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**Tata Steel Europe Limited**

**Report & Accounts 2010**

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## Directors' report: business review

The directors have pleasure in presenting their annual report together with the audited accounts of Tata Steel Europe Limited ('TSE' or the 'Company'), and TSE and its subsidiary companies (the 'Group'), for the year ended 31 March 2010

### Business description and principal activities

TSE was incorporated on 5 October 2006 as Tulp UK Holdings (No. 1) Limited and commenced trading on 19 October 2006. The company name was changed to Tata Steel Europe Limited on 21 November 2008. TSE is a wholly-owned subsidiary of Tata Steel Global Holdings Pte. Limited, an unlisted company in Singapore, having previously been a wholly-owned subsidiary of Tata Steel Asia Holdings Pte. Limited. The ultimate parent company is Tata Steel Limited ('TSL'), which is a company incorporated in India with shares listed on the Mumbai Stock Exchange and the National Stock Exchange of India, and with global depositary receipts listed on the London and the Luxembourg Stock Exchanges.

On 2 April 2007 one of TSE's subsidiaries, Tata Steel UK Limited ('TSUK'), completed the acquisition of Corus Group plc ('Corus'), whose shares as a consequence then ceased to be admitted to trading on the London and Amsterdam Stock Exchanges, and whose American depositary shares were de-listed from the New York Stock Exchange. Corus re-registered as a private limited company with effect from 16 July 2007. The consolidated results of the Company have included those of Corus from 2 April 2007.

The Group has three main operating divisions: Strip Products, Long Products and Distribution & Building Systems. The activities of each division are organised into individual business profit centres, each of which has its own managing director who, with their respective management team, has responsibility for the performance of that business. Europe, principally the EU, is the most important market for the Group, accounting for 79% of total turnover in 2009/10.

The Group produces carbon steel by the basic oxygen steelmaking method at three integrated steelworks in the UK at Port Talbot, Scunthorpe and Teesside (the latter of which was mothballed at the end of February 2010 – refer to the section on Acquisitions and disposals on page 17), and at one in the Netherlands at IJmuiden. Engineering steels are produced in the UK at Rotherham using the electric arc furnace method (although some restructuring of the business was announced on 26 January 2009, which effectively reduced the manned steelmaking capacity). A number of the Group's rolling mills and process lines are on the same sites as the steelworks, but most of the Group's operating sites do not have steelmaking facilities. These include the strip mills at Llanwern, Wales, the tinplate works at Trostre, Wales, the coating works at Tafarnabach and Shotton, Wales and Maubeuge, France, the electrical steels works at Newport, Wales and Surahammar, Sweden, the tube mills at Corby and Hartlepool, England and Oosterhout, Maastricht, Zwijndrecht and Arnhem, the Netherlands (the latter of which is to be closed as part of a reconfiguration of tube facilities in the Netherlands), the plate mill at Dalzell, Scotland, the rail mill at Hayange, France, the cold rolled narrow strip mills and plating lines at Dusseldorf and Trier, Germany and Warren and Bethlehem, the USA, the section mill at Skinningrove, England, the engineering and aerospace works at Stocksbridge, England, and the narrow strip mill at Brnsworth, England.

The Group has sales offices, stockholders, service centres and joint venture or associate arrangements in a number of markets for distribution and further processing of steel products. These are supported by various agency agreements. There is an extensive network in the EU while outside the EU the Group has sales offices in over thirty countries, supported by a worldwide trading network.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the financial year are listed in Note 37 to the financial statements.

In 2009/10, about 65% of the Group's crude steel production was rolled into hot rolled coil. Most of the remainder was further processed into sections, plates, engineering steels or wire rod, or sold in semi-finished form. Approximately 25% of hot rolled coil was sold without further processing, approximately 55% was further processed in cold rolling mills and coating lines, and the remainder was transferred to the Group's tube mills for the manufacture of welded tubes. Principal end markets for the Group's steel products are the construction, automotive, packaging, mechanical and electrical engineering, metal goods, and oil and gas industries.

Following the sale of its downstream aluminium activities in 2006, the Group's aluminium operations were entirely related to the production of primary metal for external customers. This production arose in two smelters, at Delfzijl, the Netherlands and Voerde, Germany, although the Group was not a major producer globally. The sale of the smelters was subsequently completed in February 2009 and, as a result, these were treated as discontinued operations in the comparative period.

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The properties set out in the table below are the primary processing works of TSE

	Approximate total operational site area	Gross external area of buildings and plant	2009/10 Production capacity (a)	2009/10 Actual output
<b>Major production facilities</b>	<b>acres</b>	<b>acres</b>	<b>mt</b>	<b>mt</b>
Port Talbot steelworks, West Glamorgan, Wales	3,100	153	4.9	3.3
Scunthorpe steelworks, South Humberside, England	2,700	466	4.5	2.7
Teesside steelworks, Redcar, Cleveland, England (b)	2,400	295	3.9	2.3
Rotherham steelworks, South Yorkshire, England (c)	1,200	99	1.3	0.4
IJmuiden steelworks, the Netherlands	1,858	474	7.7	5.7

- (a) Production capacity is based on the maximum possible production in the financial year 2009/10 taking into account upstream and downstream bottlenecks, assuming full manning of facilities and including any plant mothballed. Figures are for crude steel production and are broadly consistent with those submitted to the European Commission as part of its annual investment and capacity survey. In practice, facilities may be manned only to the level required to provide semi-finished materials for downstream finishing processes and for sale.
- (b) Ironmaking and steelmaking at Teesside was mothballed at the end of February 2010.
- (c) Restructuring of the business during 2009/10 resulted in manned capacity reducing to 0.5mt. However, with full manning, the capacity remains 1.3mt.

### Strategy

As part of the TSL group of companies (the 'TSL Group'), TSE remains committed to the TSL Group's vision of being a global benchmark in value creation and corporate citizenship. Good progress has been made in a number of areas as discussed below, in spite of the serious challenges caused by steel markets in Europe remaining under pressure, supply of raw material being at historically high prices and climate change legislation (especially regarding CO<sub>2</sub> emissions) remaining a pressing issue.

#### Benchmark in value creation

The value creation strategy is centred on two elements. The first element is about increasing the quality of earnings of existing assets. During the past financial year the TSL Group, while facing extremely adverse market conditions in Europe, maintained an emphasis on quality of earnings in decision making and running the respective businesses. TSL's operations in India retained good profitability levels throughout the downturn and recovered faster than most competitors, reflecting the strategic advantages of these operations, including access to growth markets, raw material integration and cost competitiveness. Restoring profitability was a priority for the European operations, which were faced with some of the largest contractions in steel demand in history.

TSE acted swiftly to respond to this downturn by launching two initiatives, 'Weathering the Storm' and 'Fit for the Future'. Weathering the Storm, a corporate-wide programme, included a series of short-term actions to mitigate the impact of reduced steel demand. It involved a reduction in use of third party services, flexible production to reduce energy cost, reduction in employment cost relating to overtime and putting major capital expenditure programmes on hold. Fit for the Future initiatives were put in place to address longer term issues such as TSE's future competitiveness and targeted savings of £350m. Key actions undertaken as part of this work included:

- Divestment of the aluminium smelters at Delfzijl, the Netherlands and Voerde, Germany
- Asset restructuring, including a new business model for engineering steels, with a focus on speciality steels whilst the bar business is integrated with Scunthorpe
- Rationalisation of downstream businesses in tubes, distribution and building systems
- Overhead re-engineering and efficiency improvements

Furthermore, in February 2010, TSE mothballed elements of its Teesside operations, notably the Redcar blast furnace and Lackenby steelmaking (refer to the section on Acquisitions and disposals on page 17). The reason for this was the failure in April 2009 of four international slab buyers to fulfil their obligations under a ten-year Offtake Framework Agreement, thus burdening TSE with exposure to the small, niche merchant slab market. Management believes that, due to Teesside's cost position it would not be able to compete in this global market, as a merchant slab supplier, on a sustainable basis. TSE continues to explore options that could provide employment for the employees affected, including the sale of the mothballed operations (for which it has appointed Citibank as an external independent advisor to the process).

To better position itself for the future, the TSL Group is re-aligning its organisation to better serve its customers and to leverage its scale. Key measures being taken in this regard include:

- Functions across the TSL Group have been consolidated into TSL Group-wide functions such as procurement, quality management, health and safety, environment and global information services. A TSL Group corporate centre management team has been set up to oversee the TSL Group functions.
- The Tata Steel International network is being optimised to increase market reach and channel TSL Group products to different geographies.

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- To further improve the competitive position in Europe, work on transforming TSE into a more customer focused company, operating as an integrated manufacturing and sales organisation is in progress. The 'Customer First' programme is aimed at better serving customers' needs through developing a more customer sector focused sales and marketing organisation. In parallel, TSE is also investing in systems to improve the supply chain velocity and reliability in order to improve customer service and reduce working capital.

The second element of the value creation strategy is selective growth in growing markets where the TSL Group has a competitive advantage. The TSL Group, therefore, continues to selectively invest for the future with the aim of strengthening its position in growth markets like India, and of increasing the levels of raw material integration and of energy self-sufficiency across the TSL Group.

An example of investment commenced in the last year aimed at strengthening and growing TSE was the announcement in October 2009 of an investment of €35m in its rail facility at Hayange, France, primarily to supply a six-year contract secured with the French railway operator, SNCF.

TSE is supportive of the TSL Group's strategy of extending its exploration and mining portfolio, including iron ore and coal projects that may benefit TSE. During the past year a joint venture agreement between the TSL Group, New Millennium Capital Corporation and LabMag Limited Partnership was signed in November 2009 for development of the Direct Shipment Ore Project in Canada, with a resource of about 100mt. In July 2009, the TSL Group increased its stake in Riversdale Mining Limited, its partner in the Benga Coal Project in Mozambique, to 19.38%. In October 2009 TSL and Riversdale approved development of stage 1 of the Benga Coal Project at a cost of US\$270m.

### Benchmark in corporate citizenship

The TSL Group believes its corporate citizenship responsibilities are of strategic importance. These include providing a safe working place, respecting the environment, caring for communities and demonstrating high ethical standards. TSE, therefore, gives these responsibilities priority in the allocation of capital and management time. More details of TSE's work and achievements in the areas of sustainability, environment and safety are set out in later sections of this Directors' report.

## Group performance

### Summary

From continuing operations, unless stated	2009/10	2008/09	Percentage change %
<b>Revenue and deliveries</b>			
Turnover (£ millions - £m)			
UK	2,157	3,207	
Rest of Europe	4,245	6,570	
Rest of World	1,655	2,520	
	8,057	12,297	-34
Steel deliveries (million tonnes - mt)	14.2	18.8	-24
<b>Earnings</b>	£m	£m	
Operating (loss)/profit before restructuring & impairment costs and loss on disposals	(688)	306	
Restructuring and impairment costs charged against operating costs	(168)	(448)	
Loss on disposals charged against operating costs	(9)	(9)	
Operating loss	(865)	(151)	-473
Net finance costs	(232)	(273)	
Share of post-tax profits of joint ventures and associates	11	17	
Taxation credit	157	77	
Loss after taxation from continuing operations	(929)	(330)	-182
Loss after taxation from discontinued operations	-	(136)	
Loss after taxation	(929)	(466)	-99

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### Key Performance Indicators (KPI)

The Board and Executive Committee monitor a wide range of performance indicators, both financial and non-financial, on a regular basis

Key performance indicators and definitions	Review of performance
<b>EBITDA margin</b> This shows earnings (before restructuring & impairment costs and loss on disposals) before interest, tax, depreciation and amortisation as a percentage of Group turnover. It measures how efficiently revenue is converted into EBITDA.	<ul style="list-style-type: none"> <li>-2% for 2009/10 (EBITDA £142m)</li> <li>This was a deterioration from 7% (EBITDA £893m) in 2008/09</li> <li>2009/10 was impacted by the sharp market downturn that started in H2 2008/09, but with a marked recovery by H2 2009/10 to 5% EBITDA margin</li> <li>The Group returned to profit by the end of the financial year</li> </ul>
<b>Return on invested capital</b> This shows operating profit (before restructuring & impairment costs and loss on disposals) as a percentage of invested capital (calculated as total equity adjusted for net debt and net retirement benefit assets). It measures the return, or profit, generated from the money invested in the Group.	<ul style="list-style-type: none"> <li>-13% for 2009/10 (2008/09 5%)</li> <li>2009/10 was impacted by the sharp market downturn that started in H2 2008/09</li> </ul>
<b>Working capital/turnover</b> This shows year-end working capital as a percentage of the annualised quarter 4 revenue for each relevant year. It measures how efficiently the Group is able to convert inventories into delivered goods and subsequent cash receipts.	<ul style="list-style-type: none"> <li>16% for 2009/10 (2008/09 21%)</li> <li>Favourably affected by recovery in turnover in Q4 2009/10 and management action to reduce working capital</li> </ul>
<b>Net debt</b> This shows total debt less cash and cash equivalents, and liquid resources. It reflects the Group's overall liquidity position and is used by management for planning purposes.	<ul style="list-style-type: none"> <li>£3,921m at the end of 2009/10 (2008/09 £3,755m)</li> <li>Impacted by negative EBITDA with partial offset from strong working capital control and the sterling value of euro denominated debt reducing as year-end sterling exchange rate against the euro is stronger at March 2010</li> </ul>
<b>Safety Lost time injury frequency (LTIF)</b> The Group measures LTIF to provide a basis of comparison with industry peers. The frequency rate is reported per million employee and contractor hours worked, as a rolling twelve-month average.	<ul style="list-style-type: none"> <li>Combined contractor and employee rate of 1.5 for 2009/10 (2008/09 1.8)</li> <li>15% improvement compared to 2008/09</li> <li>With the continuation of year on year improvement in LTIF, the Group focus will move to 'recordables' from 2010/11 i.e. to include non-LTI and occupational health illnesses. The 2009/10 rate was 6.5</li> <li>'Recordables' are defined as all work related incidents resulting in harm to a person or persons excluding those that require no more than first aid treatment</li> </ul>
<b>Service Deliveries on time in full (OTIF)</b> OTIF is one of the Group's standard measures for customer service excellence. It reflects the percentage of deliveries that are fulfilled by the date or time first committed to the customer.	<ul style="list-style-type: none"> <li>83% for 2009/10 (2008/09 85%)</li> <li>Negatively impacted in 2009/10 by operational issues associated with aligning output levels to the significantly weaker market demand</li> </ul>
<b>Capacity utilisation</b> This shows liquid steel production as a percentage of volumes achieved prior to the economic downturn in 2008/09. It reflects the speed and extent of the recovery in steel demand.	<ul style="list-style-type: none"> <li>75% for 2009/10 (2008/09 81%)</li> <li>Normal KPI of 'liquid steel production' replaced during period of significant downturn</li> <li>Teesside excluded from the analysis as not operational for the full year</li> </ul>
<b>Environment CO<sub>2</sub> emissions</b> The Group measures its CO <sub>2</sub> emissions per tonne of steel produced through the integrated steelmaking route, including direct and indirect emissions.	<ul style="list-style-type: none"> <li>2.01 tonnes CO<sub>2</sub> per tonne of crude steel for 2009/10 (2008/09 2.01)</li> <li>To provide international comparability, the Group has moved from an internal reporting scope to the new World Steel Association framework for the measurement of CO<sub>2</sub>. 2008/09 data has been retrospectively corrected to align with this</li> </ul>

### Group overview

The preceding financial year of 2008/09 was one of extreme contrasts, with strong demand and prices in the first half followed by a sharp drop in orders and prices in the second half, as the global recession severely impacted the steel industry. The depressed market conditions evident at the end of 2008/09 continued into 2009/10 and, whilst some modest recovery was evident by the third quarter, sales volumes and prices remained well below those experienced in the first half of 2008/09. It is against this background that the financial figures for the year have been reviewed.

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Total Group turnover for the period was £8,057m (2008/09 £12,297m), 34% lower than the previous year. Average revenue per tonne decreased for each of the Group's steel divisions and was 13% lower year on year, and deliveries were also sharply reduced by 24%.

Group average revenue per tonne was £569 compared to £654 in the previous year. Average revenue per tonne, which had fallen sharply in the fourth quarter of 2008/09, continued to fall through the first half of 2009/10 before some market improvement saw a pick up in the third quarter that was sustained through to the end of the financial year. Nevertheless, average revenue per tonne in the last quarter of 2009/10 was approximately 13% lower than the equivalent period in 2008/09.

Deliveries followed a similar pattern, although the volume peak in 2008/09 was earlier than the price peak with sharp falls following in the third and fourth quarters. The lower volumes persisted through 2009/10, although the first quarter represented the low point, before a modest recovery by the fourth quarter. The split in deliveries between the first and second half of the year was 6.8mt and 7.4mt respectively, which contrasted with 11.3mt in the first half of 2008/09.

The net impact on turnover of the price and volume changes was to increase it from £3,845m in the first half to £4,212m in the second half.

The Group operating loss for 2009/10 was £865m (2008/09 £151m). The significant deterioration of £714m from the previous year was due to the continued fall in deliveries and prices, and the losses incurred at Teesside Cast Products ('TCP') as a result of four international slab buyers withdrawing from a ten-year Offtake Framework Agreement (refer to the section on Acquisitions and disposals on page 17), and was in spite of benefits from business improvement initiatives undertaken by the Group. The operating loss before restructuring and impairment costs and loss on disposals at £688m was £994m worse than the previous year. Within the year, the first half continued the substantial deterioration of the previous six months, before a sharp improvement was seen in the second half leading back to profit by the end of the financial year.

The operating loss included restructuring and impairment costs of £168m (2008/09 £448m). These costs were mainly in respect of the decision to mothball the TCP operation with effect from February 2010 (£115m) and the further restructuring announced on 25 June 2009 and 9 July 2009 (refer to the section on People on pages 11 and 12). In the previous year, there were provisions for redundancies that mainly related to strategic measures announced on 26 January 2009, impairments of property, plant and equipment, and impairments of values originally attributed to long-term shipping contracts and excess land as part of the fair value exercise post acquisition of Corus by TSL.

The operating loss before restructuring and impairment costs and loss on disposal referred to above was significantly affected by the continued fall in prices through the first half of the year (nearly 10% down on the equivalent period in 2008/09 and over 20% down on the peak quarter) and also the continued fall in volumes (around 40% down on the equivalent period in 2008/09), which stabilised after the first quarter. In addition the losses incurred at TCP following the slab buyers withdrawal began to mount. This was all in part offset by a fall in raw material prices (refer to the section on Raw materials on page 9) and the measures taken by the Group to reduce costs through its Weathering the Storm and Fit for the Future initiatives. Nevertheless, the sharp deterioration in the Group's operating result seen at the end of 2008/09 continued through the first half of 2009/10.

As discussed above, volumes and prices began to recover through the second half of the year, albeit to levels still well below those seen in the first half of 2008/09. However, the effect of this coupled with the increasing financial benefits of the Group's Fit for the Future initiative started to feed through into a significantly improved result in the second half of the year.

The Group's net finance cost in 2009/10 was £232m (2008/09 £273m). The reduction in net finance cost of £41m was principally due to the lower level of interest rates through the year that reduced the interest expense on the Group's borrowings and the reduced level of the Group's securitisation programme following the decline in the level of UK receivables.

The Group share of post-tax results of joint ventures and associates was a profit of £11m (2008/09 £17m), with the reduction from 2008/09 reflecting the impact of the economic downturn on these entities.

The Group loss before tax for the period was £1,086m (2008/09 £407m), with taxation amounting to a credit of £157m (2008/09 £77m) and loss after tax from continuing operations of £929m (2008/09 £330m). The sale of the aluminium smelters to Klesch resulted in these being treated as discontinued operations in 2008/09. There were no discontinued operations in the year (2008/09 loss of £136m), with the prior year largely reflecting the loss on disposal of these entities in 2008/09.

Capital expenditure on property, plant and equipment amounted to £192m in the financial year (2008/09 £338m). The reduction from the previous year reflected continued constraint on investment, which had slowed due to the impact of the downturn in the second half of 2008/09. Nevertheless, four major schemes were completed during the year: the installation of a new continuous galvanising line and 3-stand cold rolling mill at IJmuiden, the Netherlands, a BOS gas recovery equipment and energy management system at Port Talbot, Wales, the conversion of the 7-stand finishing mill at

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Ijmuiden with heavy bending and hydraulic gauge control, and a ladle furnace scheme at Ijmuiden. Other major schemes in progress include the following:

- 1 The relining of the Queen Anne blast furnace at Scunthorpe, England to enable the furnace to operate for another ten years (or 12mt) prior to a further repair
- 2 The enhancement of the rail facility at Hayange, France in response to growing European demand for longer rolled rail lengths in support of future high-speed rail projects and, in particular, to support a six-year contract secured with the French rail operator, SNCF

### **Business environment and prospects**

#### *Dynamics of the business*

In the period, European markets accounted for 79% of turnover, of which the UK amounted to 27%. The principal factors influencing financial performance are, therefore, the economic climate in the UK and mainland Europe, and exchange rate relativities, particularly sterling to the euro and the US dollar, and the euro to the US dollar. Additionally, steel is a capital-intensive industry and changes in demand in one region often lead to a rapid change in the geographical sales pattern as producers seek to maintain high capacity utilisation. As a result, in addition to market developments in the UK and mainland Europe, changes in the global market for steel also influence the financial performance of the Group. Seasonal effects also have some impact on the Group.

#### • *Economic climate*

The global recession of 2008 and 2009 represented the largest peacetime downturn in economic activity since the 1930's. The sharp contraction in output, which began in the first half of 2008/09, continued in most economies through to the second or third quarter of 2009. Following unprecedented fiscal and monetary policy stimulus measures and direct Government support for some institutions and sectors, a stabilisation of domestic demand and the turning of the inventory cycle saw most economies emerge from recession by the end of 2009.

Developed economies bore the brunt of the crisis, with the combined output of OECD countries contracting by 1.3% in 2009/10, compared to growth of 2.6% for non-OECD countries. 'Emerging Asia', in particular China and India, were the main contributors to non-OECD growth with both countries maintaining positive, albeit slowing, growth throughout the downturn.

The USA emerged from recession in the third quarter of 2009 after four quarters of negative growth and a cumulative decline in output of 3.7%. USA GDP declined by 1.0% overall in 2009/10 following a similar decline in 2008/09. The return of positive growth reflected recovery in consumer spending, the turn in the inventory cycle and continued government stimulus. This also coincided with some improvement in business confidence and a stabilisation of a very depressed housing market. Nevertheless, the USA finished 2009/10 with unemployment close to 10%, consumer confidence still weak and the need for further debt reduction by consumers, business and government.

