-country basis and an assessment of the likely outcome of any open tax computations. All such accruals are included within current liabilities.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Therefore, estimates are made to establish whether deferred tax balances should be recognised, in particular in respect of non-trading losses. See note 16 for details of the additional deferred tax assets that could potentially be recognised if a different judgement or different estimates were made regarding the certainty, amount and availability of the relevant future profits against which to relieve the losses and fixed asset temporary differences.

##### **(c) Research and development tax credits**

Research and development tax credits require the Group to make an assessment in relation to the qualifying research and development expenditure in the year. Accruals for research and development tax credits require the Group to make judgements, estimates and assumptions when calculating the qualifying research and development expenditure. Qualifying research and development expenditure is defined by guidelines from the Department for Business Enterprise and Regulatory Reform, which are subject to interpretations by HM Revenue & Customs. The carrying amount of research and development tax credits as at the year end was £25m.

#### **Measurement convention**

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and contingent consideration.

#### **New and amended standards applied by the Group for the first time for the financial year beginning on 1 April 2017**

There are no IFRSs or IFRIC interpretations that are effective for annual periods beginning after 1 April 2017 that have had a material impact on the Group.

## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Adopted IFRS not yet applied**

The following relevant IFRSs have been issued but are not yet effective and have not been applied by the Group in these financial statements. The Group is currently undertaking an exercise to assess the financial impact of their adoption:

- IFRS 16 Leases;
- IFRS 9 Financial instruments; and
- IFRS 15 Revenue from Contract with Customers.

#### **IFRS 9 Financial instruments**

This standard replaces the classification and measurement models of IAS 39 and will become effective for periods beginning on or after 1 January 2018. The new version of the standard incorporates a new expected loss impairment model and introduces limited amendments to the classification and measurement requirements for financial assets. The group is currently assessing the impact of adopting IFRS 9.

#### **IFRS 15 Revenue from Contract with Customers**

The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at any transaction price. Any bundled goods or services that are distinct must be separately recognised. This standard will become effective for periods beginning on or after 1 January 2018. The group is currently assessing the impact of adopting IFRS 15.

#### **IFRS 16 Leases**

The new standard established principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees provide relevant information that faithfully represents those transactions. This standard replaces the following accounting standards:

- IAS 17: Leases;
- IFRIC 4: Determining whether an Arrangement contains a Lease;
- SIC-15: Operating Leases – Incentives; and
- SIC-27: Evaluating the Substance of Transactions in the Legal Form of a Lease

The group is currently assessing the impact of adopting IFRS 16.

#### **Going Concern**

After making enquiries and taking into consideration the profitability and financial position of the Company and the Group, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Directors' assessment of going concern considers the impact of the risks and uncertainties set out in the strategic report. After considering the impact of reasonably possible downside sensitivity analysis and after making enquiries and considering this uncertainty, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus we continue to adopt the going concern basis in preparing the annual financial statements.

#### **Research and development**

Expenditure on research activities is recognised in profit or loss as incurred. Any credits received in relation to research and development claims are recognised in profit and loss within other operating charges. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Basis of consolidation**

##### *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

##### *Transactions eliminated on consolidation*

Intra-Group balances and transactions and any unrealised income and expenses arising from intra-Group transactions are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The results of overseas subsidiaries are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange difference arising on translation of the opening net assets and results of overseas operations are reported in other comprehensive income and accumulated in equity.

#### **Classification of financial instruments issued by the Group**

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### **Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Non-derivative financial instruments (continued)**

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

##### *Loans and borrowings*

Debt issue costs are capitalised and netted against the associated proceeds. Debt is stated at the amount of net proceeds after deduction of finance costs. Finance costs are amortised to the Statement of Comprehensive Income over the term of the debt at a constant rate on the carrying amount.

##### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### **Derivative financial instruments and hedge accounting**

In the ordinary course of business the Group uses certain derivative financial instruments to reduce business risks which arise from its exposure to foreign exchange. The instruments are confined principally to forward foreign exchange contracts. Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately on profit or loss.

#### **Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Property, plant and equipment (continued)**

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Included in property, plant and equipment are loose plant and tools which are stated at cost less amounts written off related to their expected useful lives and estimated scrap value and also spares, against which impairment provisions are made where necessary to cover slow moving and obsolete items.

#### *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Land and buildings	25 - 50 years
Fixtures and fittings	15 - 25 years
Plant and equipment	4 - 25 years

Assets in course of construction are not depreciated until the assets are available for their intended use.

Depreciation methods, useful lives and residual values are reviewed at each Statement of Financial Position date.

#### **Intangible assets**

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Amortisation of computer software is recognised as an expense within operating costs.

Carbon emissions rights received or purchased are recognised as intangible assets at cost on initial recognition and subsequent measurement. Carbon emissions rights received are not amortised. They are recognised as a disposal once they have been either sold or surrendered to cover the Company's emissions. Costs associated with carbon emissions rights are recognised within operating costs.

#### **Investments**

Fixed asset investments are shown at cost less provision for impairment.

## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Inventories**

Inventories of raw materials are stated at the lower of cost and net realisable value. Cost is determined using the 'first in, first out' method. Inventories of partly processed materials, finished products and stores are individually determined at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the price at which the inventories can be realised in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and for the cost of marketing, selling and distribution. Provisions are made to cover slow moving and obsolete items based on historical experience of utilisation on a product category basis, which involves individual businesses considering their local product lines and market conditions.

#### **Provisions**

Provisions for rationalisation, dilapidations, onerous contracts and environmental remediation are recognised when: the Company has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase of provision dues to the unwinding of the time value of money is recognised within interest expense.

Rationalisation provisions are recognised where the plans are sufficiently detailed and well advanced and where appropriate communication has been made prior to the year end.

The Company participates in the EU ETS. Carbon emissions allowances received or purchased are recognised as intangible assets at cost on initial recognition and subsequent measurement. A corresponding liability is recognised as and when the entity emits on a pro-rata basis based on the expected emissions over the compliance period. The liability recognised is based on the expected cost of settlement method with carbon emissions rights allocated in the following order:

- First - Government emissions allowances received for free relating to the compliance period
- Second - Surplus emissions allowances relating to prior periods
- Third - Emissions allowances purchased from the market

Any shortfall from the above allowances compared to the amount of emissions needed to be recognised as a liability are recognised at market value.

Gains are only recognised when there is a surplus relating to the current or prior compliance period and when this gain has been crystallised through the sale of the surplus carbon emissions rights to an external party.

Gains and losses in relation to carbon emissions rights are recognised within operating costs.

#### **Employee benefits**

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

##### *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any plan assets (at bid price) are deducted.

The Group determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/assets.

## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Employee benefits (continued)**

##### *Defined benefit plans (continued)*

The Group operates defined benefit plans as follows:

The schemes are final salary defined benefit plan that includes life assurance for members.

The schemes are managed both by trustees appointed by the sponsoring employers and by member nominated trustees. The trustees focus on risk management and undertake to be conversant with the required knowledge and understanding as specified in the Pensions Act 2004 and in line with the Pension regulator's code of practice as revised in November 2009.

The schemes are exposed to the normal risks affecting a defined benefit scheme. These include the risk of volatile equity markets, low gilt yields, currency risk and member longevity risk. These risks are managed using a prudently balanced asset allocation that includes equity, property, bonds and gilts. The trustees are positively engaged with advisors to de-risk the portfolio. This includes matching long term assets to liabilities and currency hedging a proportion of overseas assets.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA, that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plans are changed, or when a plans are curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, are recognised immediately in the Statement of Comprehensive Income when the plan amendments or curtailments occur.

The calculation of the defined benefit obligations is performed by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements

For the defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the Statement of Comprehensive Income account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each Statement of Financial Position date.



## **Notes to the financial statements (continued)**

### **1 Accounting policies (continued)**

#### **Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Sales are presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related costs can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

#### **(a) Sale of goods - Steel**

Revenue from these sales is recognised when a Group entity has delivered the steel to locations specified in the agreed terms and the customers have accepted the steel in accordance with the sales contract.

#### **(b) Rendering of services**

Revenue from processing services is recognised when the services are rendered, using the percentage of completion method based on the actual service provided as a proportion of the total services to be performed.