The euro-zone economy contracted by 2.7% in 2009/10 following a contraction of 1.3% in 2008/09 and emerged from recession in the third quarter of 2009. However, some member countries have continued to contract (Greece remained in recession in the first quarter of 2010, as Spain marginally exited recession). By the end of the downturn, the euro-zone had contracted by 5.1% from the peak, and industrial production and exports had posted cumulative declines of 14% and 13% respectively by the end of 2009/10. Meanwhile, reflecting a collapse in confidence, tight credit and a large fall in demand, private business investment continued to decline until the end of 2009/10 and posted a cumulative decline of 17.2%. Reflecting the large contraction in output, the euro-zone unemployment rate finished 2009/10 at 10%, compared to 9% at the beginning of the year and 7% at the beginning of the crisis. 2009/10 also saw deterioration in governments' fiscal position with resulting elevated sovereign credit risk concerns for some euro-zone members, particularly Greece, but also Portugal, Spain, Ireland and Italy. This has led to a perception of euro-zone instability and policy uncertainty, and has coincided with a weakening of the euro in the second half of the year.

Similar developments were seen in the UK, which emerged from recession in the final quarter of 2009, following six consecutive quarterly declines and a cumulative decline of 6.2% from the peak. In 2009/10, UK GDP declined by 3.7% following a decline of 1.4% in 2008/09. In stimulating the economy, the UK government saw its budget deficit rise to 14% of GDP from 3% pre-crisis, while net public debt hit 70% of GDP by the end of 2009/10. In addition to lowering the base rate to 0.5% (the lowest level ever) the Bank of England completed a 'quantitative easing' programme totalling £200 billion. This allowed UK credit markets to return to more normal conditions, improving liquidity and allowing large companies to access credit. However, the UK banking system remains impaired and lending to small to medium companies has remained weak, which in itself was a constraint to recovery. Reflecting this and a large drop in domestic and external demand, UK industrial production declined by 11% from the peak by the end of 2009/10, while private business investment saw a decline of 27.2%. At the end of 2009/10, UK confidence remained affected by concerns around the pending general election, leading to weakening in sterling in the first quarter of 2010.

In contrast to most developed and emerging market economies, China and India were able to avoid recession and recorded GDP growth of 10.1% and 6.9% respectively in 2009/10 in spite of a slowdown from pre-crisis growth rates as export demand collapsed. The continued positive growth in both countries reflected significant fiscal stimulus, particularly in China, focusing on infrastructure spending, boosting domestic spending and social welfare improvements. In contrast, in other emerging markets such as in the Commonwealth of Independent States ('CIS') region, the Baltic States and much of Eastern Europe there were declines in GDP often in excess of those seen in developed markets. This has, to a large extent, reflected an overdependence on foreign capital, which was withdrawn at the onset of the crisis. Latin America,

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particularly Brazil, emerged from a relatively shallow recession at the beginning of 2009/10 as a result of significant fiscal stimulus as well as a strong recovery in demand for commodities

The global recovery in the second half of 2009/10, which was skewed to commodity intensive demand from emerging markets such as China and India and the normalisation of commodity inventory levels, has seen substantial rises in commodity prices from the lower levels seen at the end of 2008/09 and the beginning of 2009/10. This is best highlighted by crude oil prices, which have doubled from around US\$45/barrel at the beginning of 2009/10 to around US\$81/barrel by the end of 2009/10

- *Exchange rates*

Exchange rates remain very important to the competitiveness and results of the Group. With 79% of turnover accounted for by sales in Europe, the value of sterling against the euro is of major importance to sales revenues. Furthermore, the results of the Group's major European operations must be translated from euros into sterling. Turnover in other export markets and major supplies purchases, including iron ore, coal and associated freight, are mainly influenced by the US dollar.

In general, strengthening of sterling adversely affects the Group's results in three ways (and weakening of sterling has the opposite beneficial effect). First, it directly reduces the sterling value of export revenues from the UK. This exposure is substantially hedged by forward currency sales to the extent of the Group's contractual commitments, but such a hedge is effective only for that defined time. Second, it improves the relative competitiveness of steel producers in countries with weaker currencies enabling them to discount prices in the UK market. It is not practicable for any significant period to hedge this competitive exposure. Third, it exposes UK customers to similar pressures leading to a reduction in demand for steel in the UK.

The weakening of sterling against the euro that took place through 2008, therefore, positively affected the Group's performance by improving relative competitiveness against producers in countries with stronger currencies and by giving some buffer from low cost imports from countries with weakening currencies, such as the CIS. However, the weakening of sterling against the US dollar over the same period put further pressure on the already high purchasing cost of US dollar priced raw materials.

The average spot sterling to euro exchange rate in 2009/10 was €1.13 (€1.21 in 2008/09), the average spot sterling to US dollar exchange rate was US\$1.59 in 2009/10 (US\$1.73 in 2008/09) and the average spot euro to US dollar exchange rate was US\$1.41 in 2009/10 (US\$1.43 in 2008/09). Although there was a significant weakening of sterling during the latter part of 2008 against both the euro and the US dollar, the exchange rate during 2009/10, particularly against the euro, has traded within a relatively narrow range.

- *Global steel market*

Steel producers seek to maintain high capacity utilisation and, if demand levels in one region of the world are not sufficient to sustain this utilisation, producers tend to try to increase sales to other regions to achieve desired outputs. There is a well-developed international trade in steel that facilitates rapid changes in trading levels, leading to an equally rapid movement in price levels.

For 2009, global steel demand is estimated to have been around 7% lower than in 2008. However, there were marked differences between the main developed economies that suffered the worst effects of the recession and a number of emerging economies, notably China and India, which continued to see improvements in steel demand. In most countries, including the main developed steel markets of the EU, the USA and Japan, and also Brazil and the CIS, the deterioration in the global economy resulted in a slump in demand in key steel using sectors. Coupled with subsequent heavy destocking that continued through much of the year, apparent consumption in these regions fell sharply in 2009. In contrast, in China and India the effects of the recession on the steel market were much less severe and short-lived, and steel demand in both countries continued to grow during 2009, albeit more slowly than previously.

Global steel demand began to improve in late 2009 and is expected to exceed pre-crisis levels during 2010, led by China and India. However, in the developed markets most severely hit by the recession, notably the EU and the USA, it will take several years to return to pre-crisis levels. In contrast, China and India are both expected to reach new record highs during 2010.

In the EU, extremely weak activity in the main steel using sectors, coupled with continuing sharp destocking, resulted in apparent steel consumption falling by around 45% during the first half of 2009. The market downturn began to level out after the summer as business conditions began to pick up slowly, supported by an improvement in international trade and government stimulus measures. As a result, apparent consumption is estimated to have fallen by around 35% for the whole of 2009. By the final quarter of 2009, stocks through the supply chain had generally been brought down to a stable, low level. With relatively low imports and reduced levels of domestic EU mill deliveries, EU steel market supply and demand became much better balanced. The EU steel market is expected to continue to recover in 2010, with the stock cycle being the main driver in the first half of the year as inventories are replenished from current low levels, before underlying consumption picks up from mid-2010 and gains more strength in 2011 as the business climate improves. However, the recovery is expected to be slow, with demand still around 25% below pre-crisis levels in 2010/11.

In 2009, global steel production at 1.2 billion tonnes decreased by 8% compared to 2008. Steel production declined in nearly all the major steel producing countries and regions, including the EU, North America, South America and the CIS.

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However, Asia, in particular China and India, and the Middle East showed positive growth in 2009. Excluding China, steel production was 21% lower compared to the previous year. The following table provides a geographical breakdown of this crude steel production.

World crude steel production 2009	mt	% of total
Western Europe (EU27)	139	12
Japan	88	7
North America	82	7
Other Europe	29	2
China	567	47
Other countries	301	25
Total	1,206	100

Source: World Steel Association

China remained the main driving force in world steel production, with output of 567mt in 2009, up 14% compared to 2008. China's share of world steel production also continued to grow to 47%. Chinese output was at a reduced level in the first months of 2009, but then picked up sharply to reach record monthly levels later in the year. In other BRIC countries, output increased in India by 4% to 60mt, but decreased by 21% in Brazil to 27mt and by 13% in Russia to 60mt. Output in most other regions also fell. In the USA, steel output decreased by 36% to 58mt with significant production cuts being made by producers. EU output decreased by 30% to 139mt as European steel producers also cut production in response to the slump in demand. Steel producers in the USA and EU began to bring idled capacity back into production during the second half of 2009 as market conditions improved, and this trend continued into 2010. EU crude steel output is expected to be at 75-85% of 2007/08 levels during 2010/11.

The downturn in the global steel market resulted in a substantial fall in steel trade volumes during 2009, with total volumes down by around 25%. Chinese exports reduced sharply during the first part of the year so that, by March 2009, China became a net importer for the first time in over three years. However, this position was short-lived and with exports steadily recovering, China returned to be a net exporter in August 2009 and is expected to remain so through 2010.

The collapse in EU demand with associated price falls and destocking resulted in a sharp decline in steel imports into the EU during 2009. Finished steel import volumes for 2009 were around 50% down on 2008 levels at 17mt. Russia was the largest single import source, followed by Turkey, Ukraine and South Korea. EU third country imports began to rise again from the final quarter of 2009 and this upward trend continued into 2010, with indications that China, largely absent during 2009, is beginning to return to the EU market. For 2010, assuming the global market remains broadly in balance, overall EU imports are expected to rise more or less in line with the projected growth in demand. However, if rising steel output outstrips demand, then oversupply elsewhere could lead to increased import pressures in the EU.

Global effective steel making capacity utilisation fell sharply in the second half of 2008 as steelmakers cut production in response to falling demand, reaching a low of around 61% in December 2008. In 2009, global steel production began to recover, primarily in China, and by December 2009 capacity utilisation had improved to around 76%. While significant excess capacity will persist, capacity utilisation is expected to rise towards 'pre-crisis' levels of around 90% over the next 2-3 years.

Steel spot prices for all products in all regions fell sharply during the second half of 2008/09 as global demand slumped. This price weakness continued through the first half of 2009/10, with only a limited recovery during the second half in line with the slow pick up in demand. Steel producers suffered a cost-price squeeze as product prices fell more rapidly and more sharply during the downturn than iron ore and other input costs. The price recovery to date has varied by product and region, but in general has been strongest for strip products in Asia and the USA, and more muted in Europe and for long products generally. Steel spot prices still remained well below recent historical levels at the end of the financial year. With economic and steel market conditions becoming more favourable, and steel producers needing to recover significantly higher raw material and other input costs, steel product prices have increased more strongly during the first months of 2010/11.

### Competition

The market for steel is very competitive with high levels of international trade. The main international competitors for the Group are other EU steel producers. However, the Group faces significant additional competition from other steel producers worldwide. The Group competes on the basis of the range and quality of its products, price, delivery performance and overall customer service.

The Group's liquid steel production in 2009/10 was some 15mt (approximately 7mt in the first half and 8mt in the second half). The Group is part of the wider TSL Group, which produced 21.9mt in 2009 making it the tenth largest producer in the world and the second largest producer in Europe. Despite the consolidation that has taken place in the steel industry in recent years, levels of global industry concentration still remain well below those of other metals and mining sectors.

### Seasonality

Seasonal effects have some impact on the Group. Some slowing in demand is evident during the summer months when many customers, especially those in Southern European markets, are closed for an extended period, and similarly over the Christmas and New Year holidays. Many of the Group's plants have planned shutdowns to coincide with these

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periods, when essential maintenance can be undertaken. Sales of some products are also subject to some sector-specific seasonal factors, for example the slowdown in construction activity over the winter months and the seasonal variations in automotive build programmes to fit with new vehicle registration dates.

### *UK market*

The estimated UK demand for all carbon steel products in 2009/10 amounted to 8.2mt, with estimated UK demand for the Group's main carbon steel products at 6.2mt, some 25% lower than in 2008/09, reflecting the impact of the economic downturn on steel using industries.

The Group's estimated UK market share in 2009/10 for main carbon steel products was 56% (2008/09 51%). It is estimated that other UK steel companies had a 5% market share, while imports had a 39% market share. In the first half, the Group's estimated share was 60%, deteriorating to 53% in the second half as imports started to increase.

### *Other European markets*

Underlying EU steel consumption fell by an unprecedented 25% in 2009 as steel using industries were hit hard by the economic recession. The downturn began to ease during the second half of 2009 with underlying demand expected to pick up slowly from mid-2010 and gain more strength in 2011 as business activity improves. Activity in the EU construction sector is estimated to have fallen by over 6% in 2009. The pace of decline is expected to slow to around 1% in 2010, with modest growth of around 3% forecast for 2011. EU automotive output fell by 26% in 2009, but, boosted by government scrapping incentives, new EU car sales ended 2009 just over 1% down. As a result, stocks and production have become much better balanced with market conditions. However, with incentives ending, the outlook for 2010 remains uncertain. A small increase in output of around 3% is forecast for 2010, with a more sustained recovery of around 6% expected for 2011.

### *Raw materials*

The principal raw materials in the carbon and engineering steelmaking processes are iron ore, metallurgical coal and steel scrap. During the year ended 31 March 2010, approximately 18.0mt of iron ore and 8.9mt of coal were imported by the Group. Iron ore was imported principally from Australia, Canada, South Africa, South America and Sweden, and coal principally from Australia, Canada and the USA. The Group's external scrap requirement for the year was approximately 1.1mt, of which some 0.43mt was purchased in the UK, 0.39mt was purchased in mainland Europe and 0.25mt was purchased from Russia.

The purchase price for these materials is subject to market forces largely beyond the Group's control and is affected by demand from other steel producers, supply capacity and freight costs, among other factors. Steel scrap prices are generally based on spot market prices.

Supply contracts lasting typically between three and five years are entered into for iron ore and coal, with prices typically negotiated annually. In 2010/11, some suppliers of iron ore and metallurgical coal have moved to quarterly fixed price agreements rather than annual fixed prices. The Group policy for iron ore and coal is to ensure that at least 60% of the requirement is accounted for by long-term contracts. Remaining iron ore and coal is purchased through one-year contracts, options and spot markets at market rates, providing flexibility and commercial leverage.

The market reference price of iron ore fines for the calendar year 2009 saw a decrease of around 33% compared to 2008 (a year that saw increases of around 65% compared to 2007). This decrease was driven by the dramatic fall off in demand from developed countries in late 2008. The price of hard coking coal fell even more significantly, by around 60% in 2009 compared to 2008 (having increased by more than 200% in 2008 compared to 2007). This was due to the especially high price in 2008 affected by severe flooding in Australia and the fall off in demand in early 2009 due to the global financial crisis. However, price increases for iron ore and coal in 2010 are expected to be large (refer to the section on Principal risks and uncertainties on page 16).

The Group also benefited from the significant fall in worldwide energy prices during the year, and saw natural gas and electricity prices fall as a result of this and of over supply throughout the year. Natural gas and electricity market prices softened by 18% and 10% respectively, driven by high gas import availability, including LNG, a de-linking of gas prices from oil prices, lower power demand from industrial consumers and more reliable nuclear generation.

### *Financial review*

#### *Capital structure and treasury policy*

Average net debt during the period was £3,800m (2008/09 £3,737m) of which £574m (2008/09 £135m) related to borrowings from within the TSL Group and net debt at 31 March 2010 amounted to £3,921m (2008/09 £3,755m) (including the value of cross-currency swaps). Of the net debt at March 2010, approximately 20% related to borrowings from within the TSL Group, with the equivalent figure at March 2009 being 7%. Cash and short-term deposits at 31 March 2010 amounted to £311m (2008/09 £392m).

#### *Borrowings*

The majority of the borrowings within the Group are accounted for by a £3,670m senior facility agreement ('SFA') entered into on 27 April 2007, which refinanced the borrowings used to finance the acquisition of Corus by TSL. On 19 December 2007, the SFA was secured by guarantees and debentures granted by material subsidiaries of TSE (other than Corus Nederland B.V. ('CN') and its subsidiaries) and by a share pledge over the shares in CN. The SFA is subject to financial

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covenants including cash flow to net debt service, net debt to EBITDA, EBITDA to net finance charges, and maximum capital expenditure levels. The SFA lenders have no recourse to TSL.

The SFA was syndicated during 2007 and restructured to some extent, the final composition, in approximate amounts, at the close of syndication was

- (a) an amortising term loan facility of five years £1,565m,
- (b) a non-amortising term loan facility of five and a half years £550m,
- (c) an amortising term loan facility of six years £299m,
- (d) an amortising term loan facility of seven years £649m,
- (e) a revolving credit facility of five years £500m, and
- (f) a loan note guarantee facility of five years £80m

The SFA term loans are denominated in euros, sterling and US dollars. However, 100% of the proceeds received in US dollars, and part of the proceeds received in sterling, were converted using cross currency swaps into euros.

Following the impact of amortisations and prepayments as well as cross currency swaps, the sterling equivalent of the amounts outstanding under the term loan tranches of the SFA totaled £3,074m at 31 March 2010 (2008/09 £3,378m). In addition, £100m (2008/09 £91m) of the revolving credit facility was drawn down at 31 March 2010.

In early 2008 the unprecedented increases in the price of input costs, particularly raw materials, substantially increased the Group's working capital requirements. To meet this requirement TSE borrowed £250m from Tata Steel Global Holdings Pte Limited and the full amount of the loan was injected as equity into TSUK. £150m of this equity injection was used to prepay the SFA at the end of September 2008.

### *Consents request*

As a result of the severe downturn in its markets TSE, through its subsidiary TSUK, requested and obtained the consent of the majority lenders under the SFA to certain amendments to the terms of the SFA (the 'Amendments') to cover the anticipated period of the downturn. As part of the Amendments reached, testing of earnings-related covenants was largely suspended until March 2010 and then resumed with significantly greater flexibility than was the case with the original covenants in the SFA. Furthermore, there will be no increase in the level of interest margin cost for the remaining life of the loan. The revised covenant package did not involve any additional finance from the lenders under the SFA or any rescheduling of TSE's debt-servicing commitments. Subject to execution by the agent of an amendment and restatement agreement (the 'ARA') and satisfaction of the conditions precedent set out therein, the consent of the majority lenders under the SFA to such request was obtained on 29 May 2009. The ARA was executed and the Amendments took effect on 12 June 2009.

TSL undertook that TSE, through its subsidiary TSUK, would receive further support in the form of £200m of additional equity by the end of June 2009 and £225m of subordinated loans by the end of September 2009, and the amounts were received by the due dates. In accordance with the amended terms of the SFA half of the proceeds of this support were used to prepay the SFA. A prepayment of £100m was made in June 2009 and a further prepayment of £112.5m was made in May 2010.

### *Other borrowings*

Other borrowings at 31 March 2010 included the securitisation programme detailed below, bank overdrafts of £20m and floating rate guaranteed loan notes of £27m, and finance lease obligations of £102m. These finance lease obligations included the capitalisation of long-term supply agreements under IFRIC 4 'Determining whether an Arrangement contains a Lease'.

The Group has a securitisation programme under which it may offer to assign all of its rights, title and interest in a pool of invoiced UK trade receivables to a third party that is funded ultimately in the commercial paper markets. This programme was increased on 13 March 2008 from £275m to £300m and the maturity extended from April 2009 to June 2009. Further extension of the programme was dependent on a number of factors, the principal one being the agreement of the SFA consents request, which was obtained on 29 May 2009 and became effective on 12 June 2009 (see the section on Consents request above). The securitisation programme was extended and its maturity is now 31 March 2011, although, as a consequence of the severe downturn in the Group's markets, the programme was reduced on 29 June 2009 from £300m to £150m. This reduction mirrored the lower level of UK trade receivables eligible for use in the programme. As at the end of March 2010 the securitisation programme was fully drawn in an amount of £150m (2008/09 £202m). Subsequent to the year end the programme was increased on 4 June 2010 from £150m to £250m.

Of the total borrowings, £4,092m carried interest on variable rates, which ranged at period end between 0% and 5.87%, with a weighted average of 3.1%.

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### *Credit ratings*

In spite of deteriorating market conditions in the steel sector, the three leading rating agencies have maintained their long-term ratings as follows

	TSUK Corporate rating	TSUK Bank facility rating
Moody's	B2	B2
Standard & Poor's	B+	BB
Fitch	B+	BB-

### *Credit insurance*

As a result of the severe economic downturn, and in particular the impact on steel and related industries, credit insurers reduced and in many cases withdrew credit limits. Where the Group credit insures receivable exposures to its customers and where credit limits were reduced, the impact was not significant as the level of exposure itself reduced with lower volumes and prices. In the majority of cases where credit limits were removed, the exposure to each customer was assessed on a case-by-case basis and security sought or the decision taken not to trade. Where the Group's suppliers credit insure their credit risk to companies within the Group, credit insurers also took similar action with respect to credit limits. The Group has managed this situation through discussions with credit insurers and suppliers.

### *Financial risk management*

TSE's financial risk management is based upon sound economic objectives and good corporate practice. The Group's main financial risks are related to the availability of funds to meet its business needs, and movements in interest and currency exchange rates as well as commodity costs. Derivative and other financial instruments are used to manage any exposures, where considered appropriate. Further details of its financial risks, and the way the Group mitigates them, are set out in Note 21 to the Report & Accounts on pages 51 to 55.

### **People**

There were no fatal accidents to employees or contractors during the financial year but, tragically, a customer's employee suffered a fatal accident in April 2009, as did an employee in April 2010. The former accident occurred when a vehicle driven by a TSE employee was reversing at a customer's premises and an employee of the customer became trapped between the vehicle and a building as he provided directions. The latter fatality occurred during a crane maintenance activity in the slab yard at Scunthorpe.

The lost time injury frequency rate for employees and contractors combined fell by 15% compared to the previous financial year. With the continuation of year on year improvement in LTIF, the Group focus will move to measuring total recordable incidents from 2010/11. 'Recordables' are defined as all work related incidents resulting in harm to a person or persons, excluding those that require no more than first aid treatment. The 2009/10 rate for recordables was 6.5.

Health and safety continues to be the Group's first priority as it strives to achieve the ambition of being an industry benchmark. At the TSL Group level, health and safety is reviewed at all Board meetings with a Health, Safety & Environment committee established to carry out more detailed reviews and overall leadership. The integrated and systemic Health & Safety Management System introduced in TSE in 2008 is being evaluated for TSL Group-wide application, with strong leadership being demonstrated by a governance process for improvement actions at executive level, and regular safety tours by Board and Executive committee members. Competence development continues to be undertaken at all levels in the organisation, with a World Steel Association award being received by TSE for its senior manager health and safety training in 2008, and a national training award for its 'Felt Leadership' programme implemented in steelmaking and ironmaking operations. In addition, during 2010/11 the Group will raise hazard awareness through a Group-wide 'Zero Harm' campaign.