#### **Leases**

##### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

##### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### **Financing income and expenses**

Financing expenses comprise interest payable, finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### **Taxation**

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the Statement of Financial Position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

## Notes to the financial statements (continued)

### 2 Acquisitions of subsidiaries

#### Acquisitions in the current period

##### Acquisition of FNsteel B.V.

On 26 October 2017, Transit 2017 Limited, a company within the group acquired 100% of the shares in FNsteel B.V. The acquired business had a number of wholly owned subsidiaries which were also indirectly acquired as part of this transaction. The acquired group develops, produces and distributes high end wire rod products, primarily to the European automotive, construction and general engineering industries. The group was acquired in exchange for a cash payment of €4,500,000 (£3,955,000) and a contingent cash consideration payment. The €4,500,000 (£3,955,000) payment was made up of €3,000,000 (£2,639,000) for the purchase of the share capital and €1,500,000 (£1,316,000) for the assignment of a loan of the same value which was owed to the seller by the acquired company. The contingent consideration is in relation to the purchase of the share capital and requires a cash payment that is equal to 40% of the acquired group's adjusted EBITDA for a period of 5 years from 1 April 2018. The acquisition is expected to create synergies with the additional steel supply to FNsteel B.V. and will also expand the Group's product portfolio.

In the five months to 31 March 2018 the business acquired contributed revenue of £56,036,000 and net profit of £727,000 to the consolidated net profit for the year. If the acquisition had occurred on 1 April 2017, management estimates that consolidated revenue would have been £124,612,000, and consolidated loss for the year would have been £743,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 April 2017.

##### Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

##### Acquiree's net assets at the acquisition date:

	Fair values on acquisition £000
Property, plant and equipment	26,073
Inventories	19,862
Cash and cash equivalents	336
Trade and other receivables	18,963
Trade and other payables	(29,925)
Provisions	(8,668)
Deferred tax liabilities	(88)
Net identifiable assets and liabilities	<u>26,553</u>
Consideration paid:	
Initial cash price paid	(2,639)
Contingent consideration	(7,133)
Assumption of receivable from seller	(1,316)
Negative goodwill	<u>15,465</u>

Negative goodwill reflects the fact that the value in use of FNsteel's assets were lower to the previous owners due to the lack of a viable supply chain following the insolvency of its main raw materials supplier.

##### Acquisition related costs

The Group incurred acquisition related costs of £523,000 related to due diligence and other advisory fees. These costs have been included in operating costs in the Group's consolidated statement of comprehensive income.

## Notes to the financial statements (continued)

### 2 Acquisitions of subsidiaries (continued)

#### *Contingent consideration*

The potential undiscounted amount of all future payments that the group could be required to make in relation to the contingent consideration is unlimited.

The fair value of the contingent consideration at the acquisition date was estimated to be €8,100,000 (£7,133,000). This fair value estimate was calculated using the discounted cash flow method based on forecasts which have been discounted at the cost of debt of 1.9%. The key unobservable inputs relevant when calculating the fair value are EBITDA per annum with a range from €6.9m to €12.7m, capital expenditure with a range from €2m to €5m and the cost of debt of 1.9%.

The estimated fair value would increase/(decrease) if:

EBITDA per annum was higher/(lower)

Capital expenditure was lower/(higher)

Cost of debt was lower/(higher)

Assuming all other variables are held constant and each of the adjustments in the key unobservable inputs being performed in isolation:

an increase in EBITDA by 25% each year would increase the liability by a further £4,225,000;

a decrease in capital expenditure by 25% each year would increase the liability by £1,492,000; and

a decrease in the cost of debt by 25% each year would increase the liability by £430,000.

The fair value of the liability at 31 March 2018 had increased to £7,141,000. There have been no changes in the range of potential outcomes or the valuation techniques and key model inputs used to measure the contingent consideration.

#### **Reconciliation of contingent consideration:**

	<b>Fair values on acquisition £000</b>
Fair value on acquisition	7,133
Unwinding of liability discounting	8
	<hr/>
Fair value at 31 March 2018	7,141
	<hr/>

#### *Acquired receivables*

The fair value of acquired receivables was £18,939,000. The gross contractual amounts receivable are £18,963,000 and, at the acquisition date £24,000 of contractual cash flows were not expected to be received.

## Notes to the financial statements (continued)

### 3 Non-controlling interest

Summarised financial information in respect of the Group's subsidiaries for which the group has a non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

#### Redcar Bulk Terminal Limited

	31 March 2018	31 March 2017
	£000	£000
Current assets	2,007	2,659
Non-current assets	12,942	13,451
Current liabilities	(8,625)	(9,248)
	<u>6,324</u>	<u>6,862</u>
Equity attributable to owners of the Company	3,162	3,431
Non-controlling interest	3,162	3,431
	<u>6,324</u>	<u>6,862</u>
Profit/ (loss) attributable to owners of the Company	(269)	-
Profit/ (loss) attributable to the non-controlling interests	(269)	-
Profit/ (loss) for the year	<u>(538)</u>	<u>-</u>

### 4 Revenue

The Directors consider the manufacture and sale of steel throughout the world and the rendering of services to be the only lines of business.

	Year ended 31 March 2018 £000	Period from 17 May 2016 to 31 March 2017 £000
Sale of goods	1,312,508	965,678
Rendering of services	41,874	24,876
	<u>1,354,382</u>	<u>990,554</u>

An analysis of revenue by destination is shown below:

	Year ended 31 March 2018 £000	Period from 17 May 2016 to 31 March 2017 £000
United Kingdom	610,809	474,635
Europe	570,581	419,704
Rest of the world	172,992	96,215
	<u>1,354,382</u>	<u>990,554</u>

Notes to the financial statements (continued)

5 Operating costs

	Year ended 31 March 2018				Period ended 31 March 2017	
Costs by type:	Operating items before rationalisation costs, gain on bargain purchase, depreciation and amortisation £000	Rationalisation costs £000	Depreciation and amortisation £000	Gain on bargain purchase £000	Total £000	Total £000
Raw materials and consumables	680,816	-	-	-	680,816	428,690
Maintenance costs	93,977	-	-	-	93,977	75,327
Other external charges (including fuel, utilities, hire charges and carriage costs)	253,307	-	-	-	253,307	190,058
Employment costs	240,490	1,362	-	-	241,852	173,520
Depreciation	-	-	10,830	-	10,830	5,890
Other operating items	64,690	1,746	-	(15,465)	50,971	36,375
	<u>1,333,280</u>	<u>3,108</u>	<u>10,830</u>	<u>(15,465)</u>	<u>1,331,753</u>	<u>909,860</u>

6 Expenses and auditor remuneration

Year ended 31  
March 2018  
£000

Period from 17  
May 2016 to 31  
March 2017  
£000

*Included in the consolidated statement of comprehensive income are the following:*

**Operating profit is stated after charging/ (crediting):**

Depreciation, amortisation and impairment	10,830	5,890
Impairment loss on trade receivables and prepayments	3,823	5,099
Net exchange rate loss/(gain)	3,369	(8,557)
Impairment of inventory (Note 17)	48,420	46,800

**Operating lease rental charges:**

• Plant & machinery	9,397	4,729
• Leasehold property	5,043	2,872
Costs of research and development	1,447	1,737

**Audit related costs:**

Audit of these financial statements	63	63
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*Amounts receivable by the Company's auditor and its associates in respect of:*

Audit of financial statements of subsidiaries of the Company	346	241
Other assurance services	52	25
Tax compliance services	14	-

**Notes to the financial statements (continued)**

**7 Rationalisation costs**

	<b>Year ended 31 March 2018 £000</b>	<b>Period from 17 May 2016 to 31 March 2017 £000</b>
<b>Breakdown of rationalisation costs</b>		
Separation costs	-	7,651
IT separation costs	1,746	3,434
Redundancy costs	1,362	-
	<u>3,108</u>	<u>11,085</u>

Separation costs of £nil (2017: £7.7m) represent legal and other professional fees associated with the separation from Tata Steel in June 2016. IT separation costs of £1.7m (2017: £3.4m) were one off costs incurred to enable the separation of British Steel IT systems from those of Tata Steel UK. Redundancy costs of £1.4m (2017: £nil) relate to the restructuring activities undertaken in as part of the sale from Tata Steel UK Limited to British Steel Holdings Limited.