At the end of March 2010 the number of employees in the Group was 35,400, compared to 40,700 on 31 March 2009. The reduction mainly resulted from actions taken to align the business with significantly reduced demand experienced, as explained below. The analysis by division and by country at the end of March 2010 was:

Strip Products	17,600	UK	20,600
Long Products	11,100	The Netherlands	10,600
Distribution & Building Systems	5,100	Germany	1,200
Other	1,600	Other	3,000

The average number of employees during the year was 36,100.

On 26 January 2009, the Group announced a series of strategic measures to enhance its competitive position, indicating that this would put around 3,500 jobs at risk. On 25 June 2009 and 9 July 2009, the Group announced additional measures building on that restructuring programme, and aimed at aligning production and manning with anticipated demand. The resulting consultation process identified around a further 2,410 jobs at risk. On 8 May 2009, the Group announced that it had opened negotiations that might result in a decision to mothball its TCP operation as a consequence of the failure of four international slab buyers to fulfil their obligations under a ten-year Offtake Framework Agreement signed in 2004. Discussions with employees and their representatives concluded in August 2009, but the plant continued to operate for a period (refer to the section on Acquisitions and disposals on page 17). However, in announcements in December 2009 and January 2010, the Group confirmed that TCP's Redcar blast furnace and Lackenby steelmaking

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would be mothballed by the end of February 2010. The Group continues to operate a number of activities at the site, including the Redcar wharf, Redcar coke ovens, South Bank coke ovens and some of the power generating capacity. The partial mothballing of the site will ultimately result in the loss of about 1,500 jobs. The Group also continues to have a substantial wider presence in the Teesside area, with operations in Hartlepool, Skinningrove, the Teesside beam mill and Teesside Technology Centre. All these Teesside facilities still employ more than 2,500 people.

UK Steel Enterprise Limited ('UKSE'), the Company's subsidiary that helps the economic regeneration of communities affected by changes in the steel industry, has announced an £8.3m package of support measures in the wake of the job losses at Teesside. The package will include doubling the level of UKSE investment into new and growing businesses in the region, an expansion of The Innovation Centre on Hartlepool's Queens Meadow Business Park supported by One North East, a new Regeneration Fund offering a combination of grants and loans designed specifically for start-up and fledgling businesses and extra funds for UKSE's special community support fund, which will back local projects and fund business support initiatives.

There are well established and effective arrangements at each business location for communication and consultation with works councils and trade union representatives, to systematically provide employees with information on matters of concern to them. Well developed policies and procedures have operated in all parts of the Group for a considerable time for the purpose of consulting and negotiating with trade unions, the European works council 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. Approximately 70% of UK employees are members of trade unions, with the equivalent figures for the Netherlands and Germany estimated at 45% and over 50% respectively. The Weathering the Storm and Fit for the Future programmes increased awareness on the part of all employees of the financial and economic factors affecting the performance of the Group.

The Group'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 Group.

The British Steel Pension Scheme ('BSPS') is the principal defined benefit pension scheme of the Group in the UK. The triennial valuation of the BSPS as at 31 March 2008 was completed on 30 January 2009. Members contribute to the scheme at the rate of 6% of pensionable earnings. Following the triennial valuation, the trustee and the Company, after obtaining the advice of the BSPS Actuary, agreed that Company contributions to meet the cost of future service benefits should remain at 12%, subject to review at future actuarial valuations. The next formal valuation of the scheme is scheduled to be undertaken as at 31 March 2011.

As part of the acquisition of Corus, TSL confirmed its commitment to facilitate the merger of the Corus Engineering Steels Pension Scheme ('CESPS') into the BSPS, when comparable funding levels permitted and the trustees of the two schemes agreed. After detailed consideration of the merger issues, agreement was reached on terms and a merger effected on 6 April 2009. Under the terms of the merger agreement, the Company will contribute £10m per annum over a seven year period in order to clear the funding deficit in CESPS and bring both schemes to comparable funding levels, and, if requested to do so by the BSPS trustee, will make payment of any early retirement redundancy strains on the BSPS as they arise in respect of CESPS service attributable to active CESPS members at the date of the merger. Following the merger, CESPS assets and liabilities transferred in full to BSPS. The first year's contribution of £10m was paid on the merger date. Additionally, payments totalling £23m were made in respect of early retirement strains over the period to 31 March 2010.

In January 2009, Corus announced proposals to close the BSPS to new recruits following consultation with employees and their representatives. Discussions regarding alternative pension arrangements for new recruits are ongoing.

The Stichting Pensioenfonds Hoogovens ('SPH') scheme is the principal defined benefit pension scheme of the Group in the Netherlands. As a result of global market conditions, the nominal funding level of the SPH fell to 100% on 2 February 2009, but has subsequently recovered to 118% at 31 March 2010. During 2010 the level of contributions has been set at the maximum level allowed, and no indexation will be applied to pensions in payment and pensionable earnings. Contributions to the SPH in 2009/10, which can vary according to the funding ratio of the scheme, stood at 13.3% from the contributing company and 5.9% from members relative to gross pensionable earnings.

Further information on the Group's pension schemes is provided in Note 32 on pages 60 to 64.

### Environment

The Group believes that respect for the environment is critical to the success of its business. It is committed to minimising the environmental impact of its operations and its products through the adoption of sustainable practices and continuous improvement in environmental performance. To implement its environmental policy, systems are in place that focus on managing and minimising the effects of its operations. 100% of the Group's manufacturing operations are certified to the independently verified international environmental management standard, ISO 14001.

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Climate change is one of the most important issues facing the world today. The Group recognises that the steel industry is a significant contributor to man-made greenhouse gas emissions as the manufacture of steel unavoidably produces carbon dioxide (CO<sub>2</sub>).

The Group currently participates in a voluntary agreement with the Dutch government to benchmark and maintain its energy efficiency in line with world-best standards. The primary requirement of the agreement is an energy efficiency improvement of 2% per annum. In the UK, a revised agreement has been negotiated with the government to reduce total energy consumption by 15.8% compared to 1997 levels by the end of 2010. In February 2008 the Group announced an investment of £60m in energy management technology at its Port Talbot site that will reduce CO<sub>2</sub> emissions by approximately 300,000 tonnes per annum. In addition to these improvements, the Group is also working with other steelmakers in Europe on a major research and development project, ULCOS (more detail is provided in the section on Technology below), with the ambitious objective of reducing CO<sub>2</sub> emissions per tonne of steel produced by 50% by 2050.

The EU Emissions Trading Scheme ('EU ETS') came into force on 1 January 2005. The scheme currently focuses on CO<sub>2</sub> emissions and applies to various production processes, including those used in the production of steel. Each EU member state has its own nationally negotiated emission rights allowance, which is allocated back to CO<sub>2</sub> emitting sites. Sites have permission to emit CO<sub>2</sub> up to the value of their rights allocation. Any surplus can be sold and any deficit can be purchased on the emission rights market. Phase 1 of the EU ETS covered 2005 to 2007 and Phase 2 covers 2008 to 2012, with usage of rights being externally verified and reconciled annually. Failure to possess adequate rights to match emissions was penalised at €40 per tonne of CO<sub>2</sub> in Phase 1, increasing to €100 per tonne in Phase 2, plus the cost of purchasing these rights. The Phase 2 emission rights trading price at the end of March 2010 was approximately €13 per tonne of CO<sub>2</sub>. Phase 3 will run from 2013 to 2020 inclusive.

The Group met its environmental obligations in Phase 1 of the EU ETS and expects to do the same in Phase 2. CO<sub>2</sub> allocations to the Group under the UK National Allocation Plan ('NAP') broadly reflected its requirements for Phase 1. Under the Dutch NAP, the Group was short of rights for Phase 1, although overall the Group was in surplus. As a result of lower production levels since October 2008, together with additional emission rights granted under the new entrant clause of the Dutch NAP in respect of the IJmuiden facility, the Group now expects to be in surplus over Phase 2. Excess rights can either be sold in the market or retained for future compliance purposes.

The Group's products are part of the solution to climate change. Steel has inherent environmental advantages, as it is durable, adaptable, reusable and recyclable. It is used, for example, in affordable and energy-efficient modular homes, and in lighter, stronger and safer transport systems. CO<sub>2</sub> emissions in steel production can be offset by reductions in emissions through the life-cycle of steel products, achieved through effective product design and through recycling at end-of-life. Some related developments are discussed in the section on Technology below.

The Group aims to contribute positively to the communities around or near to its operations. As well as providing employment for many thousands of people, it actively participates in community initiatives and encourages biodiversity and nature conservation.

The TSL Group's first Corporate Citizenship Report was published in October 2009. This report details the progress made in 2008/09 in terms of health, safety and environmental performance, as well as covering social, community and ethical issues. This is available on the Group's website [www.corusgroup.com](http://www.corusgroup.com).

### Technology

In September 2009 the structure of the research and development activities within the TSL Group was changed from separate organisations in Europe and India to one global organisation working for the benefit of the entire TSL Group. Throughout the past year research and development work undertaken by TSE was split between programmes funded by business units and a strategic programme (also known within the Group as 'thrust areas'). Key elements of the strategic programme being led by TSE are:

- **Heavy end of the future** For the medium term, the objective is to develop technology and operational practices to achieve cost-effective productivity rises with existing installations, to maximise recycling, and to reduce environmental and CO<sub>2</sub> footprint. The High Efficiency Liquid Iron and Oxygen Steelmaking ('HELIOS') project is targeting a step improvement in low-cost, high-productivity iron and steelmaking. Work undertaken to reduce the blast furnace coke rate, to allow the use of low-cost coal in the coke blend without compromising coke quality and to increase the pulverised coal injection level has already delivered substantial financial benefits. In steelmaking, the focus is on process control improvement, yield improvement and increased use of scrap. For the longer term, focus is on the collaborative Ultra Low CO<sub>2</sub> Steelmaking ('ULCOS') project aimed at reducing CO<sub>2</sub> emissions from ore-based steelmaking by at least 50% by 2050. Of the two potential technologies identified for further development that are of interest to TSE, pilot scale experiments with an oxygen blast furnace have delivered promising results. The other technology is based on smelting reduction using a cyclone converter, for which a pilot installation will be erected on the IJmuiden site, following approval by the Dutch government of a grant of €5m.
- **New generation high strength steels** This involves projects to develop new metallurgical options to enable the Group to meet future demands for high strength steels. This work is focusing on steel grades that combine ultra high strength with good formability.
- **Advanced coatings developments** This is a programme set up to respond to the market drive to reduce coatings costs and maintain the Group's position in the market for coated products. Four work streams have been defined namely physical vapour deposition ('PVD'), development of zinc free coated products, high speed galvanising and

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high speed organic coating lines. The PVD project is a joint development with POSCO and a second pilot line for this technique was commissioned in 2009 at IJmuiden.

- **Photovoltaic ('PV') coating systems** This is aimed at developing thin film PV systems. TSE is working with the Australian company Dyesol to develop a dye-sensitised PV system and is also exploring a range of other thin film technologies, including silicon based systems. A dedicated facility for the development of PV systems, including a pilot line, has been set up at Shotton works.
- **Automotive** This project seeks to develop materials that can deliver new levels of weight saving in two areas:
  - 1 Outer panels and body structures - looking at extreme steel grades, various steel laminate materials and developments in stable, thin wall crash structures, and
  - 2 Steels for electric power trains - maximising opportunities as electric motors become ubiquitous in future power train solutions

Due to the economic downturn, research programmes have been under substantial pressure throughout the year. Therefore, in order to avoid losing core expertise, support has been received under the 'Knowledge Worker Scheme' of the Dutch government. This temporary scheme is aimed at retaining specific expertise by seconding researchers from companies that have been strongly hit by the crisis to universities or semi-governmental research institutes to work in fields that are important to society as a whole. The scheme will run until the end of 2010.

### *Process developments*

As part of the Weathering the Storm and Fit for the Future initiatives, much effort in process research during the year was focused on improvements delivering cost reductions or a stronger competitive position. The Process Improvement Teams set up to ensure application of best practice across the Group have spent much time in benchmarking the TSL Group's operations, particularly in Europe, against major competitors and identifying best practices within the Group that can be transferred to other sites.

Examples of process development work undertaken included work at the new bloom caster in Scunthorpe aimed at improving the internal quality of the blooms by reducing the effect of segregation. Redesigning the section of the caster where the solidifying steel is squeezed substantially improved bloom quality. Another example of process improvement was in the area of surface quality, where a project has been established to understand the evolution of defects in the various production steps and to gather statistical plant data in order to identify the root causes.

Capital expenditure has also been directed at process improvement with the installation of heavy work roll bending and hydraulic capsules at the IJmuiden hot strip mill improving thickness and shape performance, coupled with development of a new shape and profile control strategy for the finishing mill to ensure optimum performance with heavy work roll bending.

### *Product developments*

Responding to growing demand from the motor industry for stronger, formable material at a competitive cost, TSE has launched the DP800 HyPerform<sup>®</sup> steel grade. This is a high strength, formable and weldable steel that combines the advantages of dual phase ('DP') and transformation induced plasticity grades. The HyPerform product is considered a leading development in the automotive field and key customers have already started their approval procedure for the new grade in anticipation of commercial production.

A new cold rolled dual phase steel grade (DP600CR) was also commercialised during the year, aimed at the automotive and gas bottles market, but with further deployment opportunities for the grade being explored.

In the offshore and gas industry there is a trend towards exploiting reserves in ever deeper water. As the pipelines for these fields have to resist hydrostatic collapse during installation, they are required in high strength grades with thick walls and reduced diameters. Moreover, such pipes must resist hydrogen induced cracking ('HIC'), a failure mode that can occur during the transportation of reserves containing hydrogen sulphide gas. Recent trials have shown that the HIC resistance capability of such pipes can be extended to even smaller diameters and greater wall thicknesses than previously could be offered, thus giving TSE a competitive edge where HIC resistance requirements are extremely demanding.

Another market with high demands on mechanical performance and durability of materials is the renewable energy sector. In November 2009 TSE launched a new high-quality steel grade specifically aimed at use in the construction of wind towers. The exact composition and process windows for producing this grade were developed in collaboration between the Group's research laboratories and engineers in Scunthorpe and Skinningrove. Rigorous inspection and testing, including ultrasonic scans, are carried out to ensure the steel is free from defects that would affect its mechanical performance.

The tinplate product needs to be passivated to safeguard important material properties like visual appearance, lacquerability and lacquer adhesion. Passivation of tinplate is traditionally based on the use of chromates. However, use of chromates is to be phased out for reasons of occupational health and safety, and to ensure compliance with European legislation. TSE is working with other European tinplate producers to develop a new, environmentally friendly and safe passivation process, with the work involving the development of new passivation chemistries, for example based on siloxanes.

## Directors' report: business review

### *Application developments*

TSE has provided to Jaguar LandRover ('JLR') technical assistance (Early Vendor Involvement, 'EVI') on the LRX baby Range Rover programme. This included detailed reviews of the concept body structure to optimise material choice and component design for both cost and weight reduction. From the results, JLR accepted thirty-seven ideas to be progressed for production in 2010/11, with resulting cost and weight savings and reductions to CO<sub>2</sub> emissions over the programme lifetime.

Two projects supported by the European Research Fund for Coal and Steel have helped to evaluate building performance (including the work of developers and contractors) at three sites in the UK and to provide relevant technical information. As a result, significant room for improvement in the practices of downstream organisations in the construction supply chain has been identified, allowing TSE to improve its service to customers, including advice on design for energy efficiency, low carbon buildings, building detailing and development.

Also for the construction sector, DippleKlick is a patented push fit joint for use in Corus Living Solutions ('CLS') modules where a narrow separating wall is required, such as a multi-storey student residence. The joint is integral to the light steel galvanised framing studs and tracks of the infill wall panels in CLS modules. Current technology (self piercing rivets) is unsuitable, because machinery is too large for the narrow wall sections required.

The expertise of TSE's Environmental Research Department has been used to assess the release of particulate matter from TSL's Jamshedpur site and of options for abatement. This has been done to support the commitment made by TSL that total emissions of particulate matter from the Jamshedpur site will not increase above the 2006 level when the production capacity is increased as planned to 9.7mt per annum in 2010.

### **Principal risks and uncertainties**

The Group's management operates a risk management process that was developed to comply with the corporate governance requirements set out in the 'Internal Control Guidance for Directors on the Combined Code' as issued by the ICAEW. A full assessment of business risk is undertaken annually to produce a Group-wide risk profile that identifies the Group's significant risks, the probability of those risks occurring and their potential impact should they do so. The Group's management has the prime responsibility for the design, operation and adequacy of prevention, monitoring and modification practices adopted to manage the risks identified. The annual review is conducted at the end of the third quarter in each year and is reported to the Executive committee, Audit committee and Board. The Executive committee, business unit managing directors and functional heads undertake the assessment of the principal risk areas and related risk management practices for the Group. Executive committee members are responsible for assessing strategic risk and business unit managing directors are responsible for assessing operational risk, and for ongoing monitoring and adequacy of related control procedures. Functional heads advise on specific functional issues.

Monthly reports are made to the Executive committee and the Board dealing with any significant changes in risk and controls in the period. Regular detailed reports are also made to the Executive committee on a quarterly basis concerning risk, and associated control and monitoring procedures. The results of these reports are reported to the Audit committee and the Board.

The Group has a well-established internal audit function that reports to the Director Finance on a day-to-day basis, but which also has a direct link with and access to the chairman of the Audit committee, who meets with the Director Audit several times each year. The Audit committee receives reports from the internal audit function four times a year and also considers the terms of reference, plans and effectiveness of the function. The internal audit function works closely with the external auditors. It provides independent and objective assurance to the Board, the Audit committee and the Executive committee on the systems of internal control employed in the Group, and provides a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance procedures.

The Group aims to minimise its expenditure on insurance and to reduce its exposure to catastrophe losses to a level consistent with its ability to carry such losses. To this end it maintains insurance cover, which it feels is appropriate for its business, through a combination of self-funding and policies purchased from external insurers.

The key forward business risks affecting the Group are as follows:

### *Health, safety and environmental matters*

The Group's businesses are subject to numerous laws, regulations and contractual commitments relating to health, safety and the environment in the countries in which it operates. The risk of substantial costs and liabilities related to these laws and regulations are an inherent part of the Group's business. The Group has policies, systems and procedures in place aimed at ensuring substantial compliance, and there is a strong commitment from the Board and the Executive committee to enforce compliance, to continuously improve safety performance and to minimise the impact of the Group's operations on the environment (refer to the sections on People on pages 11 and 12, and on Environment on pages 12 and 13). Environmental matters extend into the EU ETS, which is currently in Phase 2 covering the period 2008 to 2012 (more detail is provided in the section on Environment on page 13). Whilst the Group continues to invest to reduce CO<sub>2</sub> emissions, auction based proposals by the EU Commission for Phase 3 of the scheme could, as they currently stand, have a significant negative financial impact post 2012. However, these proposals are continuing to evolve and no decisions have been made at this stage.

## Directors' report: business review

### *Financing*

TSL financed the acquisition of Corus in part by a significant level of debt. On 30 April 2007, TSUK signed an agreement for £3,670m of senior secured facilities for this purpose and to provide future working capital for the Group, which had final maturities of between five and seven years. The agreement is subject to financial covenants (refer to the Financial review on pages 9 and 10) and, in response to the sharp deterioration in economic conditions during the latter half of 2008, the Group held successful discussions with banks in the syndicate to modify the terms of these covenants to cover the period of the downturn. (For further discussion on this and credit insurance issues refer to the Financial review on pages 10 and 11.) Nevertheless, repayment of the debt and adherence to the modified covenants continue to represent risks. The forecast requirements and future financing strategy of the Group continue to be closely monitored and 'downside' sensitivities undertaken regularly to ensure the adequacy of facilities, and to assess actual and projected adherence to covenants.

### *Key personnel*

The Group's ability to attract and retain good quality, appropriately qualified and experienced staff is important to achievement of its objectives. The Group has in place an effective benefits structure, including long-term incentives, and a talent management programme to optimise development of employees. There is regular communication with employees through various means.

### *General economic conditions*

The Group's financial performance is influenced by the economic climate in the UK and mainland Europe and by changes in the global market for steel, which is discussed in detail in the section on Business environment and prospects on pages 6 to 9. The associated risk materialised during 2008/09 with the economic recession, the collapse in global demand for steel in the second half of the year and the actions of the four international slab buyers in not fulfilling their obligations under an Offtake Framework Agreement (discussed in various sections of this Directors' report). The Group's response was to cut production by over 40% and to introduce a corporate-wide savings programme under the banner Weathering the Storm, which is discussed in the section on Strategy on pages 2 and 3. To remain well positioned when recovery comes, the Group accelerated the restructuring of European assets through the launch of the Fit for the Future initiatives, again discussed in the section on Strategy on page 2. During the second half of 2009/10, customer demand slowly increased, which resulted in the recommissioning of certain previously idled production plant and the announcement of various increases in sales prices. Nevertheless, the Group announced the mothballing of much of its TCP operation by the end of February 2010.

### *Raw materials and energy*

The Group's raw materials depend, to a large extent, on worldwide supply and demand relationships, notably iron ore, metallurgical coal and scrap. The first half of 2009 saw low demand and falling prices for these materials as steelmakers in the developed world cut production to match the dramatic fall off in steel demand. China also slowed imports of raw materials for a few months in late 2008, but this reversed and China actually increased imports of iron ore and coking coal in 2009, despite the global financial crisis. By the end of 2009 ore and coking coal markets were tight again and significant price rises for these materials are expected in 2010. The Group continues to closely monitor market conditions and seeks to put in place contractual arrangements to ensure security of critical supplies.

Some suppliers of iron ore and coking coal to the seaborne markets began to shift from annual to quarterly pricing in April 2010. The Group is working with suppliers to agree competitive prices and has agreed a range of pricing bases from quarterly to annual. Also the Group is adjusting its commercial policy to maximise opportunities presented by moves to shorter term pricing. Price increases in iron ore and coal from April 2010 will be substantial, reflecting the tightening markets caused by ongoing increases in demand from China. The Group has long term supply contracts sufficient to cover its requirements (refer to the section on Raw materials on page 9).

### *Impact of China*

China continues to export steel, albeit at lower levels than in previous years, notably to the US and the EU. This brings the risk that it may impact the markets into which TSE sells, resulting in loss of market share and volume or further reduction in steel prices. This risk applies not just to Chinese exports, but also to exports from countries such as Ukraine, Russia, South Korea and Turkey. The Group monitors import activity closely and, where unfair trading behaviour is evident, seeks appropriate action (such as anti-dumping or anti-subsidy measures) from the EU Commission and other authorities against relevant suppliers.

### *Performance and operations*

The Group can be adversely affected by the cyclical nature of the steel industry and general economic conditions, particularly as the production of steel is capital intensive, with a high proportion of fixed to total costs. Whilst the Group seeks to differentiate its products and to reduce the proportion of fixed costs, it still retains focus on improving its operations and their consistency, and taking measures to protect against unplanned interruptions and property damage. This is achieved through a variety of measures such as Continuous Improvement programmes, enhancing technical knowledge and skill, improving process safety, targeted capital expenditure and focussed risk management.

## Directors' report: business review

### *Pensions*

The Group provides retirement benefits for substantially all of its employees, including defined benefit plans (refer to the section on People on page 12). The market value of pension assets and liabilities is significantly greater than the net assets of the Group and, therefore, any change can have a material impact on the Group's financial statements as well as impacting the level of company pension contributions. The Group has put in place a framework to manage pension risks and works with schemes' trustees to ensure that obligations remain affordable and sustainable. As part of this framework proposals have been announced to close the UK defined benefit scheme to new recruits, and to cap the Company contribution rate for future service for existing members at an affordable and sustainable level. A range of measures has already been adopted by the principal schemes in the Group to manage liabilities and to protect against investment market risk exposure, whilst maintaining asset performance. Further actions will be considered as and when appropriate.

### *Exchange rates*

The Group derives most of its revenue in the EU, but has substantial assets and sales in the UK, which is not a member of the euro-zone. Major raw material supplies purchases are, however, denominated mainly in US dollars. As a result, the Group is impacted by the relationship between sterling, the euro and the US dollar (refer to the Section on Exchange rates on page 7). The Group operates a hedging policy to minimise the volatility of rapid and significant movements in these exchange rates.

### **Acquisitions and disposals**

On 29 January 2009 the Group announced that it had signed a memorandum of understanding with Marcegaglia SpA and Dongkuk Steel Mill Company Limited with a view to the latter two companies jointly acquiring a stake in the TCP business of TSE. However, on 8 May 2009 the Group further announced it had opened consultations that might result in a decision to mothball its TCP plant in North East England, as a consequence of the failure of four international slab buyers (the 'Consortium') to fulfil their obligations under an Offtake Framework Agreement with a ten-year duration that was signed in 2004. As a result, the agreement with Marcegaglia and Dongkuk was also subsequently terminated. Although the consultation process came to an end in August 2009, TSE continued to make strenuous efforts to secure a long-term future for the plant whilst diverting internal orders to TCP and securing external orders at an estimated cost to the company of approximately £130m. However, operating a 3mt per annum merchant slab plant has proved not to be sustainable without a long-term strategic partner. As a result, in announcements in December 2009 and January 2010, the Group confirmed that TCP's Redcar blast furnace and Lackenby steelmaking would be mothballed by the end of February 2010. The Group continues to operate a number of activities at the site, including the Redcar wharf, Redcar coke ovens, South Bank coke ovens and some of the power generating capacity. The partial mothballing of the site will ultimately result in the loss of about 1,500 jobs. Corus UK Limited, a subsidiary of TSE, has submitted the dispute with the Consortium to arbitration and that arbitration is ongoing (see Accounting policies section on page 18).

On 12 May 2009 the Group completed the purchase of a 12% shareholding of Corus Yasan Metal Sanayi ve Ticaret AS, making that company a 100% subsidiary of TSE.

On 1 March 2010 the Group sold its 50% share in Cindu Chemicals BV, a company processing the coal tar released from the coke plants at the IJmuiden site of TSE, to Koppers International BV. At the same time, Koppers acquired the remaining 50% share in Cindu Chemicals BV from Cindu BV and has now taken full ownership of the company.

### **Accounting policies**

Details of the main accounting policies used by the Group appear on pages 29 to 35. The Group's consolidated financial statements to 31 March 2010 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU.

The preparation of financial statements includes the need to make assumptions and estimations that affect the amounts of assets, liabilities, revenues and expenses being reported. Actual results may differ from those estimated under different assumptions and conditions. For the period under review, the most significant areas of judgement for the Group under IFRS related to property, plant and equipment, goodwill, current asset provisions, deferred tax, retirement benefits, provisions created for redundancy, rationalisation and other related costs, emission rights and financial derivatives. Each of these areas of judgement, which are discussed below, relies upon a number of estimates and is subject to uncertainties. These can vary between different countries in which the Group operates and there is a large degree of interdependency between them. As a result, no indication is generally given below of the impact of a change in any one particular assumption. However, all of these factors are considered at least annually and, where reassessment or changing circumstances lead to material change, this is discussed in the relevant review of the period and disclosed fully in the Notes to the consolidated accounts.

A significant part of the capital employed by the Group is invested in property, plant and equipment and intangible assets, and an estimate must be made of the effective life applied to each category of such assets. The estimates made are based on a number of factors including the accumulated experience of effective asset lives from historical business operations. This in turn determines the annual depreciation charge, which has an impact on earnings. Also, where appropriate, the carrying values of these fixed assets are reviewed for impairment by reference to their value in use.

Goodwill is also assessed for impairment on an annual basis. The assessment is based on discounting forecast cash flows using, as a sensitivity, a pre-tax discount rate of 12%, based on the Group's weighted average cost of capital. This is a similar basis to that used for property, plant and equipment.

## Directors' report: business review

During the normal course of trading, judgement must be used to establish the net realisable value of various elements of working capital. In particular, provisions are created for obsolete or slow moving inventory, or where there are indications that 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) is lower than the cost of the inventory, and also for impairments against the recoverability of trade receivables. These provisions are created at levels appropriate to the individual circumstances of each business within the Group.

Two significant judgements must be made in relation to deferred tax balances. Firstly, an estimate must be made of the effective rate at which liabilities are expected to reverse. This rate is based on historical experience and forecasts of the timing of such reversals, in comparison with the effective corporation tax rates that have been substantially enacted in each jurisdiction at the end of the year. Secondly, a judgement must be made as to the level of assets to be recognised for brought forward taxable losses. Deferred tax assets amounting to £190m have been recognised in the balance sheet at 31 March 2010. The deferred tax assets in respect of tax losses are regarded as recoverable against future forecast taxable profits that the directors consider to be more likely than not to occur. Deferred tax assets have not been recognised in respect of total losses of £1,930m, of which £1,473m are UK losses.

Results of the Group include costs relating to the provision of post-retirement benefits for employees. The cost of these benefits and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the salary progression of current employees, the returns that the pension fund assets will generate in the time before they are used to fund the pension payments, and the rate at which the future pension payments are discounted. The Group uses estimates based on previous experience and third party actuarial advice in determining these future cash flows and the discount rate. Details of the assumptions used for each of the Group's defined benefit schemes are given in Note 32.

In addition, IFRS allows a number of choices for certain aspects of pension scheme accounting and the Group adopts those that it considers appropriately reflect the balance sheet risk of the schemes and the Group's approach to management of that risk. In particular, all actuarial gains and losses are recognised immediately within reserves, and the operating result includes a net charge for the service and interest costs as well as investment returns on scheme assets.

Any requirements for provisions related to redundancy, rationalisation and other related costs are assessed on a regular basis. The most difficult judgement in this regard is frequently whether or not the appropriate criteria have been met to determine if a provision should actually be made (for example, the approval and announcement of formal plans giving rise to a legal or constructive obligation) and not the calculation of the amount to be provided. Nevertheless, when amounts are recognised as a provision these are the best estimates of expenditure required to settle relevant obligations at the balance sheet date using the information available at that time and considering the likelihood of an outflow of resources to settle the obligation. These estimates are based on factors such as previous experience and third party advice, but the timing and value of these liabilities are not certain.

Following the purported termination by the Consortium of the Offtake Framework Agreement, TCP's Redcar blast furnace and Lackenby steelmaking were mothballed during February 2010. Corus UK Limited has submitted the dispute with the Consortium to arbitration and that arbitration process is ongoing, with a series of claims and counter claims made by the parties. There has been no recognition of any outcome of these legal proceedings at 31 March 2010. There are, however, certain balances in relation to the OFA within the 31 March 2010 balance sheet.

As noted in the Environment section on pages 12 and 13, the Group also participates in the EU ETS, under which it receives an allocation of allowances for the emission of CO<sub>2</sub>. Any surplus of rights can be sold, and any deficit purchased, on the emission rights market. In order to reflect the economic risk that it faces the Group chooses to recognise liabilities in respect of its obligations to deliver emission allowances only to the extent that the allowances to be delivered exceed those previously acquired by the Group, either by allocation from governments or a similar body or through purchase. Any possible surplus is only to be recognised once it is realised in the form of an external sale.

The balance sheet includes financial derivatives, mainly forward currency contracts, commodity contracts, interest rate swaps and cross currency swaps, with a net fair value liability of £106m. Where it is felt appropriate, and where the strict criteria of IAS 39 can be met, these derivatives are subject to hedge accounting. In particular this means that the movements in fair values of those forward contracts being held against forecast transactions are recognised within equity until the related asset (for example, a trade receivable) or liability is recognised.

At the date of authorisation of these financial statements there were a number of international standards and interpretations that, although issued, were not yet effective or applied by TSE (and in some cases had not yet been adopted by the EU). These were IFRIC 17 'Distributions of Non-cash Assets to Owners', IAS 32 (Amendment) 'Financial Instruments: Presentation – Classification of rights issues', IAS 39 (Amendment) 'Financial Instruments: Recognition and Measurement', IAS 24 (Revised) 'Related party disclosures', IFRS 9 'Financial Instruments', IFRIC 19 'Extinguishing financial liabilities with equity instruments', IFRIC 14 (Amendment) 'Pre-payments of a minimum funding requirement', IFRIC 18 'Transfers of Assets from Customers' and 'Improvements to IFRSs (April 2009)', which contains amendments to various existing standards. The changes arising from the adoption of these standards and interpretations in future periods are not expected to have a material impact on the financial statements of the Group. Further, IFRS 3 (Revised) 'Business Combinations' and IAS 27 (Revised) 'Consolidated and separate financial statements' will both have to be applied prospectively to transactions occurring after the 1 April 2010 although it is not possible to assess in advance their impact on the financial statements of the Group.

## Directors' report: business review

Details of the main accounting policies used by the parent Company appear on page 71. The financial statements to 31 March 2010 of the parent Company have been prepared in accordance with UK GAAP.

### Dividends

The directors do not recommend that a dividend be paid and no dividends were paid or proposed during the year (2008/09 nil).

### The Board

The directors who served throughout the period from 1 April 2009 to the date of this report (unless otherwise stated) were as follows:

A Robb (Chairman)  
K Adams\*  
K Chatterjee  
I Hussain  
B Muthuraman  
F Royle  
J Schraven  
K Kohler\*\*  
P Vann (resigned 9 April 2009)

\* K Adams succeeded P Vann as Chief Executive from 6 April 2009, later being appointed as Managing Director and Chief Executive of TSE with effect from 1 October 2009.

\*\* K Kohler, Chief Operating Officer of TSE, was appointed to the Board with effect from 8 February 2010.

There are established Board committees for audit, remuneration and pension matters. TSE health, safety and environment matters, after establishment of a Safety, Health and Environment ('SHE') committee for the TSL Group in the year, are now considered by the TSL Group committee, although the TSE Board continues to take an active interest in such matters.

### Directors' interests

None of the directors had a material interest in any contract of significance with the Company or any of its subsidiary undertakings during the year.

Under the Company's articles of association Tata Steel Global Holdings Pte Limited (the sole shareholder) has the right to appoint any person who is willing to act as a director and to remove from office any director. The Board of directors has been constituted from nominated representatives of the ultimate parent company, TSL.

### Directors' indemnity

The Company's articles of association provide, subject to the provisions of UK legislation, that the Company may indemnify any director or former director of the Company in respect of any losses or liabilities he or she may incur in connection with any proven or alleged negligence, default, breach of duty or breach of trust in relation to the Group (including by funding any expenditure incurred or to be incurred by him or her). The Company also obtains Directors' and Officers' liability cover as part of its overall programme of insurances.

### Corporate governance

#### *Day-to-day management*

The day-to-day management of TSE is conducted through the Executive committee, which is chaired by the Managing Director and Chief Executive of TSE, within the context of the overall strategy laid down by the TSL Group. It is overseen by the TSE Board. The Group is committed to high standards of corporate governance for which the Board of directors is accountable.

TSE is the parent of Corus UK Limited ('Corus UK') and CN, both of which are wholly owned subsidiaries. The board of Corus UK and the management board of CN are responsible for the day-to-day management of their respective businesses in accordance with the overall strategy as laid down.

#### *Internal control*

The Board of directors is responsible for the Group's system of internal control and reviewing its effectiveness.

There were no changes in internal control over financial reporting that occurred during the period under review that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

The Group's system of internal control has been designed in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

## Directors' report: business review

Whilst not mandatory for TSE, the Group's risk management process was developed to accord with the guidance contained in the document 'Internal Control Guidance for Directors on the Combined Code' as issued by the ICAEW and the Turnbull guidance as incorporated into the Combined Code, as explained in the Principal risks and uncertainties section above. Key elements of the control system in operation are described in that section, in addition to which

- the Board meets regularly with a formal schedule of matters reserved to them for decision and has put in place an organisational structure with lines of responsibility defined and with appropriate delegation of authority,
- there are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against approved budgets and forecasts,
- the Board receives reports on health and safety issues and environmental audits carried out across the Group,
- the Pensions committee receives reports on pension issues and considers the framework necessary to manage pension risks, and
- the Board receives regular reports from all committees

### Corporate responsibility

The TSL Group has a vision to become the world steel benchmark for value creation and corporate citizenship, with the support of a motivated and committed workforce who share among their core values a sense of responsibility, integrity and respect. This vision translates into a number of ambitious goals for the Group, which are summarised in other sections of this report and explained in detail in the 2008/09 Corporate Citizenship Report for the TSL Group referred to in the Environment section on page 13. Work is underway on a TSL Group Corporate Citizenship Report for 2009/10, which is expected to be published in September 2010.

### Community involvement

The Company recognises its responsibilities to the communities in which it operates. Many of its businesses have strong links to their neighbouring towns and surrounding regions, and during the year Group charitable donations in the UK amounted to approximately £170,000. Support is given for cultural, social, educational and sporting activities that contribute to the well being of residents, both in the immediate vicinity of plants and elsewhere. For example, the third annual Corus Kids of Steel series took place in September 2009, introducing school children around the UK to the sport of triathlon. In the Netherlands, support is also given to the surrounding communities through a number of sponsorships in the areas of art, culture, sport and recreation.

Donations have been made across a range of local organisations, such as amateur sporting groups, local branches of national charities, youth clubs, hospitals, voluntary organisations and schools. More detail will be provided in the Corporate Citizenship Report referred to above.

The Company does not make any donations to political parties and none were made during the year. However, the shareholder granted authority to TSE to make political donations to EU Political Organisations and incur EU Political Expenditure, pursuant to sections 362 to 370 of the Companies Act 2006, up to a maximum of £65,000. Accordingly, it is reported that the Group incurred such expenditure amounting to approximately £38,641 in connection with employees being allowed time off with pay for attending to trade union business and carrying out civic duties.

The granting of this authority was intended to ensure that normal expenditure which, as a result of the wide definitions under the Act, could be construed as political expenditure or a donation to a political organisation was authorised provided that such expenditure was disclosed in the Report & Accounts.

### Suppliers

It is the policy of the Company and its subsidiaries to establish payment terms with suppliers when agreeing the terms of business transactions. The aim is to dispatch cheques on the due date or, where other means of payment are adopted, to deliver funds to suppliers as if payment had been made by cheque.

The Company had nil days purchases outstanding at 31 March 2010 (2008/09 nil), based on the average daily amount invoiced by suppliers during the year.

### Statement as to disclosure of information to auditors

Each director in office at the date of this Directors' report confirms that

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) the director has taken all the relevant steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

### Auditors

Deloitte LLP have indicated their willingness to be reappointed as auditors to the Company for another term and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an AGM. Deloitte Haskins & Sells in India are the auditors of the ultimate parent company, TSL.

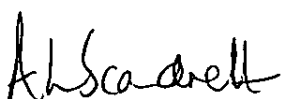
## Directors' report: business review

### Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in this Directors' report business review. The financial resources available to the Group are discussed in detail in the Financial review section on pages 9 to 11. The forward risks faced by the Group are also discussed in the section on Principal risks and uncertainties on pages 15 to 17, and financial risk management is discussed in Note 21 on pages 51 to 55, including liquidity risk.

The directors have assessed the future funding requirements of the Group and the Company, and have compared them to the level of available borrowing facilities, including support from the ultimate parent, TSL. The assessment included a review of current financial projections for eighteen months from the balance sheet date. Recognising the considerable uncertainty surrounding financial projections in the current economic environment, the directors considered a number of scenarios and the mitigating actions the Group could take to limit any adverse consequences. In particular, the directors considered the impact of a delay in the anticipated recovery, of an inability to recover significant increases in raw material costs in steel selling prices, the working capital requirements of such increases, and of volatility in exchange rates.

Having undertaken this work, the directors are of the opinion that the Group has access to adequate resources to fund its operations for the foreseeable future and so determine that it is appropriate for the financial statements to be prepared on a going concern basis.



By order of the Board  
Allison Scandrett  
Secretary  
23 June 2010

30 Millbank  
London  
SW1P 4WY  
United Kingdom  
Registered No 05957565

## Statement of directors' responsibilities on the consolidated financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **Independent auditors' report to the members of Tata Steel Europe Limited**

We have audited the Group consolidated financial statements of Tata Steel Europe Limited for the year ended 31 March 2010 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the Presentation of accounts and accounting policies and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 auditors' 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.

## **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

## **Opinion on financial statements**

In our opinion the Group consolidated financial statements

- give a true and fair view of the state of the group's affairs as at 31 March 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group consolidated financial statements.

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

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

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

## **Other matter**

We have reported separately on the parent company financial statements of Tata Steel Europe Limited for the year ended 31 March 2010.



Andrew Kelly (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom  
23 June 2010

## Consolidated income statement

For the financial period ended 31 March	Note	2010 £m	2009 £m
<b>Group revenue</b>		<b>8,057</b>	<b>12,297</b>
<b>Total operating costs</b>	<b>1</b>	<b>(8,922)</b>	<b>(12,448)</b>
<b>Group operating loss</b>		<b>(865)</b>	<b>(151)</b>
Finance costs	4	(248)	(291)
Finance income	4	16	18
Share of post-tax profits of joint ventures and associates	10	11	17
<b>Loss before taxation</b>		<b>(1,086)</b>	<b>(407)</b>
Taxation	5	157	77
<b>Loss after taxation from continuing operations</b>		<b>(929)</b>	<b>(330)</b>
Loss after taxation from discontinued operations	6	-	(136)
<b>Loss after taxation</b>		<b>(929)</b>	<b>(466)</b>
<b>Attributable to:</b>			
Owners of the Company		(929)	(465)
Minority interests		-	(1)
		<b>(929)</b>	<b>(466)</b>

As required by IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', TSE's primary aluminium smelting businesses were classified as discontinued operations in the comparative period. The disposal of these businesses to Klesch was completed on 3 February 2009, with turnover, group operating loss and loss before taxation for the 2009 period then excluding the results of these businesses, which were shown as a single net amount in the consolidated income statement below loss after taxation from continuing operations.