**8 Staff numbers and costs**

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

	<b>Year ended 31 March 2018</b>	<b>Period from 17 May 2016 to 31 March 2017</b>
<b>Number of employees</b>		
Sales staff	120	114
Operational staff	4,907	4,571
Administrative staff	368	293
	<u>5,395</u>	<u>4,978</u>

The aggregate payroll costs of these persons were as follows:

	<b>Year ended 31 March 2018 £000</b>	<b>Period from 17 May 2016 to 31 March 2017 £000</b>
<b>Number of employees</b>		
Wages and salaries	207,442	148,826
Social security costs	26,718	20,373
Other pension costs	7,692	4,321
	<u>241,852</u>	<u>173,520</u>

The Company had no employees during the period.

**Notes to the financial statements (continued)**

**9 Director's remuneration**

The total remuneration of the directors in the Company was £3,128,000 (2017: £nil). Total remuneration can be analysed as directors' remuneration £3,105,000 (2017: £nil) and company contributions to defined contribution pension schemes of £23,000 (2017: £nil). The total remuneration of the highest paid director was £1,017,000 (2017: £nil) which related solely to director's remuneration. The highest paid director has not executed any share options and no shares were received or receivable in either year.

Retirement benefits are accruing under defined contribution schemes to 3 individuals (2017: 3 individuals), including the highest paid director, who were directors during the year.

Mr D Goldstein, Mr M Meyohas, Mr N Meyohas and Mr R Perlhagen did not receive any remuneration from the Company in respect of their services.

**10 Finance income**

	Year ended 31 March 2018	Period from 17 May 2016 to 31 March 2017
	£000	£000
Other interest receivable	39	10
Movement of foreign exchange derivative	1,897	-
Total finance income	<u>1,936</u>	<u>10</u>

**11 Finance expense**

	Year ended 31 March 2018	Period from 17 May 2016 to 31 March 2017
	£000	£000
Bank loans and overdrafts	22,890	12,733
Finance leases	1,452	3,555
Amortised loan fees	1,320	1,100
Movement of foreign exchange derivative	-	764
Net interest expense on defined benefit obligation	913	524
Unwinding of discount	8	-
Other interest payable	-	3
	<u>26,583</u>	<u>18,679</u>

**Notes to the financial statements (continued)**

**12 Taxation**

*Recognised in the Consolidated Statement of Comprehensive Income*

	<b>Year ended 31 March 2018</b>	Period from 17 May 2016 to 31 March 2017
	<b>£000</b>	<b>£000</b>
Current tax expense:		
Income taxes	1,341	3,123
Adjustments in respect of prior year/period	49	-
<b>Total current tax expense</b>	<b>1,390</b>	<b>3,123</b>
Deferred tax expense:		
Origination and reversal of timing differences	(9,795)	(1,460)
Adjustments in respect of prior year/period	(22)	-
<b>Total deferred tax (credit)/expense</b>	<b>(9,817)</b>	<b>(1,460)</b>
<b>Total tax (credit)/expense</b>	<b>(8,427)</b>	<b>1,663</b>

*Tax recognised in Other Comprehensive income*

	<b>Year ended 31 March 2018</b>	Period from 17 May 2016 to 31 March 2017
	<b>£000</b>	<b>£000</b>
Actuarial gains and losses on defined benefit pension plan:		
Current tax	-	-
Deferred tax movement in the year/period	1,852	(7,235)
<b>Total tax expense/(credit)</b>	<b>1,852</b>	<b>(7,235)</b>



**Notes to the financial statements (continued)**

**12 Taxation (continued)**

*Reconciliation of effective tax rate*

The current tax assessed for the period is lower than the standard rate of corporation tax in the UK of 19% (2017: 20%). The differences are explained below:

	Year ended 31 March 2018	Period from 17 May 2016 to 31 March 2017
	£000	£000
(Loss)/profit on ordinary activities before taxation	(2,018)	62,025
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK	(383)	12,405
Non-deductible expenses	3,618	1,118
Impact of overseas tax rates	975	1,212
Movement in unrecognised deferred tax	347	(2,460)
Non-taxable income	(3,654)	(10,612)
Impact of changes in tax rates	497	-
Recognised on acquisition	67	-
Tax credits available	(5,566)	-
RDEC credits of prior periods	(4,331)	-
Adjustment in respect of prior periods	3	-
	<u>(8,427)</u>	<u>1,663</u>
Total current tax (credit)/expense		

*Factors that may affect future tax charges*

Reductions have been made to the UK corporation tax rate to 19% effective from 1 April 2017 (substantively enacted on 26 October 2015), and to 17% effective 1 April 2020 (substantively enacted on 6 September 2016). The deferred tax asset at 31 March 2017 has been calculated at the rates at which the temporary differences are expected to unwind.

**Notes to the financial statements (continued)**

**13 Property, Plant and Equipment - Group**

	Land and buildings £000	Fixtures and fittings £000	Plant and machinery £000	Assets in the course of Construction £000	Total £000
<b>Cost:</b>					
<b>At 17 May 2016</b>	-	-	-	-	-
Acquisitions through business combinations	24,618	551	36,013	104	61,286
Other additions	191	15	11,642	21,681	33,529
Disposals	-	-	(3,340)	-	(3,340)
Exchange rate changes	1,884	54	5,840	22	7,800
Transfers	-	-	268	(268)	-
<b>At 31 March 2017</b>	<u>26,693</u>	<u>620</u>	<u>50,423</u>	<u>21,539</u>	<u>99,275</u>
<b>At 1 April 2017</b>	<b>26,693</b>	<b>620</b>	<b>50,423</b>	<b>21,539</b>	<b>99,275</b>
Acquisitions through business combinations	2,250	425	19,844	3,554	26,073
Other additions	-	166	48,029	34,567	82,762
Disposals	(6)	-	(24,796)	-	(24,802)
Exchange rate changes	506	22	1,618	41	2,187
Transfers	921	138	8,876	(9,935)	-
<b>At 31 March 2018</b>	<u>30,364</u>	<u>1,371</u>	<u>103,994</u>	<u>49,766</u>	<u>185,495</u>
<b>Depreciation and impairment</b>					
<b>At 17 May 2016</b>	-	-	-	-	-
Depreciation charge for the period	850	87	4,953	-	5,890
Disposals	-	-	(1,632)	-	(1,632)
<b>At 31 March 2017</b>	<u>850</u>	<u>87</u>	<u>3,321</u>	<u>-</u>	<u>4,258</u>
<b>At 1 April 2017</b>	<b>850</b>	<b>87</b>	<b>3,321</b>	<b>-</b>	<b>4,258</b>
Depreciation charge for the period	931	226	8,553	-	9,710
Disposals	(6)	-	-	-	(6)
Exchange rate changes	27	3	102	-	132
<b>At 31 March 2018</b>	<u>1,802</u>	<u>316</u>	<u>11,976</u>	<u>-</u>	<u>14,094</u>
<b>Net book value:</b>					
<b>At 17 May 2016</b>	-	-	-	-	-
<b>At 31 March 2017</b>	<u>25,843</u>	<u>533</u>	<u>47,102</u>	<u>21,539</u>	<u>95,017</u>
<b>At 31 March 2018</b>	<u>28,562</u>	<u>1,055</u>	<u>92,018</u>	<u>49,766</u>	<u>171,401</u>

**Notes to the financial statements (continued)**

**14 Intangible assets - Group**

	<b>Software</b>
	<b>Total £000</b>
<b>Cost:</b>	
At 17 May 2016 and 1 April 2017	-
Additions	5,779
	<hr/>
At 31 March 2018	5,779
	<hr/> <hr/>
 <b>Depreciation and impairment</b>	
At 17 May 2016 and 1 April 2017	-
Depreciation charge for the period	1,120
	<hr/>
At 31 March 2018	1,120
	<hr/> <hr/>
 <b>Net book value:</b>	
At 31 March 2018	<hr/>
	4,659
At 31 March 2017	<hr/>
	-
At 17 May 2016	<hr/>
	-
	<hr/> <hr/>