Notes and related statements forming part of these accounts appear on pages 29 to 67

## Consolidated statement of comprehensive income

For the financial period ended 31 March	Note	2010 £m	2009 £m
<b>Loss after taxation</b>		<b>(929)</b>	<b>(466)</b>
<b>Other comprehensive income</b>			
Actuarial losses on defined benefit pension and other post-retirement plans	32	(482)	(777)
Cash flow hedges			
Net movement on fair values of cash flow hedges during the year		(88)	224
Reclassification adjustments for cash flow hedge reserves on disposals		-	(97)
Revaluation of available for sale investments	11	(2)	7
Exchange movements on currency net investments			
Movements arising during the year		22	55
Reclassification adjustments on reduction of currency net investments		-	(11)
<b>Other comprehensive income</b>		<b>(550)</b>	<b>(599)</b>
Tax relating to components of other comprehensive income	5	15	83
Reclassification adjustments in relation to deferred tax on cash flow hedge reserves on disposals		-	27
<b>Other comprehensive income for the period</b>		<b>(535)</b>	<b>(489)</b>
<b>Total comprehensive income for the period</b>		<b>(1,464)</b>	<b>(955)</b>
<b>Attributable to</b>			
Owners of the Company		<b>(1,464)</b>	<b>(955)</b>

Notes and related statements forming part of these accounts appear on pages 29 to 67

## Consolidated balance sheet

As at 31 March	Note	2010 £m	2009 £m
<b>Non-current assets</b>			
Goodwill	7	519	518
Other intangible assets	8	119	125
Property, plant and equipment	9	3,943	4,438
Equity accounted investments	10	111	114
Other investments	11	61	66
Other non-current assets	12	16	22
Retirement benefit assets	32	260	756
Deferred tax assets	23	190	164
		<b>5,219</b>	<b>6,203</b>
<b>Current assets</b>			
Inventories	13	1,875	2,089
Trade and other receivables	15	1,474	1,776
Current tax assets	14	11	20
Short term investments	16	2	10
Cash and short term deposits	16	311	392
		<b>3,673</b>	<b>4,287</b>
<b>TOTAL ASSETS</b>		<b>8,892</b>	<b>10,490</b>
<b>Current liabilities</b>			
Borrowings	18	(732)	(551)
Trade and other payables	17	(1,941)	(1,932)
Current tax liabilities	14	(88)	(113)
Retirement benefit obligations	32	(2)	(2)
Short term provisions and other liabilities	22	(177)	(144)
		<b>(2,940)</b>	<b>(2,742)</b>
<b>Non-current liabilities</b>			
Borrowings	18	(3,462)	(3,552)
Deferred tax liabilities	23	(277)	(437)
Retirement benefit obligations	32	(114)	(139)
Provisions and other liabilities	22	(209)	(206)
Other non-current liabilities	19	(148)	(208)
Deferred income	24	(66)	(66)
		<b>(4,276)</b>	<b>(4,608)</b>
<b>TOTAL LIABILITIES</b>		<b>(7,216)</b>	<b>(7,350)</b>
<b>NET ASSETS</b>		<b>1,676</b>	<b>3,140</b>
<b>Equity</b>			
Called up share capital	25	3,515	3,515
Retained earnings		(2,061)	(663)
Other components of equity		221	287
<b>Equity attributable to owners of the Company</b>		<b>1,675</b>	<b>3,139</b>
Minority interests		1	1
<b>TOTAL EQUITY</b>		<b>1,676</b>	<b>3,140</b>

Approved by the Board and signed on its behalf by

F P Royle  
23 June 2010



Notes and related statements forming part of these accounts appear on pages 29 to 67

## Consolidated statement of changes in equity

	Share capital £m	Retained earnings £m	Hedging reserve £m	Translation reserves £m	Investment revaluation reserves £m	Total £m	Minority interest £m	Total equity £m
Balance as at 1 April 2008	3,514	466	(71)	181	2	4,092	3	4,095
New shares issued	1	-	-	-	-	1	-	1
Total comprehensive income for the period	-	(1,130)	117	51	7	(955)	-	(955)
Acquisition of minority shareholding	-	-	-	-	-	-	(2)	(2)
Issue of conditional share awards	-	1	-	-	-	1	-	1
Balance as at 31 March 2009	3,515	(663)	46	232	9	3,139	1	3,140
Total comprehensive income for the period	-	(1,398)	(84)	20	(2)	(1,464)	-	(1,464)
Balance as at 31 March 2010	3,515	(2,061)	(38)	252	7	1,675	1	1,676

Notes and related statements forming part of these accounts appear on pages 29 to 67

## Consolidated statement of cash flows

For the financial period ended 31 March	Note	2010 £m	2009 £m
<b>Operating activities</b>			
Cash generated from operations	29	175	983
Interest paid		(181)	(281)
Covenant reset and waiver fees		(27)	-
Interest element of finance lease rental payments		(8)	(9)
UK corporation tax received		11	1
Taxation paid		(19)	(40)
<b>Net cash flow from operating activities</b>		<b>(49)</b>	<b>654</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(228)	(375)
Development grants received		5	7
Sale of property, plant and equipment		16	17
Purchase of other intangible assets		(23)	(38)
Sale/(purchase) of other fixed asset investments		4	(5)
Loans to joint ventures and associates		(1)	(3)
Repayment of loans from joint ventures and associates		2	2
Investments in joint ventures and associates		-	(1)
Sale of investment in joint ventures and associates		7	9
Sale of businesses and subsidiary undertakings		(19)	(3)
Purchase of minority interests in subsidiary undertakings	33	(2)	(4)
Dividends from joint ventures and associates		4	18
Interest received		25	18
<b>Net cash flow from investing activities</b>		<b>(210)</b>	<b>(358)</b>
<b>Financing activities</b>			
New loans		663	461
Repayment of borrowings		(470)	(731)
Capital element of finance lease rental payment		(18)	(20)
<b>Net cash flow from financing activities</b>		<b>175</b>	<b>(290)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	31	<b>(84)</b>	<b>6</b>
Cash and cash equivalents at beginning of period	31	381	344
Effect of foreign exchange rate changes	31	(6)	31
<b>Cash and cash equivalents at end of period</b>	31	<b>291</b>	<b>381</b>
<b>Cash and cash equivalents consist of</b>			
Cash and short term deposits	16	311	392
Bank overdrafts	18	(20)	(11)
		<b>291</b>	<b>381</b>

The 2009 comparative amounts above relate to total operations, of which discontinued operations had cash outflows from operating activities of £30m, cash outflow from investing activities of £21m and cash inflow from financing activities of £26m

Notes and related statements forming part of these accounts appear on pages 29 to 67

## Presentation of accounts and accounting policies

### I Basis of preparation

Tata Steel Europe Limited (TSE) is a private limited company incorporated in the United Kingdom under the Companies Act 2006. The consolidated financial statements of the Company for the year ended 31 March 2010 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in its joint venture and associated undertakings. The functional and presentational currency of the Company, and the presentational currency of the Group, is sterling. The Group has prepared its Report & Accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However, the consolidated financial statements for the periods presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. The accounts have also been prepared under the historical cost convention as modified by the revaluation of available for sale investments.

The Group has prepared consolidated financial statements under the IFRS accounting policies set out below and these policies have been applied consistently to all the periods presented except for the following:

#### Standards affecting presentation and disclosure

- IAS 1 (revised 2007) 'Presentation of Financial Statements' which introduces a number of changes in the format and content of the financial statements
- 'Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments Disclosures)' which expands the disclosures in respect of fair value measurements and liquidity risk, although in accordance with the transitional provisions TSE has elected not to provide comparative information for these expanded disclosures in the current year

#### Standards affecting the reported results and financial position

- IAS 23 (revised 2007) 'Borrowing Costs' which eliminates the option previously taken by TSE to immediately expense all borrowing costs when incurred. In accordance with the transitional provisions, from 1 April 2009 TSE has now capitalised borrowing costs incurred on qualifying assets, although the impact on net assets at 31 March 2010 is only £36k

#### Standards not affecting the reported results nor the financial position

The following new and revised standards and interpretations have been applied in the current year, however the adoption of these new requirements has had no effect on either the current or prior periods:

- 'Improvements to IFRSs (2008)',
- IAS 32 (Amendment) 'Financial Instruments: Presentation' and IAS 1 (Amendment) 'Presentation of Financial Statements' – Puttable financial instruments and obligations arising on liquidation,
- Amendments to IFRIC 9 'Reassessment of Embedded Derivatives' and IAS 39 'Financial Instruments: Recognition and Measurement',
- Amendments to IFRS 2 'Share-based payments',
- IFRIC 13 'Customer Loyalty Programmes',
- IFRIC 15 'Agreements for the Construction of Real Estate', and
- IFRIC 16 'Hedges of a net investment in a Foreign Operation'

Standards and interpretations that are not yet effective and have not been adopted early by the Group are discussed on page 18 of the Directors' report.

As set out in the Directors' report business review, the Board of directors have assessed the ability of the Group to continue as a going concern and these financial statements have been prepared on a going concern basis.

### II Use of estimates and critical accounting judgements

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

- reported amounts of assets and liabilities,
- disclosure of contingent assets and liabilities at the date of the accounts, and
- reported amounts of income and expenses during the period

Actual results could differ from those estimates. The most significant techniques for estimation are described in the accounting policies below. Critical accounting judgements and the key sources of estimation or uncertainty in applying the Group's accounting policies arise in relation to property, plant and equipment, goodwill, current asset provisions, deferred tax, retirement benefits, provisions created for redundancy, rationalisation and related costs, emission rights and financial derivatives, as discussed in the Directors' report business review – Accounting policies on pages 17 to 19. The detailed accounting policies, including

underlying judgements and methods of estimations for each of these items, are discussed below. All of these key factors are considered at least annually.

### III Basis of consolidation

The consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity and statement of cash flows include the Company and its subsidiaries. They also include the Group's share of the profits, net assets and retained post acquisition reserves of joint ventures and associates that are consolidated using the equity method of consolidation. The profits or losses of subsidiaries, joint ventures and associates acquired or sold during the period are included from the date of acquisition or up to the date of their disposal. All intra-group transactions, balances, income and expenses are eliminated on consolidation, including unrealised profits on such transactions.

### IV Business combinations

On the acquisition of a subsidiary, joint venture or associate, fair values are attributed to the net assets acquired. Any excess of the fair value of consideration given over the fair values of the Group's share of the identifiable net assets acquired, less the costs directly attributable to the combination, is treated as goodwill. If the fair value of the net assets acquired exceeds the fair value of consideration then these fair values are reassessed before taking the remainder as a credit to profit and loss in the period of acquisition.

Goodwill is recognised as an asset, although it is not amortised, it is reviewed for impairment annually and whenever there is a possible indicator. Any impairment is recognised immediately in profit and loss and cannot subsequently be reversed. On disposal of a subsidiary, joint venture or associate any residual amount of goodwill is included in the determination of the profit or loss on disposal.

Subsequent acquisitions where the Group does not originally hold a 100% interest in a subsidiary are treated as an acquisition of shares from minority shareholders. The identifiable net assets are not subject to further fair value adjustments and the difference between the cost of acquisition of the minority interest and the net book value of the additional proportion of the company acquired is treated as goodwill.

### V Revenue

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, which is when they have accepted physical delivery and control of the goods. No revenue is recognised if there are significant uncertainties regarding recovery of the amount due, associated costs or the possible return of goods.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts due for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

### VI Provisions

Provisions for rationalisation and related measures, environmental remediation and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. This involves a series of management judgements and estimates that are based on past experience of similar events and third party advice where applicable. Where appropriate and relevant those provisions are discounted to take into consideration the time value of money.

In particular, redundancy provisions are made where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been made at the end of the reporting period. These provisions also include charges for any termination costs arising from enhancement of retirement or other post-employment benefits for those employees affected by these plans.

Provisions are also created for long term employee benefits that depend on the length of service, such as long service and sabbatical awards, disability benefits and long term compensated absences such as sick leave. The amount recognised as a liability is the present value of benefit obligations at the end of the reporting period, and all movements in the provision (including actuarial gains and losses or past service costs) are recognised immediately within profit and loss.

TSE participates in the EU Emissions Trading Scheme, initially measuring any rights received or purchased at cost, and recognises a provision in relation to carbon dioxide quotas if there is any anticipated shortfall in the level of quotas received or purchased when compared with actual emissions in a given period. Any surplus is only recognised once it is realised in the form of an external sale.

### VII Government grants

Grants related to expenditure on property, plant and equipment are credited to profit and loss over the useful lives of qualifying assets. Total grants received less the amounts credited to profit and loss at the end of the reporting period are included in the balance sheet as deferred income.

## VIII Insurance

Certain of the Group's insurances are handled by its captive insurance company, Crucible Insurance Company Limited. Crucible accounts for all insurance business on an annual basis and the net consolidated result is dealt with as part of the operating costs in these accounts. Insurance premiums in respect of insurance placed with third parties and reinsurance premiums in respect of risks not retained by the Group's captive insurance company are charged to profit and loss in the period to which they relate.

## IX Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement schemes the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting period end. The Group applies the option available under IAS 19 'Employee Benefits' to recognise all actuarial gains and losses directly within retained earnings, presenting those arising in any one reporting period as part of the relevant statement of comprehensive income. In applying IAS 19, in relation to retirement benefits costs, the current service cost, interest cost and expected return on plan assets have been treated as a net expense within employment costs.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to unrecognised past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

## X Financing items

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Interest expense, excluding that related to financing the construction of qualifying property, plant and equipment from 1 April 2009, is expensed as incurred. Discounts or premiums and expenses on the issue of debt securities are amortised over the term of the related security and included within interest expense. Unamortised amounts are shown in the balance sheet as part of the outstanding balance of the related security. Premiums payable on early redemptions of debt securities, in lieu of future interest costs, are written off as interest expense when paid.

## XI Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. In contrast, deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Liabilities are not recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Both current and deferred tax items are calculated using the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. This means using tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset to the extent that they relate to taxes levied by the same tax authority and they are in the same taxable entity, or a group of taxable entities where the tax losses of one entity are used to offset the taxable profits of another and there are legally enforceable rights to set off current tax assets and current tax liabilities within that jurisdiction.

## XII Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the quoted rates of exchange ruling at the end of each reporting period. Income statement items and cash flows are translated into sterling at the average rates for the financial period. In order to hedge its exposure to certain foreign exchange transaction risks, the Group enters into forward contracts and options (see XIII below for details of the Group's accounting policies in respect of such derivative financial instruments).

Exchange differences on the retranslation of the opening net investment in foreign enterprises and the retranslation of profit and loss items from average to closing rate are recorded as movements on reserves. Such cumulative exchange differences are transferred to profit and loss on subsequent disposals of the foreign enterprise and for other substantial reductions in capital in these enterprises during the period. Under IAS 21, cumulative translation differences on the consolidation of subsidiaries are only being accumulated for each individual subsidiary from the date of acquisition, being 2 April 2007 for Corus and its subsidiaries.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## XIII Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The detailed accounting treatment for such items can differ, as described in the following sections:

### (a) Trade receivables

Trade receivables are initially recorded at their fair value and are subsequently measured at their amortised cost, as reduced by appropriate allowances for any impairment. Provisions for impairment are made where there is a risk of non-payment, taking into account ageing, previous experience and general economic conditions. When a trade receivable is determined to be uncollectable it is written off, firstly against any provision available and then to the income statement. Subsequent recoveries of amounts previously provided for are credited to the income statement.

### (b) Other investments

Other investments include long term financial assets that are initially measured at fair value, including transaction expenses. They are classified as either available for sale or as loans and receivables. For available for sale investments, gains and losses arising from changes in fair values are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Following initial recognition they are measured at amortised cost using the effective interest rate method.

### (c) Financial liabilities and equity related instruments

Financial liabilities and equity related instruments are classified according to the terms of the individual contractual arrangements.

### (d) Bank borrowings

Interest-bearing bank loans, overdrafts and issued debt are initially recorded at their fair value which is generally the proceeds received, net of direct issue costs. These borrowings are subsequently measured at amortised cost.

### (e) Trade payables

Trade payables are initially recorded at fair value and are subsequently measured at their amortised cost.

### (f) Equity instruments

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

### (g) 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, base metal prices and interest rate fluctuations. The instruments are confined principally to forward foreign exchange contracts, forward rate agreements, cross currency swaps, interest rate swaps and London Metal Exchange (LME) contracts. The instruments are employed as economic hedges of transactions included in the accounts or forecast for firm contractual commitments. Contracts do not generally extend beyond 6 months, except for certain cross currency swaps and interest rate swaps.

Derivatives are initially accounted for and measured at fair value from the date the derivative contract is taken out. Following this, at each subsequent reporting period end the derivative is remeasured at its current fair value. For forward currency contracts, interest rate swaps and commodity contracts the fair values are determined based on market forward rates at the end of the reporting period. The Group seeks to adopt hedge accounting for these currency, interest rate and commodity contracts. This means that, at the inception of each hedge there is a formal, documented designation of the hedging relationship. This documentation

includes, inter alia, items such as identification of the hedged item or transaction and the nature of the risk being hedged. At inception each hedge is expected to be highly effective in achieving an offset of changes in fair value or cash flows attributable to the hedged risk. The methodology of testing the effectiveness and the reliability of this approach for testing is also considered and documented at inception. This effectiveness is assessed on an ongoing basis throughout the life cycle of the hedging relationship. In particular, only forecast transactions that are highly probable are subject to cash flow hedges.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in profit and loss. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of a non-financial asset or a liability, amounts deferred in equity are recognised in profit and loss in the same period in which the hedged item affects profit and loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes attributable to the risk being hedged with the corresponding entry in profit and loss. Gains or losses from remeasuring the associated derivative are also recognised in profit and loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit and loss as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is reclassified to net profit or loss for the period.

Certain components, such as terms and conditions, embedded in other financial instruments or other host contracts are accounted for as separate derivatives and carried at fair value. These components are only separately accounted for when their risks and characteristics are not closely related to those of the host contract, the host contract itself is not carried at fair value with gains or losses reported in profit and loss, and where a separate instrument with the same terms as the embedded component would itself meet the definition of a derivative.

#### **XIV Other intangible assets**

Patents, trademarks and software are included in the balance sheet as intangible assets where they are clearly linked to long term economic benefits for the Group. In this case they are measured initially at fair value on acquisition or purchase cost and then amortised on a straight-line basis over their estimated useful lives. All other costs on patents, trademarks and software are expensed in profit and loss as incurred.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Costs incurred on individual development projects are recognised as intangible assets from the date that all of the following conditions are met:

- (i) completion of the development is technically feasible,
- (ii) it is the intention to complete the intangible asset and use or sell it,
- (iii) it is clear that the intangible asset will generate probable future economic benefits,
- (iv) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available, and
- (v) it is possible to reliably measure the expenditure attributable to the intangible asset during its development.

Recognition of costs as an asset is stopped when the project is complete and available for its intended use, or if these criteria no longer apply. The approach to amortisation and impairment of other intangible assets is described in XVI below.

Where development activities do not meet the conditions for recognition as an asset, any associated expenditure is treated as an expense in the period in which it is incurred.

The Group also recognised certain other separately identifiable assets, including contractual relationships, at fair value on acquisition. These are then amortised on a straight-line basis over the duration of the respective contracts.

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

Property, plant and equipment is recorded at fair value on acquisition less accumulated depreciation and any recognised impairment loss. Cost includes professional fees, and, for assets constructed by the Group, any related works to the extent that these are directly attributable to the acquisition or construction of the asset. From 1 April 2009 this includes borrowing costs capitalised in respect of qualifying assets in accordance with the Group's policy. Amounts incurred in connection with capital projects that are not directly attributable to

bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended (which the Group refers to as 'commissioning costs' and which include expenses such as initial operating losses incurred while technical deficiencies on new plant are rectified and incremental operating costs that are incurred while the new plant is operating at less than full capacity) are written off to profit and loss as incurred. Assets in the course of construction are depreciated from the date on which they are ready for their intended use.

The gain or loss arising on disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognised in profit and loss.

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.

Subsequent costs are included in the carrying value of an asset when it is probable that additional future economic benefits will flow to the Group and the cost of the item can be measured reliably. All other repairs and renewals are charged to profit and loss as incurred.

## **XVI Depreciation, amortisation and impairment of property, plant and equipment and other intangible assets**

Depreciation or amortisation is provided so as to write off, on a straight-line basis, the cost of property, plant and equipment and other intangible assets, including those held under finance leases, to their residual value. These charges are commenced from the dates the assets are available for their intended use and are spread over their estimated useful economic lives or, in the case of leased assets, over the lease period if shorter. The estimated useful lives of assets and residual values are reviewed regularly and, when necessary, revised. Accelerated depreciation or amortisation is provided where an asset is expected to become obsolete before the end of its normal useful life or if events or changes in circumstances indicate that an impairment loss needs to be recognised, as discussed below. No further charges are provided in respect of assets that are fully written down but are still in use.

The estimated useful lives for the main categories of property, plant and equipment and other intangible assets are

Freehold and long leasehold buildings that house plant and other works buildings		25 years
Other freehold and long leasehold buildings		50 years
Plant and machinery		
Iron and steelmaking	maximum	25 years
IT hardware and software	maximum	8 years
Office equipment and furniture		10 years
Motor vehicles		4 years
Other	maximum	15 years
Patents and trademarks		4 years
Product and process development costs		5 years

At each reporting period end, the Group reviews the carrying amounts of its property, plant and equipment and other intangible assets to determine whether there is any indication that the carrying amount of those assets may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset is reviewed in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Other intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate, based upon the Group's long term weighted average cost of capital with appropriate adjustments for the risks associated with the relevant units. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## **XVII Leases**

The Group determines whether an arrangement contains a lease by assessing whether the fulfilment of a transaction is dependent on the use of a specific asset and whether the transaction conveys the right to use that asset to TSE in return for payment. Where this occurs, the arrangement is deemed to include a lease and is accounted for as such.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income over the period of the lease.

## **XVIII Joint ventures and associates**

The results and assets and liabilities of joint ventures and associates are incorporated in the accounts using the equity method of accounting, except where classified as held for sale (see XIX).

Investments in joint ventures and associates are initially measured at cost. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, being goodwill, is included within the carrying value of the joint venture or associate and is subsequently tested for impairment on an annual basis. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets acquired is credited to profit or loss in the period of acquisition. The Group's share of post acquisition profits and losses is recognised in profit and loss, and its share of post acquisition movement in reserves are recognised directly in reserves. Losses of associates in excess of the Group's interest in those associates are not recognised, unless the Group has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with joint ventures or associates are eliminated and, where material, the results of joint ventures and associates are modified to conform to the Group's policies.

## **XIX Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is only met when the sale is highly probable and the asset, or disposal groups, is available for immediate sale in its present condition and is marketed for sale at a price that is reasonable in relation to its current fair value. The Group must also be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Where a disposal group represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, then it is treated as a discontinued operation. The post-tax profit or loss of this discontinued operation together with the gain or loss recognised on its disposal are disclosed as a single amount on the face of the income statement, with all prior periods being presented on this basis.

## **XX Inventories**

Inventories of raw materials are valued 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 valued 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.

## **XXI Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## Notes to the consolidated accounts

### 1. Operating costs

	2010 £m	2009 £m
<b>Costs by type</b>		
Raw materials and consumables	4,240	6,795
Maintenance costs (excluding own labour)	647	817
Other external charges (including fuels and utilities, hire charges and carriage costs)	1,309	1,726
Employment costs (Note 3)	1,813	1,910
Depreciation, amortisation and impairments	549	843
Regional development and other grants released	(5)	(7)
Other operating items (including rents, rates, insurance and general expenses)	419	66
Changes in inventory of finished goods and work in progress	(25)	323
Own work capitalised	(34)	(34)
Profit on disposal of Group company	(14)	-
Loss on disposal of property, plant and equipment	23	9
	<b>8,922</b>	<b>12,448</b>

	Operating items before restructuring impairment and disposals £m	Restructuring, impairment and disposals £m	Total £m
The above costs in the year to 31 March 2010 include			
Raw materials and consumables	4,240	-	4,240
Maintenance costs (excluding own labour)	647	-	647
Other external charges (including fuels and utilities, hire charges and carriage costs)	1,309	-	1,309
Employment costs (Note 3)	1,725	88	1,813
Depreciation, amortisation and impairments	551	(2)	549
Regional development and other grants released	(5)	-	(5)
Other operating items (including rents, rates, insurance and general expenses)	337	82	419
Changes in inventory of finished goods and work in progress	(25)	-	(25)
Own work capitalised	(34)	-	(34)
Profit on disposal of Group company	-	(14)	(14)
Loss on disposal of property, plant and equipment	-	23	23
	<b>8,745</b>	<b>177</b>	<b>8,922</b>

Further analysis of restructuring and impairment costs is presented in Note 2

	2010 £m	2009 £m
The above costs are stated after including		
Amortisation of other intangible assets	28	63
Impairment losses related to intangible assets (Note 2)	-	139
Depreciation of owned assets	508	513
Net impairment losses related to owned assets (Note 2)	(2)	110
Depreciation of assets held under finance leases	15	18
Operating leases		
Plant and machinery	47	60
Leasehold property	37	39
Costs of research and development (gross)	88	97
Recoveries on research and development	(14)	(17)
Impairments against trade receivables (Note 15(ii))	10	12
Sale of emission rights	(14)	(135)
Early closure of foreign currency contracts	-	(170)

The operating costs in the year to 31 March 2009 included an exceptional level of net realisable value provisions made in relation to the Group's inventory, with these provisions amounting to £293m as at 31 March 2009

## 1. Operating costs continued

### Services provided by the Group's auditor and its associates – total operations

	2010 £m	2009 £m
Fees payable to TSE's auditors for the audit of the parent company and consolidated financial statements of the Group	1	1
Statutory audit fees payable to associate members of the Group auditors	1	1
Total audit fees	2	2
Other fees in respect of services required by legislation	-	1
Tax services	1	-
Fees for other services	-	1
Total non-audit fees	1	2
	3	4

## 2. Restructuring and impairment costs

	2010 £m	2009 £m
Provision for restructuring and related measures		
Redundancy and related costs	116	92
Impairment losses related to property, plant and equipment	6	110
Impairment losses related to intangible assets	-	139
Other asset write downs	-	33
Other rationalisation costs	98	74
	220	448
Credits for restructuring and related measures		
Redundancy and related costs	(28)	-
Impairment credits related to property, plant and equipment	(8)	-
Other asset write downs	(2)	-
Other rationalisation costs	(14)	-
	(52)	-
	168	448

Following the actions of the Consortium in their withdrawal from the Offtake Framework Agreement, TSE announced in December 2009 the intention to implement the May 2009 proposal to mothball the steelmaking facilities of its TCP business. As a result, TCP's Redcar Blast Furnace and Lackenby steelmaking were mothballed during February 2010. The costs above include £115m in relation to the redundancy and other rationalisation costs (with the latter including the expected costs associated with the cancellation or settlement of certain contracts at this site) associated with this mothballing. The credits in the year result from the reassessment of provisions within certain businesses in light of their revised restructuring plans and experience of the associated costs of redundancies within the specific programmes.