## Notes to the financial statements (continued)

### 15 Investments in subsidiaries

The Company has the following investments in direct and indirect subsidiaries

Entity	Country of incorporation	Nature of business	% of ordinary shares held	Holding	Registered Office Address
British Steel Limited	England and Wales	Steel manufacturer	100	Direct	Brigg Road, Scunthorpe, North Lincolnshire, DN16 1BP
The Steel Company of Ireland Limited	Ireland	Steel distributor	100	Indirect	Goodbody Secretarial services Limited, International Financial Services Centre, North Wall Quay, Dublin 1
TSP Projects Limited	England and Wales	Engineering services	100	Indirect	Meridian House, The Crescent, York, Yorkshire, YO24 1AW
TSP Engineering Limited	England and Wales	Engineering services	100	Indirect	Curwen Road, Derwent Howe, Workington, United Kingdom, CA14 3YX
British Steel France Rail S.A.S	France	Steel mill	100	Indirect	164 rue de Marechal Foch, 57705 Hayange, France
British Steel France Rail Holdings S.A.S	France	Intermediate holding company	100	Indirect	2 Av Du Pdt 7 Fitzgerald Kennedy 78100 Saint Germain en Laye
British Steel America Inc	America	Sales liaison office	100	Indirect	1700 East Golf Road, Schaumburg, Illinois 60173, USA
British Steel GmbH	Germany	Sales liaison office	100	Indirect	17. Etage, Stadttor 1, Düsseldorf, Nordrhein, Westfalen, 40219, Germany
British Steel Italia S.r.l	Italy	Sales liaison office	100	Indirect	via Italia 44, Monza, Italy
Longs Steel Spain International S.L	Spain	Sales liaison office	100	Indirect	Room 1811. Four Tower Business Area Regus Torre de Cristal, Paseo de la Castellana 259c 18 <sup>th</sup> Floor, Madrid, Spain
Longs Steel Singapore Pte. Ltd	Singapore	Sales liaison office	100	Indirect	#04-01 Harbour Front Tower One, Singapore 098633,
Longs Steel Poland Sp. Zoo	Poland	Sales liaison office	100	Indirect	Silesia Business Park, Katowice, Poland
Transit 2017 Limited	England and Wales	Intermediate holding company	100	Indirect	Brigg Road, Scunthorpe, North Lincolnshire, DN16 1BP
FNsteel B.V.	Netherlands	Steel mill	100	Indirect	Rapenburg 1, 2952 AP Alblasserdam, Netherlands
FNsteel S.A.R.L	France	Sales liaison office	100	Indirect	2 Rue Galoche, 21000 Dijon, France
FNsteel GmbH	Germany	Sales liaison office	100	Indirect	R&G Wirtschaftskanzlei GmbH, Karl-Halle-Str. 2-6, 58097 Hagen, Germany
FNsteel (UK) Limited	England and Wales	Sales liaison office	100	Indirect	C/O A.W. Walker & Co, 8 Fairford Close, Prospect Grange, Solihull, B91 1JF
BSUK Steel AB	Sweden	Sales liaison office	100	Indirect	Transbarsvagen 98, 44837 Floda, Sweden
British Steel Benelux B.V.	Netherlands	Sales liaison office	100	Indirect	Eindhoven, Central Station, office 3.08, third floor.
Longs Steel Singapore Pte. Ltd Taiwan Branch	Taiwan	Sales liaison office	100	Indirect	Room 829, 5F, NO 285, sec 4, Zhongxiao E Rd, Taipei City, 10692, Taiwan
Redcar Bulk Terminal Limited	England and Wales	Port services	50	Indirect	Lakenby Main Offices Lakenby Works, Middlesbrough, TS6 7RP

All the entities detailed in the table above are considered subsidiaries because all their shares are directly or indirectly owned by the Company and it has significant control over the activities of the subsidiaries.

## Notes to the financial statements (continued)

### 15 Investments in subsidiaries (continued)

#### Company:

Shares in subsidiary undertakings	2018	2017
	£000	£000
At 1 April 2017/17 May 2016	-	-
Additions in the year	-	-
At 31 March	-	-

### 16 Deferred tax assets and liabilities - Group

#### Net deferred tax assets

	Fixed asset temporary differences £000	Short term temporary differences £000	Defined benefit pension schemes £000	Total £000
At 17 May 2016	-	-	-	-
Arising on acquisition	10,500	40	3,040	13,580
(Charged)/credited to the income statement	74	214	1,172	1,460
(Charged)/credited to other comprehensive income	-	-	7,694	7,694
At 31 March 2017	10,574	254	11,906	22,734
At 1 April 2017	10,574	254	11,906	22,734
(Charged)/credited to the income statement	(2,377)	12,401	(207)	9,817
(Charged)/credited to other comprehensive income	-	-	(1,756)	(1,756)
Arising on acquisition	227	(323)	-	(96)
At 31 March 2018	8,424	12,332	9,943	30,699

#### Deferred tax assets/liabilities

	Deferred tax assets £000	Deferred tax liabilities £000	Total £000
Fixed asset temporary differences	16,490	(5,916)	10,574
Short term temporary differences	254	-	254
Defined benefit pension schemes	12,076	(170)	11,906
At 31 March 2017	28,820	(6,086)	22,734
Fixed asset temporary differences	15,998	(7,574)	8,424
Short term temporary differences	12,387	(55)	12,332
Defined benefit pension schemes	10,360	(417)	9,943
At 31 March 2018	38,745	(8,046)	30,699

## Notes to the financial statements (continued)

### 16 Deferred tax assets and liabilities – Group (continued)

Included in the deferred tax assets above are amounts recognised this period in relation to research and development expenditure tax credits of £6m, and a further deferred tax asset of £4m in respect of in-year trading losses of £26m. The group considers that these assets should be recognised in light of its forecasted profitability supported by current trading profitability patterns, coupled with the new more flexible loss relief regime in the UK. The Group has not recognised deferred tax assets of £75m (2017: £60m) in relation to £416m (2017: £350m) of historic trading losses, and £29m (2017: £27m) in relation to £172m (2017: £158m) of fixed asset temporary differences. The Group does not consider recognition of these assets can be supported given that there is not sufficient certainty of availability of relevant future profits against which to relieve these assets. The recognition criteria is assessed annually and the deferred tax position amended accordingly.

### 17 Inventories - Group

	31 March 2018 £000	31 March 2017 £000
Raw materials and consumables	159,631	142,734
Work in progress	91,434	69,298
Finished goods	124,695	91,448
	<u>375,760</u>	<u>303,480</u>
Total Inventories		

The cost of inventories recognised as an expense and included in operating costs in the year amounted to £680.8m (2017: £428.7m). The write-down of stocks to net realisable value amounted to £48.4m (2017: £46.8m).

There is no material difference between the value of stock included in the Statement of Financial Position and its replacement cost.

### 18 Trade and other receivables

	<b>Group</b>		<b>Company</b>	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Trade receivables	226,494	234,464	-	-
Less: provision for impairment	(11,493)	(9,907)	-	-
	<u>215,001</u>	<u>224,557</u>	<u>-</u>	<u>-</u>
Net trade receivables	215,001	224,557	-	-
Prepayments and accrued income	12,459	14,086	-	-
Other receivables	46,899	17,047	-	-
Current tax receivable	6,232	993	-	-
Derivative financial instruments (Note 31)	1,986	360	-	-
Amounts owed by Group undertakings	-	-	185,995	171,353
	<u>282,577</u>	<u>257,043</u>	<u>185,995</u>	<u>171,353</u>
Less non current portion: Trade and other receivables	(4,000)	-	-	-
	<u>278,577</u>	<u>257,043</u>	<u>185,995</u>	<u>171,353</u>

The amount owed by Group undertakings to the Company represents the flow through of a shareholder loan from Olympus Steel Limited to British Steel Limited via British Steel Holdings Limited. See note 21 for further details.

## Notes to the financial statements (continued)

### 18 Trade and other receivables (continued)

Movement in the provision for impairment of trade receivables are as follows	2018 £000	2017 £000
At 1 April 2017/17 May 2016	(9,907)	(12,134)
New amounts provided for in the period	(2,089)	(1,138)
Amounts released in the period	115	-
Amounts written off as uncollectable	394	3,365
Exchange rate changes	(6)	-
<b>At 31 March</b>	<b>(11,493)</b>	<b>(9,907)</b>

Trade receivables have been aged with respect to the payment terms specified in the terms and conditions associated with customers as follows:

	Gross £000	Provision £000	Net position £000
<b>31 March 2018</b>			
Amount not yet due	172,211	-	172,211
Past due not more than one month	27,097	-	27,097
Past due more than one month and less than three months	11,719	-	11,719
Past due more than three months and less than six months	4,007	(51)	3,956
Past due more than six months	11,460	(11,442)	18
	<b>226,494</b>	<b>(11,493)</b>	<b>215,001</b>
<b>31 March 2017</b>			
Amount not yet due	203,168	-	203,168
Past due not more than one month	17,846	(98)	17,748
Past due more than one month and less than three months	2,836	(48)	2,788
Past due more than three months and less than six months	1,052	(793)	259
Past due more than six months	9,562	(8,968)	594
	<b>234,464</b>	<b>(9,907)</b>	<b>224,557</b>

### 19 Cash and cash equivalents – Group

	31 March 2018 £000	31 March 2017 £000
Cash and cash equivalents per the Statement of Financial Position	22,237	52,952
Cash and cash equivalents per the Cash Flow Statements	22,237	52,952

**Notes to the financial statements (continued)**

**20 Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>31 March 2018</b>	<b>31 March 2017</b>	<b>31 March 2018</b>	<b>31 March 2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade payables	220,572	200,915	-	-
Bills of exchange payable	-	260	-	-
Current tax	-	251	-	-
Other taxes and social security costs	4,253	5,945	-	-
Other creditors	98,963	34,324	-	-
Interest payable	199	90	-	-
Contingent consideration	7,141	-	-	-
	<u>331,128</u>	<u>241,785</u>	<u>-</u>	<u>-</u>
Current	323,987	241,785	-	-
Non-current	7,141	-	-	-
	<u>331,128</u>	<u>241,785</u>	<u>-</u>	<u>-</u>

**21 Other interest bearing borrowings**

<b>31 March 2018</b>	<b>Current £'000</b>	<b>Non-current £000</b>	<b>Group £000</b>	<b>Non-current £000</b>	<b>Company £000</b>
Bank loans and overdrafts	51,859	-	51,859	-	-
Secured bank loan	-	98,398	98,398	-	-
Other loan liabilities	-	186,029	186,029	185,995	185,995
	<u>51,859</u>	<u>284,427</u>	<u>336,286</u>	<u>185,995</u>	<u>185,995</u>
<b>31 March 2017</b>	<b>Current £'000</b>	<b>Non-current £000</b>	<b>Group £000</b>	<b>Non-current £000</b>	<b>Company £000</b>
Bank loans and overdrafts	45,770	-	45,770	-	-
Secured bank loan	-	59,956	59,956	-	-
Other loan liabilities	-	167,832	167,832	171,353	171,353
	<u>45,770</u>	<u>227,788</u>	<u>273,558</u>	<u>171,353</u>	<u>171,353</u>

The bank loan and overdrafts balance represents a repayment agreement to finance raw material cargos both on the water and held within the Immingham Bulk Terminal (IBT) facility. The bank finances 70% of the value of raw material cargos in return for an interest payment on the facility balance of 3% + three month USD LIBOR rate.

The secured bank loan represents the draw down on a three year £165m asset backed lending facility. This is secured over inventory and trade receivables. Interest accrues at 3% + central bank rates.

The other loan liabilities are secured over the assets of the business and comprise a £154m term loan payable to the parent company Olympus Steel Limited. Interest accrues monthly and is capitalised at 9% + 6 month LIBOR for the first thirty six months and on a six monthly basis thereafter.

As at the balance sheet date the earliest potential maturities of the secured bank loan and parent company loan were November 2019. Subsequent to the year end these have been extended, with the earliest potential maturities now being June 2021.



## Notes to the financial statements (continued)

### 21 Other interest bearing borrowings (continued)

Non-current loans are repayable as follows:

	<b>Group</b>		<b>Company</b>	
	<b>31 March 2018</b>	<b>31 March 2017</b>	<b>31 March 2018</b>	<b>31 March 2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Due in one to two years	<b>284,427</b>	<b>227,788</b>	<b>185,995</b>	<b>171,353</b>

### 22 Finance lease liabilities - Group

Finance lease liabilities are payable as follows:

<b>31 March 2018</b>	<b>Gross finance lease liabilities – minimum lease £000</b>	<b>Future finance charges on finance lease liabilities £000</b>	<b>Present value of finance lease liabilities £000</b>
Less than one year	3,761	(1,313)	2,448
Between one and five years	14,341	(3,677)	10,664
More than five years	8,066	(798)	7,268
	<b>26,168</b>	<b>(5,788)</b>	<b>20,380</b>
<b>31 March 2017</b>	<b>Gross finance lease liabilities – minimum lease £000</b>	<b>Future finance charges on finance lease liabilities £000</b>	<b>Present value of finance lease liabilities £000</b>
Less than one year	3,585	(1,452)	2,133
Between one and five years	14,340	(4,328)	10,012
More than five years	11,652	(1,460)	10,192
	<b>29,577</b>	<b>(7,240)</b>	<b>22,337</b>

The above lease arrangement terminates in 2025. The lease is a on a fixed repayment basis with a fixed interest rate of 6.5%. The finance lease liabilities are secured over the assets to which the lease relates.

The net book value of assets held under finance leases are £nil.

### 23 Capital commitments

The Group had contracted commitments at the Statement of Financial Position date amounting to £9,717,000 (2017: £4,993,000) and authorised contracts not yet in place of £9,030,000 (2017: £9,511,000) in respect of property, plant and equipment. There were no commitments in respect of intangible assets at the year end.

## Notes to the financial statements (continued)

### 24 Employee benefits

#### Retirement benefits

The Group operates a number of post retirement provisions for its employees including defined benefit pension schemes and certain long service awards. The Group considers that the value of each of the retirement obligations is such that their disclosure should be separated, accordingly the disclosures below represent the material elements of the Group's obligations.

The Group's net obligations disclosed in the Statement of Financial Position are as follows:

	31 March 2018 £000	31 March 2017 £000
<b>Included within assets</b>		
Corus Republic of Ireland Scheme	<u>(2,452)</u>	<u>(1,001)</u>
<b>Included within liabilities</b>		
British Steel Rail France and British Steel Rail France Holdings schemes	30,071	29,389
TSP Projects scheme	<u>16,400</u>	<u>19,500</u>
	<u><b>46,471</b></u>	<u><b>48,889</b></u>

Through the Group's post-employment defined benefit pension schemes and long service awards the Group is exposed to a number of risks, the most significant of which are detailed below:

**Asset volatility** - The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if scheme assets underperform this yield, this will create a deficit. Each of the schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

**Changes in bond yields** - A decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.

**Inflation risk** - Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plans against extreme inflation). The majority of the schemes' assets are either unaffected by (in the case of fixed interest bonds) or loosely correlated with (in the case of equities) inflation, meaning that an increase in inflation will also increase the deficit.

**Life expectancy** - The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the schemes' liabilities.

#### A. Corus Republic of Ireland Scheme

From April 2016, this defined benefit scheme ceased to be a multi-employer scheme, and the approved Deed of Cessation and Amendment segregated the element relating to the Group which was transferred on acquisition. The disclosures below are therefore made in relation to defined benefit obligations in accordance with IAS 19.

The most recent actuarial valuation of the scheme was prepared as at 1 January 2017 and has been updated to 31 March 2018 by a suitably qualified actuary. The report showed the fair value of the scheme's assets to be £20,353,000. At the balance sheet date the scheme showed an excess of assets over liabilities of £2,452,000. Group contributions made in the period were £836,000, and there were no accruals at the balance sheet date. The Group expects to pay one further deficit lump sum payment in FY19 of £836,000, by which point the most recent funding agreement of 2009 will end.