## 3. Employees

	2010 £m	2009 £m
The total employment costs of all employees (including directors) in the Group were		
Wages and salaries	1,394	1,507
Social security costs	161	170
Other pension costs	170	141
Redundancy and related costs (Note 2)	88	92
	1,813	1,910

(i) The average number of employees during the year was 36,100 (2009 41,900 – including the primary aluminium smelting business treated as discontinued operations in the prior year)

### 3. Employees continued

#### (ii) Directors' remuneration

The remuneration paid to the directors of TSE for services performed in the year was

	2010 £	2009 £
The total employment costs of the directors in the Group were		
Emoluments	2,881,213	1,976,896
Amounts accruing under long-term incentive schemes	50,174	223,450

Retirement benefits are accruing to 1 director under defined benefit schemes (2009 1)

The emoluments of Mr K Chatterjee, Mr B Muthuraman and Mr I Hussain are paid by other companies within the Tata Steel Group which make no recharge to TSE

These individuals are all directors of TSL and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of them with their emoluments being disclosed in the financial statements of the respective companies with whom they have their primary employment contracts

#### (iii) Highest paid director

	2010 £	2009 £
Total amount of emoluments	2,039,140	1,241,502

There is no accrued lump sum falling due under a defined benefit pension scheme

### 4. Financing items

	2010 £m	2009 £m
Interest expense		
Bank and other borrowings	(180)	(269)
Fees related to amendments and restatement of facility agreement	(27)	-
Finance leases	(8)	(9)
Amounts payable to Group companies	(33)	(13)
Finance costs	(248)	(291)
Interest income		
Cash and short term deposits and short term investments	16	18
Finance income	16	18
	(232)	(273)

As noted on page 10 of the Directors' report, on 29 May 2009 the consent of the majority of lenders under the Group's senior banking facility was obtained to the request to amend certain terms of the facility to cover the anticipated period of the severe downturn in TSE's markets

### 5. Taxation

	2010 £m	2009 £m
UK corporation tax	-	-
UK prior year credit	-	(1)
Overseas prior year credit	(26)	(40)
Overseas taxes	23	19
Current tax	(3)	(22)
UK deferred tax	(35)	(5)
Overseas deferred tax	(119)	(50)
	(157)	(77)

## 5. Taxation continued

The total income statement credit for the year can be reconciled to the accounting loss as follows

	2010 £m	2009 £m
Loss before taxation	(1,086)	(407)
Loss multiplied by the applicable corporation tax rate of 26.4% (2009 25.8%)	(287)	(105)
Effects of		
Adjustments to current tax in respect of prior periods	(26)	(41)
Adjustments to deferred tax in respect of prior periods	-	16
Utilisation of tax losses not previously recognised	(5)	(27)
Tax losses not recognised	144	68
Other permanent differences	17	12
	(157)	(77)

The applicable corporation tax rate is the average tax rate weighted in proportion to the accounting profits earned in each geographical area. The increase in the rate is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

In addition to the total taxation credited to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2010 £m	2009 £m
Relating to components of other comprehensive income		
Actuarial losses on defined benefit pension plans and other post-retirement plans	(11)	(77)
Revaluations of financial instruments treated as cash flow hedges	2	28
Exchange movements on currency net investments	(6)	(34)
	(15)	(83)

## 6. Discontinued operations

On 3 February 2009 TSE completed the sale of its primary aluminium smelting businesses to Klesch. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' these businesses were classified as discontinued operations for the year ended 31 March 2009. The results of these operations in 2009 are set out below, with no discontinued operations in 2010.

	2009 £m
Turnover	326
Total operating costs (i)	(351)
Operating loss	(25)
Taxation	-
Loss after taxation	(25)
Loss on disposal of discontinued operations	(111)
Loss after taxation from discontinued operations	(136)

(i) Total operating costs

	2009 £m
Cost by type	
Raw materials and consumables	167
Maintenance costs (excluding own labour)	20
Other external charges (including fuels and utilities, hire charges and carriage costs)	143
Employment costs (ii)	39
Depreciation of owned assets	1
Net impairment losses relating to owned assets	3
Other operating items (including rents, rates, insurance and general expenses)	(4)
Changes in inventory of finished goods and work in progress	(17)
Own work capitalised	(1)
	351

## 6. Discontinued operations continued

### (ii) Employees

	2009 £m
The total employment costs were	
Wages and salaries	32
Social security costs	4
Other pension costs	3
	<b>39</b>

## 7. Goodwill

	2010 £m	2009 £m
Cost and net book value at beginning of period	<b>518</b>	<b>517</b>
Additions as a result of acquisitions (Note 33)	<b>2</b>	<b>2</b>
Disposals	<b>(1)</b>	<b>(1)</b>
Cost and net book value at end of period	<b>519</b>	<b>518</b>

The total carrying amount predominantly relates to the goodwill that arose on the acquisition of Corus Group. This goodwill relates to expected synergies from combining Corus' activities with those of Tata Steel Limited and to assets which cannot be recognised as identifiable intangible assets.

Goodwill acquired through this and other acquisitions has been allocated to groups of cash generating units for impairment testing (Strip Products Division £405m, Long Products Division £114m). The Group then tests goodwill annually for impairment, or more frequently if there are any indications that goodwill may be impaired. The recoverable amount of goodwill is determined from value in use calculations. These calculations use cash flow forecasts based on the most recently approved financial budgets, which cover a period of three years, and future projections taking the analysis out to 15 years. Key assumptions for the value in use calculations are those regarding expected changes to selling prices and direct costs during the period, as well as market growth rates and discount rates. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. A nil growth rate is used to extrapolate the cash flow projections beyond the three-year period of the financial budgets and the pre-tax discount rate of 12% reflects the Group's weighted average cost of capital adjusted for specific risks associated with particular cash generating units, and also includes an appropriate sensitivity.

The directors believe that no reasonable possible change in any of the above key assumptions would cause the carrying value of any cash generating unit to materially exceed its recoverable amount.

## 8. Other intangible assets

	Computer software £m	Development costs £m	Patents and trademarks £m	Favourable contracts £m	Total £m
<b>2010</b>					
Cost at beginning of period	105	27	2	267	401
Additions	20	3	-	-	23
Exchange rate movements	(1)	(1)	-	-	(2)
Disposals	(8)	-	-	-	(8)
Cost at end of period	116	29	2	267	414
Amortisation at beginning of period	24	6	-	246	276
Charge for the period	17	6	-	5	28
Exchange rate movements	(1)	-	-	-	(1)
Depreciation on disposals	(8)	-	-	-	(8)
Amortisation at end of period	32	12	-	251	295
Net book value at end of period	84	17	2	16	119
<b>2009</b>					
Cost at beginning of period	69	17	2	267	355
Additions	31	6	-	-	37
Exchange rate movements	5	4	-	-	9
Cost at end of period	105	27	2	267	401
Amortisation at beginning of period	11	2	-	61	74
Charge for the period	13	4	-	46	63
Impairment loss recognised in the period (Note 2)	-	-	-	139	139
Amortisation at end of period	24	6	-	246	276
Net book value at end of period	81	21	2	21	125

## 9. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in course of construction £m	Total £m
<b>2010</b>				
Cost or valuation at beginning of period	907	3,948	497	5,352
Additions	8	19	165	192
Disposals	(33)	(434)	-	(467)
Exchange rate movements	(30)	(100)	(19)	(149)
Transfers and other movements	75	299	(374)	-
Cost or valuation at end of period	927	3,732	269	4,928
Depreciation at beginning of period	203	1,029	-	1,232
Charge for the period	45	478	-	523
Impairment losses recognised during the period	-	6	-	6
Impairment losses reversed during the period	(3)	(5)	-	(8)
Disposals	(26)	(396)	-	(422)
Exchange rate movements	(8)	(24)	-	(32)
Depreciation at end of period	211	1,088	-	1,299
Net book value at end of period	716	2,644	269	3,629
Loose plant, tools and spares (net book value)				314
				3,943

## 9. Property, plant and equipment continued

2009	Land and buildings £m	Plant and machinery £m	Assets in course of construction £m	Total £m
Cost or valuation at beginning of period	775	3,435	379	4,589
Additions	12	72	254	338
Disposals	(11)	(85)	-	(96)
Disposals of group undertakings	(7)	(15)	(3)	(25)
Exchange rate movements	112	374	60	546
Transfers and other movements	26	167	(193)	-
Cost or valuation at end of period	907	3,948	497	5,352
Depreciation at beginning of period	84	472	-	556
Charge for the period	68	464	-	532
Impairment losses recognised during the period	34	79	-	113
Disposals	(9)	(66)	-	(75)
Disposal of group undertakings	-	(13)	-	(13)
Exchange rate movements	26	93	-	119
Depreciation at end of period	203	1,029	-	1,232
Net book value at end of period	704	2,919	497	4,120
Loose plant, tools and spares (net book value)				318
				4,438

	2010 £m	2009 £m
(i) The net book value of land and buildings comprises		
Freehold	670	655
Long leasehold (over 50 years unexpired)	12	16
Short leasehold	34	33
	716	704

Which may be further analysed as		
Assets held under finance leases		
Cost	46	37
Accumulated depreciation	(10)	(6)
	36	31
Owned assets	680	673
	716	704

	2010 £m	2009 £m
(ii) The net book value of plant and machinery comprises		
Assets held under finance leases		
Cost	103	150
Accumulated depreciation	(49)	(77)
	54	73
Owned assets	2,590	2,846
	2,644	2,919

	2010 £m	2009 £m
(iii) The net book value of loose plant, tools and spares comprises		
Cost	699	726
Accumulated depreciation and impairment losses	(385)	(408)
	314	318

Loose plant, tools and spares are shown at net book value. Due to the substantial number of items involved, and the many variations in their estimated useful lives, it is impracticable to give the details of movements normally disclosed in respect of property, plant and equipment.

(iv) As indicated within Note 1 of the Presentation of accounts and accounting policies on page 29, from 1 April 2009 TSE has now capitalised borrowing costs incurred on qualifying assets. As a result, there was £36k capitalised in the period using a capitalisation rate of 0.3%.

## 10. Equity accounted investments

	Interests in joint ventures £m	Investments in associates £m	2010 Total £m	2009 Total £m
Cost at beginning of period	88	16	104	98
Additions as a result of acquisitions	-	-	-	1
Disposals	(3)	-	(3)	(6)
Exchange rate movements	-	(1)	(1)	11
Cost at end of period	85	15	100	104
Share of post acquisition reserves at beginning of period	10	-	10	13
Share of results in period retained	2	1	3	(5)
Exchange adjustment retained profits	(2)	-	(2)	2
Share of post acquisition reserves at end of period	10	1	11	10
Net book value at end of period	95	16	111	114
Net book value at beginning of period	98	16	114	111

(i) The Group's main equity accounted investments are listed in Note 37

(ii) Summarised information in respect of the Group's joint ventures is presented below

	2010 £m	2009 £m
Share of the assets and liabilities of the Group's joint ventures		
Non-current assets	60	72
Current assets	137	160
Current liabilities	(72)	(104)
Non-current liabilities	(30)	(30)
Group's share of net assets	95	98
Share of the revenue and expenses of the Group's joint ventures		
Revenue	371	619
Expenses	(365)	(606)
Group's share of joint ventures' profit for the period after taxation	6	13
Dividends received	(4)	(15)
Group's share of retained profit/(loss) for the period	2	(2)

(iii) Summarised information in respect of the Group's associates is presented below

	2010 £m	2009 £m
Summarised balance sheet information		
Total assets	110	81
Total liabilities	(50)	(41)
Net assets	60	40
Group's share of net assets	16	16
Summarised income statement information		
Revenue	181	188
Profit/(loss) for the period	1	(2)
Group's share of associate's result for the period after taxation	1	-
Dividends received	-	(3)
Group's share of retained profit/(loss) for the period	1	(3)

## 10. Equity accounted investments continued

(iv) The share of post-tax profits of joint ventures and associates as disclosed in the income statement arose as follows

	2010 £m	2009 £m
Group's share of joint ventures' profit for the period	6	13
Group's share of associates' profit for the period	1	-
	7	13
Profit on disposal of investment in joint venture	4	4
	11	17

On 1 March 2010 the Group sold its 50% shareholding in Cindu Chemicals BV a company specialising in the processing of the coal tar release from the coke plants at IJmuiden Works. The sale to Koppers offers an opportunity to dispose of the shares in a non-core activity whilst securing long-term off-take of the coal tar produced at IJmuiden. The disposal in 2009 relates to the sale of the Group's 50% shareholding in GrantRail Limited.

## 11. Other investments

	Loans and receivables £m	Available for sale investments £m	2010 Total £m	2009 Total £m
Carrying value at beginning of period	7	59	66	58
Additions	1	-	1	3
Disposals	(1)	(3)	(4)	(3)
Revaluations	-	(2)	(2)	7
Exchange rate movements	-	-	-	1
Carrying value at end of period	7	54	61	66

None of the loans and receivables or available for sale investments are either past due or impaired.

(i) The currency and interest exposure of other investments of the Group is as follows

	2010			2009		
	Fixed rate long term financial assets £m	Floating rate long term financial assets £m	Total £m	Fixed rate long term financial assets £m	Floating rate long term financial assets £m	Total £m
Sterling	12	1	13	10	2	12
Euros	20	4	24	23	5	28
US Dollars	2	3	5	2	5	7
Other	19	-	19	19	-	19
	53	8	61	54	12	66
Disclosed as						
Loans and receivables	1	6	7	1	6	7
Available for sale investments	52	2	54	53	6	59

	2010		2009	
	Weighted average effective fixed interest rate %	Weighted average time for which rate is fixed Years	Weighted average effective fixed interest rate %	Weighted average time for which rate is fixed Years
Sterling	7.1	7.8	6.7	8.6
Euros	3.7	6.5	3.8	7.6
US Dollars	7.0	16.5	4.7	20.4
Other	1.9	7.9	1.7	7.6

(ii) Contractual maturities of other investments are as follows

	2010 £m	2009 £m
Within one year	6	4
Between two and five years	28	28
Greater than five years	20	26
No contractual maturity date	7	8
	61	66

## 11 Other investments continued

(iii) Of the available for sale investments of £54m above (2009 £59m), the majority are held by Crucible Insurance Company Limited to fund insurance liabilities of the Group. The total investments arise as follows

	2010 £m	2009 £m
UK listed investments	7	5
Overseas listed investments	43	48
	<b>50</b>	<b>53</b>

## 12. Other non-current assets

	2010 £m	2009 £m
Derivative financial instruments (Note 21)	13	22
Other receivables	3	-
	<b>16</b>	<b>22</b>

## 13. Inventories

	2010 £m	2009 £m
Raw materials and consumables	802	993
Work in progress	498	465
Finished goods and goods for resale	575	631
	<b>1,875</b>	<b>2,089</b>

The value of inventories above is stated after impairment for obsolescence and write-downs to net realisable value of £109m (2009 £378m)

## 14. Current tax

	Assets £m	Liabilities £m
<b>2010</b>		
UK corporation tax	3	(14)
Overseas taxation	8	(74)
	<b>11</b>	<b>(88)</b>
<b>2009</b>		
UK corporation tax	-	-
Overseas taxation	20	(113)
	<b>20</b>	<b>(113)</b>

## 15. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	1,339	1,409
Less provision for impairment of receivables	(47)	(40)
	<b>1,292</b>	<b>1,369</b>
Amounts owed by other group companies	16	4
Amounts owed by parent undertaking	3	5
Amounts owed by joint ventures	22	15
Amounts owed by associates	5	7
Derivative financial instruments (Note 21)	25	279
Other receivables	111	97
	<b>1,474</b>	<b>1,776</b>

## 15. Trade and other receivables continued

(i) Trade receivables at 31 March 2010 are further analysed as follows

2010	Gross credit risk amount £m	Subject to credit insurance cover £m	Gross amount considered impaired £m	Impairment provision made £m
Amounts not yet due	1,221	564	34	11
One month overdue	61	25	3	1
Two months overdue	14	6	1	1
Three months overdue	6	2	1	1
Greater than three months overdue	37	7	16	33
	1,339	604	55	47

2009	Gross credit risk amount £m	Subject to credit insurance cover £m	Gross amount considered impaired £m	Impairment provision made £m
Amounts not yet due	1,210	742	7	5
One month overdue	93	58	2	1
Two months overdue	50	35	3	2
Three months overdue	20	12	5	5
Greater than three months overdue	36	24	28	27
	1,409	871	45	40

The Group considers its maximum exposure to credit risk with respect to customers at 31 March 2010 to be £688m (2009 £498m), which is the fair value of trade receivables less those that are subject to credit insurance cover as shown in the table above. The other classes of financial assets within trade receivables do not contain impaired assets. There is no concentration of credit risk with any particular customers.

Credit risk management is discussed further in Note 21 on pages 52 and 53.

(ii) Movements in the provision for impairment of receivables are as follows

	2010 £m	2009 £m
At beginning of period	40	36
Impairments in the period	10	12
Amounts utilised, exchange and other movements	(3)	(8)
At end of period	47	40

**16. Cash, short term deposits and short term investments**

	2010 £m	2009 £m
Cash at bank and in hand	243	322
Short term deposits	68	70
Cash and short term deposits	311	392
Short term investments	2	10
	<b>313</b>	<b>402</b>

The currency and interest exposure of cash, short term deposits and short term investments of the Group is as follows

	2010				2009			
	Cash £m	Short term deposits £m	Short term investments £m	Total £m	Cash £m	Short term deposits £m	Short term investments £m	Total £m
Sterling	104	11	-	115	117	53	-	170
Euros	79	33	-	112	136	17	8	161
US Dollars	20	24	-	44	49	-	-	49
Other	40	-	2	42	20	-	2	22
	<b>243</b>	<b>68</b>	<b>2</b>	<b>313</b>	<b>322</b>	<b>70</b>	<b>10</b>	<b>402</b>
Floating interest rate	243	1	2	246	322	11	10	343
Fixed interest rate	-	67	-	67	-	59	-	59

Short term deposits are highly liquid investments with original maturities of three months or less and short term investments are deposits for periods not exceeding one year. The weighted average interest rate across both these types of investment was 0.3% (2009: 0.6%). During each of the periods above cash earned interest at a floating rate based on LIBOR or other official local rates.

**17. Trade and other payables**

	2010 £m	2009 £m
Trade payables	1,359	1,187
Amounts owed to other group companies	5	6
Amounts owed to parent undertaking	4	14
Amounts owed to joint ventures	6	2
Amounts owed to associates	4	4
Other taxation and social security	64	39
Interest payable	12	4
Capital expenditure creditors	56	96
Derivative financial instruments (Note 21)	21	105
Other payables	410	475
	<b>1,941</b>	<b>1,932</b>

Other payables include amounts provided in respect of insurances, holiday pay, other employment costs and sundry other items.

## 18. Borrowings

	2010 £m	2009 £m
<b>Current</b>		
Bank overdrafts	20	11
Floating rate guaranteed Loan Notes (vi)	27	41
Non-returnable proceeds from securitisation programme (v)	150	202
Other loans	100	92
Bank loans	421	189
Obligations under finance leases	14	16
	<b>732</b>	<b>551</b>
<b>Non-current</b>		
Amounts owed to parent undertaking	778	250
Bank and other loans	2,596	3,193
Obligations under finance leases	88	109
	<b>3,462</b>	<b>3,552</b>

Interest payable on the above borrowings is included within trade and other payables (see Note 17)

(i) The currency and interest exposure of gross borrowings of the Group at the end of the period is as follows

	2010			2009		
	Fixed rate borrowings £m	Floating rate borrowings £m	Total £m	Fixed rate borrowings £m	Floating rate borrowings £m	Total £m
Sterling	60	1,449	1,509	79	929	1,008
Euros	42	2,453	2,495	47	2,842	2,889
US Dollars	-	190	190	-	204	204
Other	-	-	-	-	2	2
	<b>102</b>	<b>4,092</b>	<b>4,194</b>	<b>126</b>	<b>3,977</b>	<b>4,103</b>

	2010		2009	
	Weighted average effective fixed interest rate %	Weighted average time for which rate is fixed Years	Weighted average effective fixed interest rate %	Weighted average time for which rate is fixed Years
Sterling	7.5	9.9	7.4	8.7
Euros	5.1	6.8	5.4	3.5

The majority of floating rate borrowings are bank borrowings bearing interest rates based on EURIBOR or official local rates. Of the total floating rate borrowings of £4,092m, £1,824m has been converted into fixed rates with interest rate swaps over a period of 3 to 4 years. Interest rate risk management is discussed further in Note 21 on page 52.