**Notes to the financial statements (continued)**

**24 Employee benefits (continued)**

**A. Corus Republic of Ireland Scheme (continued)**

The relevant disclosures in respect of the scheme are as follows:

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
Fair value of plan assets	<b>(20,353)</b>	<b>(18,276)</b>
Defined benefit obligation	<b>17,901</b>	<b>17,275</b>
Net defined benefit scheme surplus	<b><u>(2,452)</u></b>	<b><u>(1,001)</u></b>

**Movement in net defined benefit surplus over the year**

	<b>Defined benefit obligation</b>		<b>Fair value of plan assets</b>		<b>Net defined benefit liability/ (asset)</b>	
	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
<b>Balance at 1 April 2017/1 June 2016</b>	<b>17,275</b>	<b>15,789</b>	<b>(18,276)</b>	<b>(14,975)</b>	<b>(1,001)</b>	<b>814</b>
<b>Included in Profit or loss</b>						
Interest cost/ (income)	<b>324</b>	<b>258</b>	<b>(355)</b>	<b>(253)</b>	<b>(31)</b>	<b>5</b>
<b>Included in OCI</b>						
Change in financial assumptions	<b>438</b>	<b>139</b>	<b>(749)</b>	<b>-</b>	<b>(311)</b>	<b>139</b>
Return on plan assets	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,012)</b>	<b>-</b>	<b>(1,012)</b>
Actuarial experience on obligations	<b>(241)</b>	<b>(208)</b>	<b>-</b>	<b>-</b>	<b>(241)</b>	<b>(208)</b>
Translation difference	<b>504</b>	<b>1,931</b>	<b>(536)</b>	<b>(1,855)</b>	<b>(32)</b>	<b>76</b>
<b>Other</b>						
Contributions paid by the employer	<b>-</b>	<b>-</b>	<b>(836)</b>	<b>(815)</b>	<b>(836)</b>	<b>(815)</b>
Benefits paid	<b>(399)</b>	<b>(634)</b>	<b>399</b>	<b>634</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 March</b>	<b><u>17,901</u></b>	<b><u>17,275</u></b>	<b><u>(20,353)</u></b>	<b><u>(18,276)</u></b>	<b><u>(2,452)</u></b>	<b><u>(1,001)</u></b>

**Plan assets**

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
Cash and cash equivalents	<b>84</b>	<b>47</b>
Equity instruments	<b>12,024</b>	<b>10,859</b>
Debt instruments	<b>7,979</b>	<b>7,132</b>
Other assets	<b>266</b>	<b>238</b>
<b>Total</b>	<b><u>20,353</u></b>	<b><u>18,276</u></b>

## Notes to the financial statements (continued)

### 24 Employee benefits (continued)

#### A. Corus Republic of Ireland Scheme (continued)

##### Actuarial assumptions

Weighted-average assumptions to determine benefit obligations	31 March 2018	31 March 2017
	%	%
Discount rate	1.80	1.85
Rate of inflation	1.70	1.60
Future salary increases	1.70	1.60
Future pension increases	1.70	1.60

The assumptions relating to longevity underlying the pension liabilities at the Statement of Financial Position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

	31 March 2018	31 March 2017
	Years	Years
Current pensioner aged 65		
- Men	21.4	21.2
- Women	23.9	23.7
Future retiree upon reaching 65		
- Men	22.7	22.7
- Women	24.9	24.9

##### Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by nil percent.

Discount rate	a 0.25% discount rate would result in an increase in scheme liabilities of £788k
Inflation	a 0.25% inflation rate would result in a decrease in scheme liabilities of £713k

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 1 January 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

##### Funding

The Group expects to pay the following in contributions to its defined benefit plans in the future.

Expected benefit payments in each of FY19 and FY20 is £290,000. The Group also expects to pay one further deficit lump sum payment in FY19 of £836,000.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 17.0 years.

#### B. British Steel France Rail and British Steel France Holdings Schemes

The most recent actuarial valuation of the scheme was prepared as at 31 March 2017 and has been updated to 31 March 2018 by a suitably qualified actuary. The valuation at the balance sheet date showed an excess of liabilities over assets of £30,071,000. Group contributions made in the period were £1,074,000, and there were no accruals at the balance sheet date.

## Notes to the financial statements (continued)

### 24 Employee benefits (continued)

#### B. British Steel France Rail and British Steel France Holdings Schemes (continued)

The total defined benefit obligation comprises;

	<b>31 March 2018 £000</b>	31 March 2017 £000
Retirement allowances	<b>3,794</b>	3,522
Supplementary retirement scheme	<b>25,519</b>	25,166
Total pension benefits	<b>29,313</b>	28,688
Long service award	<b>758</b>	701
Total employee benefits	<b>30,071</b>	29,389

#### Retirement Allowances:

The French pension system is operated on a "pay as you go" basis. Each employee is entitled to receive a basic pension from the Social Security plus a complementary pension from defined contribution schemes ARRCO and AGIRC (management only for AGIRC). Moreover, retiring allowances (lump sums) must by law be paid by the employer when employees retire.

The allowances to be paid to British Steel France Rail's employees are defined by the Collective Bargaining Agreement of the Metallurgical Industry.

#### Supplementary pension scheme:

This Pension Scheme, set up by Arcelor, the Group to which British Steel France Rail belonged prior to acquisition by Corus was closed to new participants on 31 December 1989. This plan is not externally funded through an insurance Company. The administration of the plan is handled by a specific organisation IRUS (Institution de Retraite Usinor-Sacilor). The main features of the plan are the following:

Pensionable salary: Average final 12 months' salary

Pensionable seniority: Seniority at Arcelor, Corus, Tata & British Steel

- Pension benefit :

Number of years of service in between age 20 and 24 : 0.40% of pensionable salary per year

Number of years of service in between age 25 and 29 : 0.75% of pensionable salary per year

Number of years of service in between age 30 and 34 : 1.75% of pensionable salary per year

Number of years of service in between age 35 and 54 : 2.00% of pensionable salary per year

Number of years of service in between age 55 and 59 : 1.75% of pensionable salary per year

Number of years of service in between age 60 and 64 : 0.75% of pensionable salary per year

The total pension benefit is limited to 62% of the pensionable salary including Social Security pension, compulsory complementary pension schemes ARRCO/AGIRC Normal Retirement age:

To be at least 62 years of age with full eligibility under Social Security and 10 years of service

- Vesting : Benefit rights are not vested before age 62

- Early retirement pension eligibility : nil

- Increase for dependent child: 5% of pensionable salary per child (maximum: 15%)

- Survivorship : Life pension to spouse equal to 60% of deceased retiree's pension

**Notes to the financial statements (continued)**

**24 Employee benefits (continued)**

**B. British Steel France Rail and British Steel France Holdings Schemes (continued)**

**Long Service Awards:**

British Steel France Rail maintains a policy of paying lump sum gratifications upon anniversaries of employment as follows:

20 years of employment: 2% of the monthly salary per year of service

30 years of employment: 2% of the monthly salary per year of service

35 years of employment: 2% of the monthly salary per year of service

40 years of employment: 2% of the monthly salary per year of service

Based on an agreement from the tax authorities, these payments are free of social charges.

The relevant disclosures in respect of IAS 19 are as follows:

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
Total defined benefit liability	<b>30,071</b>	29,389
Net defined benefit scheme liability	<b>30,071</b>	29,389
<b>Movement in defined benefit obligation and net defined benefit liability/asset</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2017/1 June 2016</b>	<b>29,389</b>	24,416
Current service cost	489	304
Interest cost/(income)	444	219
Administrative expenses	-	122
<b>Included in OCI</b>		
Change in financial assumptions	(18)	668
Change in actuarial experience	(15)	1,557
Translation difference	856	3,068
<b>Other</b>		
Employer contributions	(1,074)	(965)
<b>Balance at 31 March</b>	<b>30,071</b>	29,389

## Notes to the financial statements (continued)

### 24 Employee benefits (continued)

#### B. British Steel France Rail and British Steel France Holdings Schemes (continued)

##### Actuarial assumptions

Weighted-average assumptions to determine benefit obligations	31 March 2018	31 March 2017
	%	%
Inflation	1.8	1.8
Discount rate	1.5	1.5
Future salary increases	2.7	2.8
Future pension increases	0.9	1.0

The assumptions relating to longevity underlying the pension liabilities at the Statement of Financial Position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 62-year old to live for a number of years as follows:

Current pensioner aged 62: 21.7 years (male), 25.8 years (female).

Future retiree upon reaching 62: 21.7 years (male), 25.8 years (female)

##### Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by 0.5 percent.

	Increase	Decrease
Discount rate	1,937	(2,147)
Impact (£'000)		

In valuing the liabilities of the pension fund at £30,071,000 mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2018 would have increased by £987,000 before deferred tax.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 March 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

##### Funding

The Group expects to pay the following in contributions to its defined benefit plans in the future.

##### Expected benefit payments over the next 10 years

Year(s)	£000
FY19:	1,231
FY20:	1,149
FY21:	1,131
FY22:	1,342
FY23:	1,286
FY24-FY28:	7,237

The weighted average duration of the defined benefit obligation at the end of the reporting period is 19.8 years.

## Notes to the financial statements (continued)

### 24 Employee benefits (continued)

#### C. TSP Projects Limited Scheme

The most recent actuarial valuation of the scheme, was prepared as at 31 December 2016 and has been updated to 31 March 2018 by a suitably qualified actuary. The report showed the fair value of the scheme's assets to be £51,700,000. At the balance sheet date the scheme showed an excess of liabilities over assets of £16,400,000. Group contributions made in the period were £900,000, and there were no accruals at the balance sheet date.

The relevant disclosures in respect of the scheme are as follows:

	31 March 2018 £000	31 March 2017 £000
Fair value of plan assets	(51,700)	(51,900)
Total defined benefit asset	(51,700)	(51,900)
Total defined benefit liability	68,100	71,400
Net liability for defined benefit obligation (see following table)	<u>16,400</u>	<u>19,500</u>

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/ (asset)	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
<b>Balance at 1 April 2017/1 June 2016</b>	71,400	59,300	(51,900)	(47,500)	19,500	11,800
<b>Included in Profit or loss</b>						
Current service cost	200	100	-	-	200	100
Interest cost/ (income)	1,800	1,600	(1,300)	(1,300)	500	300
Administrative expenses and taxes	-	-	200	200	200	200
<b>Included in OCI</b>						
Change in financial assumptions	(3,200)	12,100	-	(4,179)	(3,200)	7,921
Change in demographic assumptions	(1,600)	-	-	-	(1,600)	-
Experience (gains)/losses	1,500	-	-	-	1,500	-
Administrative expenses and taxes	-	-	200	-	200	-
<b>Other</b>						
Contributions paid by the employer	-	-	(900)	(821)	(900)	(821)
Benefits paid	(2,000)	(1,700)	2,000	1,700	-	-
<b>Balance at 31 March</b>	<u>68,100</u>	<u>71,400</u>	<u>(51,700)</u>	<u>(51,900)</u>	<u>16,400</u>	<u>19,500</u>



**Notes to the financial statements (continued)**

**24 Employee benefits (continued)**

**C. TSP Projects Limited Scheme (continued)**

**Plan assets**

	<b>31 March 2018 £000</b>	<b>31 March 2017 £000</b>
Growth assets	32,800	34,000
Debt instruments	18,600	17,500
Other assets	300	400
Total	<u>51,700</u>	<u>51,900</u>

**Actuarial assumptions**

Weighted-average assumptions to determine benefit obligations	<b>31 March 2018 %</b>	<b>31 March 2017 %</b>
Discount rate	2.65	2.50
Future salary increases	2.95	3.05
Future pension increases	1.95	2.05

The assumptions relating to longevity underlying the pension liabilities at the Statement of Financial Position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

Current pensioner aged 65: 22.3 years (male), 23.8 years (female).

Future retiree upon reaching 65: 24.1 years (male), 25.6 years (female).

**Sensitivity analysis**

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by the amounts set out below.

	<b>Sensitivity</b>	<b>Approximate change in obligation £000</b>
Discount rate	-1.0% p.a	17,300
Inflation	+0.5% p.a	8,200
Life Expectancy	+1 year	2,200

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 December 2016 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

## Notes to the financial statements (continued)

### 24 Employee benefits (continued)

#### C. TSP Projects Limited Scheme (continued)

##### Funding

The Group expects to pay the following in contributions to its defined benefit plans in the future.

Expected benefit payments over the next 3 years

Year(s)	£000
FY19:	310
FY20:	300
FY21:	300

In addition the Group also expects to pay a lump sum contribution of £900,000 in 2019.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20.0 years.

##### Defined contribution plans

The Group operates a defined contribution pension plan. The total expense relating to these plans in the current period was £6,803,000 (2017: £3,511,000).

### 25 Provisions - Group

	Rationalisation costs (i) £000	Environmental (ii) £000	Other provisions (iii) £000	Total £000
At 1 April 2017	2,129	25,689	47,320	75,138
Provisions made	1,781	2,944	328	5,053
Provision on acquisitions through business combinations	-	-	8,668	8,668
Provisions utilised in the period	(640)	-	(15,118)	(15,758)
Exchange rate differences	1	-	7	8
<b>At 31 March 2018</b>	<b>3,271</b>	<b>28,633</b>	<b>41,205</b>	<b>73,109</b>
<b>Current</b>				<b>37,096</b>
<b>Non-current</b>				<b>36,013</b>
				<b>73,109</b>

- i. Rationalisation costs include redundancy provisions £0.6m (2017: £0.2m) and property related items of £2.7m (2017: £1.9m). The provisions are expected to be utilised by 2018 and 2022 respectively.
- ii. Environmental provisions primarily represents the costs of disposing of some waste by-products at the Scunthorpe site including landfill taxes. Due to the nature of this provision, the timing of any settlement is uncertain.
- iii. Other provisions include £23.3m (2017: £37m) in respect of an onerous legacy freight contract. The deal commits British Steel to paying freight costs greater than the market rate until the end of 2021 and will be utilised over that period. Other provisions also includes £10.0m related to the dilapidations on leased property. Dilapidations of £6.5m (2017: 6.5m) relate to the Redcar Bulk Terminal Limited leased properties and will be utilised by the end of the lease date in 2033. Dilapidations of £3.5m (2017: £3.8m) relating to downstream distribution leased properties with a weighted average utilisation of 3.2 years. Warranty provisions of £0.2m (2017: £nil) are included within other provisions. Other provisions also includes £7.7m in relation to a fair value adjustment on acquisition of the FNsteel Group relating to a contract on unfavourable terms relative to market prices and will be utilised over the next 4 years.

## Notes to the financial statements (continued)

### 26 Capital and reserves

#### Share capital

	31 March 2018	31 March 2017
	£	£
Authorised, allotted, called up and fully paid:		
1 ordinary share of £1 each	1	1

#### Reserves

	Group £000	Company £'000
At 17 May 2016	-	-
Actuarial gains and losses in the period	(9,065)	-
Deferred tax on defined benefit pension schemes	7,235	-
	<u>(1,830)</u>	<u>-</u>
Exchange rate movements on net investments	8,557	-
Retained earnings	60,362	-
	<u>67,089</u>	<u>-</u>
At 31 March 2017	67,089	-
At 1 April 2017	67,089	-
Actuarial gains and losses in the period	3,685	-
Deferred tax on defined benefit pension schemes	(1,852)	-
	<u>68,922</u>	<u>-</u>
Exchange rate movements on net investments	3,649	-
Retained earnings	6,678	-
	<u>79,249</u>	<u>-</u>
At 31 March 2018	79,249	-

The actuarial reserve records cumulative actuarial gains and losses in line with the actuarial reports provided by our third party independent actuaries net of associated deferred tax. The pension deferred tax has been calculated in line with relevant tax standards. The retranslation reserve records the cumulative exchange rate movements on net investments in subsidiaries where the functional currency is not in GBP, these such companies are the Steel Company of Ireland, British Steel France Rail S.A.S, British Steel France Rail Holdings S.A.S., FNsteel B.V., FNsteel S.A.R.L. and FNsteel GmbH. The retained earnings reserve records cumulative retained profits as reported in the profit and loss account.

### 27 Immediate and ultimate parent entity and controlling party

The Company is a wholly-owned subsidiary undertaking of Olympus Steel Limited (the immediate parent company), a company incorporated in Jersey.

The Group's ultimate parent company is Olympus Steel 2 Limited, a company incorporated in Jersey, the accounts of which are neither consolidated nor publicly available. The largest and smallest Group of which the results of the Company are consolidated is that headed by British Steel Holdings Limited. The Directors consider Marc Meyohas, Nathaniel Meyohas and Storford Ltd to be the ultimate controlling parties of the Company.

## Notes to the financial statements (continued)

### 28 Related parties

During the period ended 31 March 2018, British Steel Limited was charged a quarterly management fee by Greybull Capital LLP. Greybull's partners are Marc Meyohas, Nathaniel Meyohas and Richard Perlhagen, who are British Steel Holdings directors. The fees paid to Greybull Capital LLP in the period amounted to £3m (2017: £3m).

During the period ended 31 March 2018, British Steel Limited entered into nil (2017: four) separate foreign exchange transactions with Monarch Airlines Limited. Monarch Airlines Limited's ultimate controlling parties include Marc Meyohas and Nathaniel Meyohas who are directors of British Steel Holdings Limited. British Steel sold a total amount of €nil (2017: €28.5m) to Monarch Airlines and received £nil (2017: £22.0m). There were no outstanding arrangements at the year end.