The weighted average interest rate on current borrowings was 1.80% (2009 4.4%) and on non-current borrowings was 3.5% (2009 5.5%).

(ii) The maturity of borrowings is as follows

	2010 £m	2009 £m
In one year or less or on demand	736	553
Between one and two years	621	461
Between two and three years	978	644
Between three and four years	355	1,013
Between four and five years	760	367
More than five years	782	1,106
	<b>4,232</b>	<b>4,144</b>
Less: amounts representing interest in future minimum lease payments	(38)	(41)
	<b>4,194</b>	<b>4,103</b>
<b>Analysed as</b>		
Current liabilities	732	551
Non-current liabilities	3,462	3,552

## 18. Borrowings continued

Amounts payable under finance leases are as follows

	Minimum lease payments		Present value of minimum lease payments	
	2010 £m	2009 £m	2010 £m	2009 £m
Not later than one year	17	18	13	16
Later than one year but not more than five years	60	71	42	51
More than five years	63	77	47	58
	140	166	102	125
Less future finance charges on finance leases	(38)	(41)	-	-
Present value of lease obligations	102	125	102	125

(iii) The maturity of undrawn committed borrowing facilities of the Group is as follows

	2010 £m	2009 £m
In one year or less	-	-
Between one and two years	-	-
More than two years	400	409
	400	409

The Group's senior facility limits the amount of other uncommitted unsecured credit facilities to £430m (2009 £430m) with a sub-limit of £55m (2009 £55m) for overdrafts, bill discounting, financial guarantees and other debt classed as such on the balance sheet

(iv) On 27 April 2007, the borrowings and lender commitments under previous facility arrangements were refinanced with the establishment of new borrowing arrangements. The New SFA entered into between, among others, Citigroup Global Markets Asia Limited, Citibank NA (London Branch), Standard Chartered Bank, ABN AMRO, TSUK, TUKH3 and TSNL consists of a £1,670m five year amortising term loan, a £1,500m seven year amortising term loan and a £500m five year revolving credit facility. These facilities are secured by the assets of Corus and are non-recourse to TSL. On 3 May 2007, these term loans were fully drawn in connection with the refinancing and continue to be so at 31 March 2010. Further, £100m of the revolving credit facility was drawn down at 31 March 2010 (2009 £91m).

On 19 December 2007, the New SFA was secured by guarantees and debentures granted by material subsidiaries of Corus (other than CN and its subsidiaries) and by a share pledge over the shares in CN.

During 2007 the New SFA was syndicated in several steps. During the syndication process the facilities were restructured to some extent and the final composition in approximate amounts at the close of syndication was

- (a) an amortising term loan facility of five years £1,565m,
- (b) a non-amortising term loan facility of five and a half years £550m,
- (c) an amortising term loan facility of six years £299m,
- (d) an amortising term loan facility of seven years £649m,
- (e) a revolving credit facility of five years £500m, and
- (f) a Loan note guarantee facility of five years £80m

The proceeds of the syndication were received in euros, sterling and US dollars. However, 100% of the proceeds received in US dollars and part of the proceeds received in sterling were converted using cross currency swaps into euros.

The New SFA is also subject to financial covenants including cash flow to net debt service, maximum net debt to EBITDA, EBITDA to net finance charges, and maximum capital expenditure levels. However, as a result of the severe downturn in its markets TSE, through its subsidiary TSUK, requested and obtained the consent of the majority lenders under the New SFA to certain amendments (the 'Amendments') to the terms of the New SFA to cover the anticipated period of the downturn. As part of the agreement reached, testing of earnings-related covenants were largely suspended until March 2010 and have resumed with significantly greater flexibility than was the case with the original covenants in the New SFA. Furthermore, there has been no increase in the current level of interest margin cost for the remaining life of the loan. The revised covenant package did not involve any additional finance from the lenders under the New SFA nor any rescheduling of TSE's debt-servicing commitments. Subject to execution by the Agent of an amendment and restatement agreement (the 'ARA') and satisfaction of the conditions precedent set out therein, the consent of the majority lenders under the New SFA to such request was obtained on 29 May 2009. The ARA was executed and the Amendments took effect on 12 June 2009.

## 18. Borrowings continued

(v) The Group has a revolving period securitisation programme under which it may offer to assign all of its rights, title and interest in a pool of invoiced UK trade receivables to a third party that is funded ultimately in the commercial paper markets. This securitisation programme was increased on 13 March 2008 from £275m to £300m and the maturity extended from April 2009 to June 2009. Further extension of the programme was dependent on a number of factors, the principal one being the agreement of the SFA consents request, which was obtained on 29 May 2009 and became effective on 12 June 2009. The securitisation programme was extended and its maturity is now 31 March 2011, although, as a consequence of the severe downturn in the Group's markets, the programme was reduced on 29 June 2009 from £300m to £150m. This reduction mirrored the lower level of UK trade receivables eligible for use in the programme. As at the end of March 2010 the securitisation programme was fully drawn in an amount of £150m (2008/09 £202m). Subsequent to the year end the programme was increased on 4 June 2010 from £150m to £250m.

(vi) The TSUK floating rate guaranteed loan notes are due 2013. Interest is payable half-yearly in arrears at a rate of 1% below six-month sterling LIBOR.

## 19. Other non-current liabilities

	2010 £m	2009 £m
Derivative financial instruments (Note 21)	123	160
Other creditors	25	48
	<b>148</b>	<b>208</b>
	2010 £m	2009 £m
An analysis of other creditors by currency is set out below		
Sterling	21	46
Euros	3	2
Other	1	-
	<b>25</b>	<b>48</b>

These other creditors, which predominately relate to long term insurance liabilities, are due for repayment within five years and are not subject to interest.

## 20. Currency analysis of net assets

The Group's net assets by principal currencies at the end of the period are

	2010				2009			
	Operational net assets by functional currency £m	Cash, short term deposits and short term investments £m	Gross borrowings £m	Net assets £m	Operational net assets by functional currency £m	Cash, short term deposits and short term investments £m	Gross borrowings £m	Net assets £m
Sterling	2,555	115	(1,509)	1,161	3,420	170	(1,008)	2,582
Euros	2,840	112	(2,495)	457	3,198	161	(2,889)	470
US Dollars	60	44	(190)	(86)	109	49	(204)	(46)
Other	102	42	-	144	114	22	(2)	134
	<b>5,557</b>	<b>313</b>	<b>(4,194)</b>	<b>1,676</b>	<b>6,841</b>	<b>402</b>	<b>(4,103)</b>	<b>3,140</b>

Foreign currency risk management is discussed in Note 21 on page 52.

## 21. Financial instruments and risk management

(i) The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values. The carrying amounts of the Group's financial assets and financial liabilities are

	2010 £m	2009 £m
<b>Financial assets</b>		
Loans and receivables		
Other investments (Note 11)	7	7
Trade receivables (Note 15)	1,292	1,369
Other receivables	157	128
Other short term investments (Note 16)	2	10
Cash and short term deposits (Note 16)	311	392
	<b>1,769</b>	<b>1,906</b>
<b>Financial liabilities</b>		
Financial liabilities held at amortised cost		
Trade and other payables <sup>1</sup>	(1,856)	(1,788)
Current borrowings (Note 18)	(732)	(551)
Non-current borrowings (Note 18)	(3,462)	(3,552)
Other non-current liabilities (Note 19)	(25)	(48)
	<b>(6,075)</b>	<b>(5,939)</b>
	<b>(4,306)</b>	<b>(4,033)</b>

<sup>1</sup> Excludes other taxation and social security

(ii) Fair value measurements recognised in the balance sheet

The following table categorises the Group's financial instruments held at fair value by the valuation methodology applied in determining this value. Where possible, quoted prices in active markets for identical assets and liabilities are used (Level 1 and this includes the Group's holdings of listed investments). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data (this includes the Group's forward currency and commodity contracts, cross currency swaps and interest rate swaps). If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3 (the Group has no such instruments at March 2010).

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets at fair value through the profit and loss</b>				
Derivative financial assets	-	38	-	38
<b>Available-for-sale financial assets (Note 11)</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>54</b>
	<b>54</b>	<b>38</b>	<b>-</b>	<b>92</b>
<b>Financial liabilities at fair value through the profit and loss</b>				
Derivative financial liabilities	-	(144)	-	(144)
	<b>-</b>	<b>(144)</b>	<b>-</b>	<b>(144)</b>

There were no transfers between any of the levels during the year

## 21. Financial instruments and risk management continued

### (ii) Financial risk management

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage risks arising from those operations. The principal financial risks to which the Group is exposed are those of foreign exchange, commodity, interest rate and liquidity which are largely managed by the centralised Group treasury functions whose activities are governed by policies and procedures approved by the Executive committee. The Treasury committee meet at least quarterly to review activities and to monitor treasury performance against policies.

#### (a) Market risk – foreign exchange risk and management

At 31 March 2010, the Group had £4,194m (2009 £4,103m) in borrowings, of which £2,495m (2009 £2,889m) is denominated in euros, £1,509m (2009 £1,008m) is denominated in sterling, £190m (2009 £204m) is denominated in US dollars and £nil (2009 £2m) is denominated in other currencies. As described in Note 18, the majority of the Group's borrowings relate to the SFA and is held by the euro-denominated subsidiary company TSNL. In order to reduce the Group's exposure to foreign exchange risk, all of the US dollar and £244m of the sterling denominated debt has been converted with cross currency swaps to euros.

It is the Group's policy that substantially all of the net currency transaction exposure arising from contracted sales and purchases over an approximate 6 month time horizon are covered by selling or purchasing foreign currency forwards. At 31 March 2010, the Group held forward currency sales of principally euros and US dollars amounting to £378m (2009 £1,032m) and purchases of principally US dollars and sterling amounting to £1,093m (2009 £2,560m).

A 10% appreciation of sterling would increase the Group's net assets by approximately £249m (2009 £201m), increase equity by approximately £333m (2009 £269m) and decrease operating profit by approximately £83m (2009 £68m). This sensitivity analysis has been based on the composition of the Group's financial assets and liabilities at 31 March, excluding trade payables, trade receivables, other non-derivative financial instruments not in net debt and finance lease obligations which do not present a material exposure.

#### (b) Market risk – commodity risk and management

The Group makes use of commodity futures contracts and options to manage its purchase price risk for certain commodities. In addition, very limited metal hedging procedures have been maintained on behalf of the aluminium downstream assets sold during 2006, under transitional service agreements. Across the Group forward purchases are also made of zinc, tin and nickel to cover sales contracts with fixed metal prices.

At 31 March 2010, a 10% appreciation of market prices would decrease the Group's equity by approximately £2m (2009 £1m). There was no significant market risk relating to the income statement since the majority of commodity derivatives are treated as cash flow hedges with movements being reflected in equity and the timing and recognition in the income statement would depend on the point at which the underlying hedged transactions were also recognised.

#### (c) Market risk – interest risk and management

The objective of the Group's interest risk management is to reduce its exposure to the impact of changes in interest rates in the currencies in which debt is borrowed. It is a requirement of the New SFA that a minimum of 50% of the debt be converted into fixed rates of interest for a minimum period of 3 years. At 31 March 2010, of the total SFA borrowings of £3,074m, 59% was subject to interest rate swaps. The fixed interest swap rates vary from 3.73% to 3.75% and the floating rates are based on EURIBOR.

Based on the composition of net debt at 31 March 2010, a 1% increase in interest rates over the 12 month period would increase the Group's net finance expense by approximately £21m (2009 £22m). There would be no material effect on equity other than those relating directly to movements in the income statement.

#### (d) Credit risk

Cash deposits, trade receivables and other financial instruments give rise to credit risk for the Group arising from the amounts and obligations due from counter-parties. The credit risk on short term deposits is managed by limiting the aggregate amounts and duration of exposure to any one counter party, depending on its credit rating and other credit information, and by regular reviews of these ratings. The possibility of material loss arising in the event of non-performance is considered unlikely.

Individual operating units are responsible for controlling their own credit risk arising from the Group's normal commercial operations, although they must act within a series of centrally agreed guidelines. Trade receivables are, where appropriate, subject to a credit insurance programme, and regular reviews are undertaken of exposure.

## 21. Financial instruments and risk management continued

to key customers and those where known risks have arisen or still persist. Any impairment to the recoverability of debtors is reflected in the income statement.

Credit risk also arises from the possible failure of counter-parties to meet their obligations under currency and commodity hedging instruments and interest and cross currency swaps. However, counter-parties are established banks and financial institutions with high credit ratings and the Group continually monitors each institution's credit quality and limits as a matter of policy the amount of credit exposure to any one of them. The Group's theoretical risk is the cost of replacement at current market prices of these transactions in the event of default by counter-parties. The Group believes that the risk of incurring such losses is remote and underlying principal amounts are not at risk.

### (e) Liquidity risk

The management of liquidity risk is co-ordinated and controlled centrally by the Group's treasury operations. Liquidity risk is managed by maintaining access to a level of committed and uncommitted borrowing facilities to ensure liquidity is appropriate to forecasted cash flows to satisfy general corporate or working capital requirements. As shown in Note 18 on page 49, the total undrawn committed borrowing facilities at 31 March 2010 is £400m (2009: £409m).

The Board and Executive committee review the Group's liquidity and any associated risk on a monthly basis, which includes a review of the Group funding report, cash flow forecasts and bank covenant headroom.

The following table is a maturity analysis of the anticipated contractual cash flows including interest payable for the Group's derivative and non-derivative financial liabilities on an undiscounted basis, which therefore differs from both the carrying value and fair value. Floating rate interest is estimated using the prevailing interest rate at the end of the reporting period. Cash flows in foreign currencies are translated using the period end spot rates at 31 March 2010.

	2010			
	Contractual cash flows £m	Less than 1 year £m	Between 1 – 5 years £m	More than 5 years £m
<b>Non-derivative financial liabilities</b>				
Bank overdrafts	(20)	(20)	-	-
Trade and other payables <sup>1</sup>	(1,856)	(1,856)	-	-
Floating rate guaranteed loan notes	(27)	(27)	-	-
Non-returnable proceeds from the securitisation programme	(151)	(151)	-	-
Finance lease obligations	(140)	(17)	(60)	(63)
Bank and other loans	(4,861)	(730)	(3,413)	(718)
Other creditors	(25)	-	(25)	-
	<b>(7,080)</b>	<b>(2,801)</b>	<b>(3,498)</b>	<b>(781)</b>
<b>Derivative financial liabilities</b>				
Foreign currency contracts				
Payables	(1,467)	(1,467)	-	-
Receivables	1,473	1,473	-	-
Commodity contracts	(3)	(3)	-	-
Interest rate swaps	(41)	(32)	(9)	-
Cross currency swaps				
Payables	(568)	(26)	(542)	-
Receivables	565	26	539	-
	<b>(41)</b>	<b>(29)</b>	<b>(12)</b>	<b>-</b>
<b>Total financial liabilities</b>	<b>(7,121)</b>	<b>(2,830)</b>	<b>(3,510)</b>	<b>(781)</b>

<sup>1</sup> Excludes other taxation and social security

## 21. Financial instruments and risk management continued

	2009			
	Contractual cash flows £m	Less than 1 year £m	Between 1 – 5 years £m	More than 5 years £m
<b>Non-derivative financial liabilities</b>				
Bank overdrafts	(11)	(11)	-	-
Trade and other payables <sup>1</sup>	(1,788)	(1,788)	-	-
Floating rate guaranteed loan notes	(45)	(1)	(44)	-
Non-returnable proceeds from the securitisation programme	(209)	(209)	-	-
Finance lease obligations	(151)	(17)	(67)	(67)
Bank and other loans	(5,191)	(312)	(3,154)	(1,725)
Other creditors	(48)	-	(48)	-
	(7,443)	(2,338)	(3,313)	(1,792)
<b>Derivative financial liabilities</b>				
Foreign currency contracts				
Payables	(1,309)	(1,308)	(1)	-
Receivables	1,246	1,245	1	-
Commodity contracts	(1)	(2)	1	-
Interest rate swaps	(83)	(29)	(54)	-
Cross currency swaps				
Payables	(618)	(19)	(326)	(273)
Receivables	551	16	271	264
	(214)	(97)	(108)	(9)
<b>Total financial liabilities</b>	<b>(7,657)</b>	<b>(2,435)</b>	<b>(3,421)</b>	<b>(1,801)</b>

<sup>1</sup> Excludes other taxation and social security

## (iv) Derivative financial instruments

Derivative financial instruments used by the Group include forward exchange contracts, commodity contracts, interest and cross currency swaps. These financial instruments are utilised to hedge significant future transactions and cash flows and in the majority of cases these are subject to hedge accounting under IAS 39. The Group does not hold or issue derivative financial instruments for trading purposes. All transactions in derivative financial instruments are undertaken to manage risks arising from underlying business activities.

The following table sets out the fair values of derivatives held by the Group at the end of the reporting period.

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Non-current</b>				
Commodity contracts	-	-	3	(1)
Interest rate swaps	-	(70)	-	(86)
Cross currency swaps	13	(53)	19	(73)
	13	(123)	22	(160)
<b>Current</b>				
Foreign currency contracts	16	(9)	267	(93)
Commodity contracts	9	(12)	12	(12)
	25	(21)	279	(105)
	38	(144)	301	(265)

The fair value of derivative financial instruments that were designated as cash flow hedges at the end of the reporting period were:

	2010 £m	2009 £m
Foreign currency contracts	12	122
Commodity contracts	7	(4)
Interest rate swaps	(70)	(86)
Cash flow hedge reserve	(51)	32
Deferred taxation	13	14
Cash flow hedge reserve net of taxation	(38)	46

## 21. Financial instruments and risk management continued

Amounts recognised in the cash flow hedge reserve, excluding deferred tax, are expected to affect profit and loss as follows

	2010 £m	2009 £m
Within one year	19	117
Greater than one year	(70)	(85)
	(51)	32

	2010 £m	2009 £m
The following amounts have been charged/(credited) to the cash flow hedge reserve during the period		
Foreign currency contracts	55	202
Commodity contracts	(27)	109
Interest rate swaps	(12)	(92)

	2010 £m	2009 £m
The following amounts have been (credited)/charged to the income statement and inventories from the cash flow hedge reserve during the period		
Foreign currency contracts	(56)	87
Commodity contracts	(16)	48

At the end of the reporting period the total notional amount of outstanding foreign currency and commodity contracts and cross currency and interest rate swaps that the Group has committed to are as follows

	2010 £m	2009 £m
Foreign currency contracts	1,495	3,592
Commodity futures and options	121	389
Interest rate swaps	1,824	1,904
Cross currency swaps	432	447

The Group covers substantially 100% of its contracted currency transaction exposure over an approximate 6 month time horizon by way of forward currency exchange contracts and options

Ineffectiveness on cash flow hedges recognised in profit and loss was a charge of £nil in 2010 (2009 £nil). During 2009 £170m of foreign exchange gains were recycled to the income statement from equity due to the fact that the underlying forecast transactions were no longer expected to occur. No amounts have been recycled in the current year. An amount of £14m (2009 £18m) has been recognised in the income statement in relation to cross currency swaps. This amount is equal and opposite to the foreign currency movement on the sterling and US dollar denominated debt within TSNL.

## 22. Provisions for liabilities and charges

	Rationalisation costs £m	Insurance £m	Employee benefits £m	Other £m	Total 2010 £m	Total 2009 £m
At beginning of period	179	38	36	97	350	172
Charged to income statement	214	20	5	29	268	207
Released to income statement	(42)	-	(1)	(17)	(60)	(4)
Disposal of group undertakings	-	-	-	-	-	(7)
Utilised in period	(148)	(3)	-	(18)	(169)	(35)
Exchange rate movements	-	(1)	-	(2)	(3)	17
At end of period	203	54	40	89	386	350
Analysed as						
Current liabilities	138	1	4	34	177	144
Non-current liabilities	65	53	36	55	209	206

(i) Rationalisation costs include redundancy provisions as follows

	2010 £m	2009 £m
At beginning of period	102	14
Group charge for redundancies (across manufacturing, selling, distribution and administration)	116	92
Released to income statement	(28)	-
Utilised during the period	(110)	(6)
Exchange rate movements	-	2
At end of period	80	102
Other rationalisation provisions arise as follows		
Onerous lease payments relating to unutilised premises	46	50
Environmental and other remediation costs at sites subject to restructuring/closure	13	8
Contract cancellation and mothballing costs in relation to Teesside Cast Products	58	-
Other	6	19
	123	77

Although the precise timing in respect of rationalisation provisions including redundancy is not known, the majority is expected to be incurred within one year

(ii) The insurance provisions relate to Crucible Insurance Company Limited which underwrites marine cargo, employers' liability, public liability and retrospective hearing impairment policies for the Group. These provisions represent losses incurred but not yet reported in respect of risks retained by the Group rather than passed to third party insurers and include amounts in relation to certain disease insurance claims. All are subject to regular review and are adjusted as appropriate, the value of final insurance settlements is uncertain and so is the timing of expenditure.

(iii) Provisions for employee benefits include long term benefits such as long service and sabbatical leave, disability benefits and sick leave. All items are subject to independent actuarial assessments.

(iv) Other provisions include £13m (2009: £13m) for product warranty claims. During the period there were charges to profit and loss of £4m (2009: £5m) and cash settlements of £3m (2009: £3m) against these claims. Additional other provisions also include environmental provisions of £13m (2009: £18m) for continuing operations on disposed units for which the timing of any potential expenditure is uncertain and early retirement provisions of £24m (2009: £21m).

(v) Rationalisation provisions charged in the period include £6m (2009: £44m) in respect of onerous land leases on a discounted basis. These provisions would have amounted to £7m (2009: £61m) if they had been made on an undiscounted basis.