The compensation of key management personnel is set out in the following table:

Group and Company	31 March 2018 £000	31 March 2017 £000
Key management remuneration	4,218	1,310
Company contributions to money purchase schemes	28	4
	<u>4,246</u>	<u>1,314</u>

### 29 Post balance sheet events

There are no significant events since the year end.

### 30 Operating leases

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

	Group		Company	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Less than one year	13,885	8,217	-	-
Between one and five years	58,673	37,027	-	-
More than five years	49,421	55,943	-	-
<b>Total</b>	<u>121,979</u>	<u>101,187</u>	<u>-</u>	<u>-</u>

Operating lease payments represent rentals payable by the Group in respect of properties and the jetty at Immingham Bulk Terminal. The property leases are on terms of between 1 and 6 years, and the majority of the lease agreements are renewable at the end of the lease at market rate. The Immingham Bulk Terminal lease terminates in 2027 (with the right to renew for a further two periods of five years on substantially the same terms). The charges are fixed until 2020 at which point they will move according to the relative change in the CPI.

## **Notes to the financial statements (continued)**

### **31 Financial instruments**

The Group is exposed to the risks that arise from its use of financial instruments. This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

#### **Capital risk Management**

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balances. The capital structure of the Group consists of net debt (borrowings disclosed in note 21 after deducting cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings and disclosed in note 26). The Group is not subject to any externally imposed capital requirements.

#### **Financial risk management objectives**

The Group's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

#### **Principal financial instruments**

The principal financial instruments used by the Group, from which financial instrument risk arises are as follows:

- Trade and other receivables
- Trade and other payables
- Cash and cash equivalents
- Borrowings
- Derivatives
- Contingent consideration

The carrying value of these financial instruments is considered to approximate their fair value

#### **Fair values**

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Group's financial instruments are all classified as Level 2 in the fair value hierarchy apart from the contingent consideration (disclosed in notes 2 and 20) which is classified as Level 3. The Group's financial assets and liabilities categorised as Level 2 and their fair value are estimated by disclosing the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The Group's financial assets and liabilities categorised as Level 3 and their fair value is estimated using discounted cash flows. The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the most likely scenarios of forecast revenue and EBITDA.

## Notes to the financial statements (continued)

### 31 Financial instruments (continued)

#### Financial instruments by category

The following table details the Group's financial instruments. The carrying value of these financial instruments is considered to approximate their fair value:

**31 March 2018**

	Fair value through profit and loss £000	Loans and receivables £000	Other liabilities measured at amortised cost £000	Total £000
<b>Financial assets measured at fair value</b>				
Derivative financial assets (note 18)	1,986	-	-	1,986
	<u>1,986</u>	<u>-</u>	<u>-</u>	<u>1,986</u>
<b>Financial assets not measured at fair value</b>				
Cash and cash equivalents (note 19)	-	22,237	-	22,237
Trade receivables (note 18)	-	215,001	-	215,001
Other receivables (note 18)	-	46,899	-	46,899
Accrued income (note 18)	-	2,834	-	2,834
	<u>-</u>	<u>286,971</u>	<u>-</u>	<u>286,971</u>
<b>Financial liabilities measured at fair value</b>				
Contingent consideration (notes 2 & 20)	7,141	-	-	7,141
	<u>7,141</u>	<u>-</u>	<u>-</u>	<u>7,141</u>
<b>Financial liabilities not measured at fair value</b>				
Trade payables (note 20)	-	-	220,572	220,572
Other creditors (note 20)	-	-	98,963	98,963
Interest payable (note 20)	-	-	199	199
Bank loans and overdrafts (note 21)	-	-	336,286	336,286
Finance lease obligations (note 22)	-	-	20,380	20,380
Provisions (note 25)	-	-	26,014	26,014
	<u>-</u>	<u>-</u>	<u>702,414</u>	<u>702,414</u>

**Notes to the financial statements (continued)**

**31 Financial instruments (continued)**

**Financial instruments by category (continued)**

**31 March 2017**

	Fair value through profit and loss £000	Loans and receivables £000	Other liabilities measured at amortised cost £000	Total £000
<b>Financial assets measured at fair value</b>				
Derivative financial assets (note 18)	360	-	-	360
	<u>360</u>	<u>-</u>	<u>-</u>	<u>360</u>
<b>Financial assets not measured at fair value</b>				
Cash and cash equivalents (note 19)	-	52,952	-	52,952
Trade and other receivables (note 18)	-	224,557	-	224,557
Other receivables (note 18)	-	18,040	-	18,040
	<u>-</u>	<u>295,549</u>	<u>-</u>	<u>295,549</u>
<b>Financial liabilities not measured at fair value</b>				
Trade payables (note 20)	-	-	200,915	200,915
Bills of exchange payable (note 20)	-	-	260	260
Other creditors (note 20)	-	-	34,324	34,324
Interest payable (note 20)	-	-	90	90
Bank loans and overdrafts (note 21)	-	-	273,558	273,558
Finance lease obligations (note 22)	-	-	29,577	29,577
Provisions (note 25)	-	-	38,900	38,900
	<u>-</u>	<u>-</u>	<u>577,624</u>	<u>577,624</u>

Derivative financial instruments used by the Group represent forward exchange contracts and forward carbon emissions allowance contracts. The Group does not hold or issue forward exchange contracts for trading purposes. Forward exchange contracts are undertaken to manage risks arising from underlying business activities. Forward carbon emissions allowance contracts are entered into to both manage risk and for trading.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises principally from the Group's cash balances and trade and other receivables. The concentration of the Group's credit risk is considered by counterparty.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and if not available the Group uses other publicly available financial information and its own trading records to rate its major customers.

## Notes to the financial statements (continued)

### 31 Financial instruments (continued)

#### Credit risk (continued)

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets detailed in the financial instruments by category table above.

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the board of directors. The Board manages liquidity risk by regularly reviewing the Group's cash requirements by reference to short term cash flow forecasts and medium term working capital projections.

The following table details the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
31 March 2018	%	£'000	£'000	£'000	£'000
Non-interest bearing	-	319,734	4,896	2,817	327,447
Finance lease liability	6.5	3,761	14,341	8,066	26,168
Variable interest rate instruments	7.0	52,307	319,128	-	371,435
	-	<u>375,802</u>	<u>338,365</u>	<u>10,883</u>	<u>725,050</u>
	Weighted average interest rate	Less than 1 year	1-5 years	5+ years	Total
31 March 2017	%	£'000	£'000	£'000	£'000
Non-interest bearing	-	241,534	-	-	241,534
Finance lease liability	6.5	3,585	14,340	11,652	29,577
Variable interest rate instruments	7.3	49,746	279,329	-	329,075
	-	<u>294,865</u>	<u>293,669</u>	<u>11,652</u>	<u>600,186</u>



## Notes to the financial statements (continued)

### 31 Financial instruments (continued)

#### Foreign currency risk

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

	31 March 2018		31 March 2017	
	Euro £000	US Dollar £000	Euro £000	US Dollar £000
Assets	41,412	2,547	78,880	11,390
Liabilities	(163,623)	(41,295)	(24,953)	-
Balance sheet exposure	<u>(122,211)</u>	<u>(38,748)</u>	<u>53,927</u>	<u>11,390</u>

As shown in the table above, the group is primarily exposed to changes in GBP/EUR and GBP/USD exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from Euro and US Dollar denominated financial instruments and from foreign forward exchange contracts not designated as hedges. A reasonably possible strengthening (weakening) of the Euro and US Dollar against all other currencies at 31 March 2018 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant and ignores any impact of forecast sales and purchases.

	31 March 2018		31 March 2017	
	Strengthening £000	Weakening £000	Strengthening £000	Weakening £000
Euro (10% movement)	(8,475)	7,704	5,393	(5,393)
US Dollar (10% movement)	(3,875)	3,523	1,139	(1,139)

### 32 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows or future cash flows will be classified in the Group's Consolidated Cash Flow Statement as cash flows from financing activities.

	Bank loans and overdrafts	Finance lease liabilities	Total
	£000	£000	£000
At 1 April 2017	273,558	22,337	295,895
Cash flows	43,211	(2,807)	40,404
Acquisition of subsidiary	-	850	850
Accrued interest	18,197	-	18,197
Amortisation of loan fees	1,320	-	1,320
At 31 March 2018	<u>336,286</u>	<u>20,380</u>	<u>356,666</u>