## 23. Deferred tax

The following is the analysis of the deferred tax balances for balance sheet purposes

	2010 £m	2009 £m
Deferred tax assets	190	164
Deferred tax liabilities	(277)	(437)
	(87)	(273)

The following are the major deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the current reporting period

	Accelerated tax depreciation £m	Losses £m	Pension £m	Other £m	Total £m
<b>2010</b>					
At beginning of period	(450)	472	(174)	(121)	(273)
Credited/(charged) to profit and loss	72	(1)	110	(27)	154
Exchange rate movements	15	(4)	-	6	17
(Charged)/credited to equity	-	-	11	4	15
At end of period	(363)	467	(53)	(138)	(87)

	Accelerated tax depreciation £m	Losses £m	Pension £m	Other £m	Total £m
<b>2009</b>					
At beginning of period	(462)	474	(346)	(72)	(406)
Additions relating to acquisitions	-	-	-	18	18
(Charged)/credited to profit and loss	(7)	(18)	100	(20)	55
Exchange rate movements	(12)	16	(5)	(15)	(16)
Credited/(charged) to equity	31	-	77	(32)	76
At end of period	(450)	472	(174)	(121)	(273)

The deferred tax assets of £190m (2009 £164m) are recoverable against future forecast taxable profits that the directors consider to be more likely than not to occur. Deferred tax assets have not been recognised in respect of total tax losses of £1,930m (2009 £1,024m). These losses comprise UK losses of £1,473m (2009 £582m) and non-UK losses of £457m (2009 £442m). The non-UK losses include losses of £303m (2009 £307m) that expire between the years 2010 to 2027.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, joint ventures and associates for which deferred tax liabilities have not been recognised is £2,397m (2009 £3,144m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 24. Deferred income

	Contract advances £m	Development grants £m	Total 2010 £m	Total 2009 £m
At beginning of period	23	43	66	68
New contributions received	-	5	5	12
Releases to profit and loss	-	(5)	(5)	(16)
Exchange rate movements	-	-	-	2
At end of period	23	43	66	66

## 25. Share capital

The share capital of the Company is shown below

	2010 £m	2009 £m
Authorised		
5,000,000,000 (2009 5,000,000,000) ordinary shares of £1 each	5,000	5,000
Allotted, called up and fully paid		
3,514,860,999 (2009 3,514,860,999) ordinary shares of £1 each	3,515	3,515

The Company has one class of ordinary shares which carry no right to fixed income

## 25. Share capital continued

The movements in share capital are set out below

Authorised	Ordinary shares	
	No of shares	£m
<b>2010</b>		
At beginning and end of period	5,000,000,000	5,000

Authorised	Ordinary shares	
	No of shares	£m
<b>2009</b>		
At beginning and end of period	5,000,000,000	5,000

Issued	Ordinary shares	
	No of shares	£m
<b>2010</b>		
At beginning and end of period	3,514,860,999	3,515

Issued	Ordinary shares	
	No of shares	£m
<b>2009</b>		
At beginning of period	3,514,423,996	3,514
New shares issued	437,003	1
At end of period	3,514,860,999	3,515

## 26. Future capital expenditure

	2010 £m	2009 £m
Contracted but not provided for	118	146
Authorised but contracts not yet placed	82	105

At the end of the period there was £11m (2009 nil) of expenditure in relation to intangible assets

## 27. Operating leases

	2010 £m	2009 £m
Future minimum lease payments for the Group at the end of the period are		
Not later than one year	132	138
Later than one year and not later than five	329	315
More than five years	248	113
	<b>709</b>	<b>566</b>

Of the total operating lease payments, £491m relates to the time charter hire of fifteen vessels by the Group's central supplies and transport function. The lease period for these assets ranges from six months to ten years

## 28. Contingencies

	2010 £m	2009 £m
Guarantees given under trade agreements	51	99
Others	92	79

Following the purported termination by the Consortium of the Offtake Framework Agreement, TCP's Redcar blast furnace and Lackenby steelmaking were mothballed during February 2010. Corus UK Limited has submitted the dispute with the Consortium to arbitration and that arbitration process is ongoing, with a series of claims and counter claims made by the parties. There has been no recognition of any outcome of these legal proceedings at 31 March 2010. There are, however, certain balances in relation to the OFA within the 31 March 2010 balance sheet.

Dependent on future events, other current legal proceedings and recent significant contracts may give rise to contingencies and commitments that are not currently reflected in the above figures. There are also contingent liabilities in the ordinary course of business in connection with the completion of contractual arrangements.

**29. Reconciliation of cash generated from operations**

	2010 £m	2009 £m
Loss after taxation	(929)	(466)
Adjustments for		
Taxation	(157)	(77)
Depreciation and amortisation including impairment items (net of grants released)	544	840
Loss on disposals	9	120
Finance income	(16)	(18)
Finance expense	248	291
Share of results of joint ventures and associates	(11)	(17)
Other non cash items	(2)	7
Movement in pension prepayments and provisions	(9)	(31)
Movement in provisions for impairments of trade receivables	7	1
Movement in insurance and other provisions	16	26
Movement in loose plant, tools and spares	(4)	(16)
Movement in inventories	175	240
Movement in receivables	100	469
Movement in payables	180	(526)
Movement in contract advances	-	(4)
Net rationalisation costs provided	172	170
Utilisation of rationalisation provisions	(148)	(26)
Net cash flow generated from operations	175	983

**30. Reconciliation of net cash flow to movement in net debt**

	2010 £m	2009 £m
Movement in cash and cash equivalents	(84)	6
Movement in short term investments	(8)	-
Movement in net debt	(167)	290
Change in net debt resulting from cash flows in period	(259)	296
Exchange rate movements	122	(485)
Fair value of cross currency swaps	12	(10)
Other non cash changes	(41)	(1)
Movement in net debt in period	(166)	(200)
Net debt at beginning of period	(3,755)	(3,555)
Net debt at end of period	(3,921)	(3,755)

**31. Analysis of net debt**

	2009 £m	Cash flow £m	Exchange rate movements £m	Other non-cash movements £m	2010 £m
Cash and short term deposits	392	(75)	(6)	-	311
Bank overdrafts	(11)	(9)	-	-	(20)
<b>Cash and cash equivalents</b>	<b>381</b>	<b>(84)</b>	<b>(6)</b>	<b>-</b>	<b>291</b>
Short term investments	10	(8)	-	-	2
<b>Liquid resources</b>	<b>10</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>2</b>
Long term borrowings	(3,443)	(433)	112	390	(3,374)
Fair value of cross currency swaps	(54)	-	2	12	(40)
Other loans	(524)	248	12	(434)	(698)
Obligations under finance leases	(125)	18	2	3	(102)
<b>Total debt excluding bank overdrafts</b>	<b>(4,146)</b>	<b>(167)</b>	<b>128</b>	<b>(29)</b>	<b>(4,214)</b>
	<b>(3,755)</b>	<b>(259)</b>	<b>122</b>	<b>(29)</b>	<b>(3,921)</b>

## 32. Pensions and post-retirement benefits

### Introduction

The Group operates a number of defined benefit pension and post-retirement schemes throughout the world, covering the majority of employees. Benefits offered by these schemes are largely based on final pay and years of service at retirement. With the exception of plans in Germany, France and certain unfunded arrangements in the UK, the assets of these schemes are held in separately administered funds.

The principal pension schemes of the Group at 31 March 2010 are

- the British Steel Pension Scheme (BSPS), which is the main scheme for historic and present employees based in the UK,
- the Stichting Pensioenfonds Hoogovens (SPH), which is the main scheme for historic and present employees based in the Netherlands, and

In January 2009 the Group announced its intention to close the BSPS to new members, however consultation with employees and their representatives is ongoing. On 6 April 2009 the Corus Engineering Steels Pension Scheme (CESPS) was merged into the British Steel Pension Scheme (BSPS). Under the terms of the merger agreement, the Group will make payments of £10m per annum over a seven year period in order to clear the funding deficit in CESPS and bring both schemes to comparable funding levels, and, in respect of current active CESPS members, will make payment of any early retirement redundancy strains on the BSPS as they arise in respect of CESPS service. Following the merger, CESPS assets and liabilities were transferred in full to BSPS.

The Group accounts for all pension and post-retirement benefit arrangements using IAS 19 'Employee Benefits', as amended to allow actuarial gains and losses to be recognised in retained earnings, with independent actuaries being used to calculate the costs, assets and liabilities to be recognised in relation to these schemes. The present value of the defined benefit obligation, the current service cost and past service costs were calculated by these actuaries using the projected unit credit method. However, the ongoing funding arrangements of each scheme, in place to meet their long term pension liabilities, are governed by the individual scheme documentation and national legislation. The accounting and disclosure requirements of IAS 19 do not affect these funding arrangements.

The Group also participates in a number of defined contribution plans on behalf of relevant personnel. Any expense recognised in relation to these schemes represents the value of contributions payable during the period by the Group at rates specified by the rules of those plans. The only amounts included in the balance sheet are those relating to the prior month's contribution that were not due to be paid until after the end of the reporting period.

### Actuarial assumptions

A range of assumptions must be used to determine the IAS 19 amounts and the values to be included in the balance sheet and income statement can vary significantly with only small changes in these assumptions. Furthermore the actuarial assumptions used may vary according to the country in which the plans are situated.

Key assumptions applied at the end of the reporting period were as follows

2010	BSPS %	SPH %	Other %
Salary growth	4.60	2.50	1.00 to 4.60
Pension increases	3.60	2.00	2.00 to 3.60
Discount rate	5.50	4.60	2.50 to 6.00
Inflation	3.60	2.00	1.00 to 5.80

2009	BSPS %	CESPS %	SPH %	Other %
Salary growth <sup>1</sup>	3.90	3.90	2.50	2.00 to 4.00
Pension increases	2.90	2.80	2.00	1.00 to 3.30
Discount rate	6.40	6.40	6.20	3.90 to 7.00
Inflation	2.90	2.90	2.00	1.00 to 5.80

<sup>1</sup> For BSPS and CESPS a 0% real rate was assumed for 2009/10.

## 32. Pensions and post-retirement benefits continued

Key assumptions applied in arriving at the income statement charge were as follows

2010	BSPS %	SPH %	Other %
Salary growth <sup>1</sup>	3 90	2 50	2 00 to 4 00
Pension increases	2 90	2 00	1 00 to 3 30
Discount rate	6 40	6 20	3 90 to 7 00
Inflation	2 90	2 00	1 00 to 5 80
Expected return on plan assets			
Equities	8 50	8 00	6 00 to 8 70
Bonds	4 70	4 50	3 00 to 6 80
Property	6 60	6 00	6 30 to 7 60
Cash/others	3 40	6 50	2 50 to 4 70

<sup>1</sup> For BSPS and CESPS a 0% real rate was assumed for 2009/10

2009	BSPS %	CESPS %	SPH %	Other %
Salary growth	4 50	4 50	2 50	2 00 to 4 50
Pension increases	3 50	3 40	2 00	1 50 to 3 30
Discount rate	6 60	6 60	6 10	4 40 to 6 60
Inflation	3 50	3 50	2 00	2 00 to 4 25
Expected return on plan assets				
Equities	8 10	8 10	7 50	7 00 to 9 10
Bonds	5 20	5 20	4 50	4 50 to 6 60
Property	6 65	6 65	5 50	6 00 to 6 65
Cash/others	4 85	4 85	7 50	3 50 to 5 75

The discount rate is set with reference to the current rate of return on AA rated corporate bonds of equivalent currency and term to the scheme liabilities. Projected inflation rate and pension increases are long term predictions based, mainly, on the yield gap between long term fixed interest and index-linked gilts. The Group establishes the expected rate of return on plan assets by developing a forward looking, long term return assumption for each asset class, taking into account factors such as the expected real return for the specific asset class, respective yields and market rates at the end of the reporting period. These returns are assumed to be net of investment expenses.

Demographic assumptions are set having regard to the latest trends in life expectancy, plan experience and other relevant data, including externally published actuarial information within each national jurisdiction. The assumptions are reviewed and updated as necessary as part of the periodic actuarial funding valuations of the individual pension and post-retirement plans. In particular the mortality assumptions used at 31 March 2010 for the BSPS are based on the results of an investigation into the BSPS scheme experience up to March 2008. The assumptions adopted are in line with the PNMA00/WA00 table, with appropriate age rating applied and reflect scheme experience. These rates are then projected to reflect future improvements in life expectancy in line with the medium cohort projections. This indicates that today's 65 year old male member is expected to live on average to approximately 84 years of age and a 65 year old member in 15 years time is expected to live on average to 85 years of age. Mortality assumptions for the SPH scheme are based on the Dutch Table AG 2000-2050. Using the 2007-2012 table as a starting point and a one-year age set back indicates that today's 65 year old member is expected to live on average to approximately 84 years of age and a 65 year old member in 15 years time is expected to live on average to approximately 85 years of age.

### Income statement costs

Under IAS 19 costs in relation to pension and post-retirement plans mainly arise as follows

- The current service cost is the actuarially determined present value of the pension benefits earned by employees in the current period. No charge or credit is reflected here for any surplus or deficit in the scheme and so the cost is unrelated to whether, or how, the scheme is funded.
- The expected return on assets is the actuarial forecast of total return (that is, income and gains) on the actual assets in the scheme. This is a long term rate and is set at the beginning of the period.
- The interest cost is the notional interest cost arising from unwinding the discount on the scheme liabilities, based on the discount rate (that is, appropriate bond rate) at the beginning of the period.

These items are treated as a net operating cost in profit and loss within employee remuneration.

Variations from expected costs, arising from the experience of the plans or changes in actuarial assumptions, are recognised immediately in the statement of comprehensive income. Examples of such variations are differences between the estimated return on scheme assets (credited to profit and loss) and the actual return, the remeasurement of scheme liabilities to reflect changes in discount rates, changes in demographic assumptions such as using updated mortality tables, or the effect of more employees leaving service than forecast.

## 32. Pensions and post-retirement benefits continued

Income statement pension costs arose as follows

2010	BSPS £m	CESPS £m	SPH £m	Other £m	Total £m
Current service cost	88	-	38	3	129
Interest cost	544	-	243	11	798
Expected return on plan assets	(536)	-	(219)	(6)	(761)
Settlements, curtailments and past service costs	27	(30)	-	(1)	(4)
Defined benefit schemes	123	(30)	62	7	162
Defined contribution schemes	-	-	-	6	6
Total charge/(credit) for the period	123	(30)	62	13	168

2009	BSPS £m	CESPS £m	SPH £m	Other £m	Total £m
Current service cost	107	-	34	3	144
Interest cost	566	47	232	7	852
Expected return on plan assets	(579)	(52)	(229)	(7)	(867)
Past service costs	3	-	-	1	4
Defined benefit schemes	97	(5)	37	4	133
Defined contribution schemes	-	-	-	7	7
Total charge/(credit) for the period	97	(5)	37	11	140

The total charge for the period above includes credits of £3m (2009 £4m) that are included within net restructuring costs. The actual return on plan assets for the above schemes was a gain of £3,091m (2009 loss of £1,163m)

### Balance sheet measurement

In determining the amounts to be recognised in the balance sheet the following approach has been adopted

- Pension scheme assets are measured at fair value (for example for quoted securities this is the bid-market value on the relevant public exchange)
- Pension liabilities include future benefits that will be paid to pensioners and deferred pensioners, and accrued benefits which will be paid in the future for members in service taking into account projected earnings. As noted above, the pension liabilities are discounted with reference to the current rate of return on AA rated corporate bonds of equivalent currency and term to the pension liability

Amounts recognised in the balance sheet arose as follows

2010	BSPS £m	SPH £m	Other £m	Total £m
Fair value of plan assets at end of period	10,968	4,919	93	15,980
Present value of obligation at end of period	(10,740)	(4,888)	(208)	(15,836)
Defined benefit asset/(liability) at end of period	228	31	(115)	144
Disclosed as				
Defined benefit asset	228	31	1	260
Defined benefit liability – current	-	-	(2)	(2)
Defined benefit liability – non-current	-	-	(114)	(114)
Arising from				
Funded schemes	228	31	(37)	222
Unfunded schemes	-	-	(78)	(78)

2009	BSPS £m	CESPS £m	SPH £m	Other £m	Total £m
Fair value of plan assets at end of period	8,763	665	4,239	86	13,753
Present value of obligation at end of period	(8,084)	(695)	(4,164)	(195)	(13,138)
Defined benefit asset/(liability) at end of period	679	(30)	75	(109)	615
Disclosed as					
Defined benefit asset	679	-	75	2	756
Defined benefit liability – current	-	-	-	(2)	(2)
Defined benefit liability – non-current	-	(30)	-	(109)	(139)
Arising from					
Funded schemes	679	(30)	75	(37)	687
Unfunded schemes	-	-	-	(72)	(72)

Included within other programmes above are post-retirement medical and similar net obligations of £8m (2009 £9m)

## 32. Pensions and post-retirement benefits continued

The percentage of total plan assets for each category of investment was as follows

2010	BSPS %	SPH %	Other %
Equities	28	23	65
Bonds	64	60	19
Property	5	8	5
Cash/others	3	9	11
	100	100	100

2009	BSPS %	CESPS %	SPH %	Other %
Equities	25	40	17	54
Bonds	68	55	63	26
Property	5	3	10	10
Cash/others	2	2	10	10
	100	100	100	100

Movements in the plan assets and benefit obligations during the period arose as follows

2010	BSPS £m	CESPS £m	SPH £m	Other £m	Total £m
Plan assets					
Fair value at start of period	8,763	665	4,239	86	13,753
Expected return on plan assets	536	-	219	6	761
Employer contributions	106	-	60	3	169
Employee contributions	41	-	29	-	70
Benefits paid	(683)	-	(227)	(8)	(918)
Settlements	665	(665)	-	(8)	(8)
Actuarial gain on plan assets	1,540	-	775	15	2,330
Exchange rate movements	-	-	(176)	(1)	(177)
Fair value at end of period	10,968	-	4,919	93	15,980
Benefit obligations					
Benefit obligations at start of period	8,084	695	4,164	195	13,138
Current service cost	88	-	38	3	129
Interest cost	544	-	243	11	798
Settlements, curtailments and past service costs	692	(695)	-	(9)	(12)
Employee contributions	41	-	29	-	70
Benefits paid	(683)	-	(227)	(8)	(918)
Actuarial loss on benefit obligation	1,974	-	814	24	2,812
Exchange rate movements	-	-	(173)	(8)	(181)
Benefit obligations at end of period	10,740	-	4,888	208	15,836

### 32. Pensions and post-retirement benefits continued

2009	BSPS £m	CESPS £m	SPH £m	Other £m	Total £m
Plan assets					
Fair value at start of period	9,821	819	4,029	93	14,762
Expected return on plan assets	579	52	229	7	867
Employer contributions	104	5	50	5	164
Employee contributions	48	-	29	-	77
Benefits paid	(501)	(37)	(200)	(9)	(747)
Actuarial loss on plan assets	(1,288)	(174)	(541)	(27)	(2,030)
Exchange rate movements	-	-	643	17	660
Fair value at end of period	8,763	665	4,239	86	13,753
Benefit obligations					
Benefit obligations at start of period	8,819	738	3,693	178	13,428
Current service cost	107	-	34	3	144
Interest cost	566	47	232	7	852
Settlements, curtailments and past service costs	3	-	-	1	4
Employee contributions	48	-	29	-	77
Disposal of group undertakings	-	-	-	(19)	(19)
Benefits paid	(501)	(37)	(200)	(9)	(747)
Actuarial (gain)/loss on benefit obligation	(958)	(53)	(244)	2	(1,253)
Exchange rate movements	-	-	620	32	652
Benefit obligations at end of period	8,084	695	4,164	195	13,138

The estimated employer contributions to the BSPS and to the SPH scheme for 2011 are £87m and €68m respectively. The employer contributions for 2011 in relation to other schemes are forecast to be consistent with 2010 levels.

The history of plan assets, benefit obligations and actuarial gains or losses is as follows:

	2010	2009	2008
Fair value of plan assets at end of period (£m)	15,980	13,753	14,762
Experience adjustments on plan assets			
Amount (£m)	2,330	(2,030)	(28)
Percentage of plan assets (%)	15	15	1
Present value of benefit obligations at end of period (£m)	15,836	13,138	13,428
Actuarial adjustments on benefit obligations			
Changes in assumptions (£m)	(2,950)	979	856
Experience gains/(losses) (£m)	138	274	(113)
Total actuarial (loss)/gain on benefit obligations (£m)	(2,812)	1,253	743
Experience gains/(losses) as a percentage of benefit obligations (%)	1	2	(1)

Actuarial losses recorded in the statement of comprehensive income for the period are £482m (2009: £777m), taking the cumulative amount to £544m (2009: £62m).

### 33. Acquisitions

On 12 May 2009, TSE completed the purchase of a 12% shareholding of Corus Yasan Metal Sanayi ve Ticaret AS for a consideration of US\$ 3m. Corus Yasan Metal Sanayi ve Ticaret AS is now a 100% subsidiary of TSE with 25.5% being purchased in July 2008.

	2010 £m	2009 £m
Acquisition of minority share of net assets	-	2
Goodwill arising on the transaction (Note 7)	2	2
Total consideration paid	2	4

### 34. Related party transactions

The table below sets out details of transactions which occurred in the normal course of business at market rates and terms, and loans between the Group, its parent and its joint ventures and associates. Loans owed to parent undertakings carry interest on rates between 0.6% and 5.87% (2009: 0.1%) per annum charged on the outstanding loan balance.

	2010 £m	2009 £m
Sales to joint ventures	19	30
Sales to associates	64	81
Sales to other group companies	130	105
Purchases from joint ventures	26	21
Purchases from associates	19	35
Purchases from other group companies	30	60
Recharges to parent undertakings	-	31
Amounts owed by other group companies	16	4
Amounts owed by parent undertakings	3	5
Amounts owed by joint ventures	22	15
Amounts owed by associates	5	7
Amounts owed to other group companies	5	6
Amounts owed to parent undertakings	1	-
Amounts owed to joint ventures	6	2
Amounts owed to associates	4	4
Interest on loans from parent undertakings	33	13
Interest payable to parent undertakings	3	14
Loans owed to parent undertakings	778	250

Aggregate compensation for key management personnel, being the Board of directors and other Executive committee members of TSE was as follows:

	2010 £m	2009 £m
Short term employee benefits	5	8
Post-employment benefits	1	1
Other long term benefits	-	3
Termination benefits	2	-
	8	12

### 35. Post balance sheet events

As noted on page 10, subsequent to the year end the securitisation programme was increased on 4 June 2010 from £150m to £250m.

### 36. Ultimate and immediate parent company

Tata Steel Global Holdings Pte. Limited is the company's immediate parent Company, which is incorporated and registered in Singapore.

TSL, a company incorporated in India, is the ultimate parent Company and controlling party.

Copies of the Report & Accounts for TSL may be obtained from its registered office at Bombay House, 24 Hornby Road, Mumbai, 400 001.

### 37. Main subsidiaries and investments

The most important subsidiary undertakings, joint ventures and associates of the Group at 31 March 2010 are set out below. A complete list of subsidiary undertakings, joint ventures and associates will be attached to the Annual Return to the Registrar of Companies. Country names are countries of incorporation. Undertakings operate principally in their country of incorporation except where otherwise stated.

#### Subsidiary undertakings

##### *Steel producing, further processing or related activities*

##### *England and Wales*

Corus Group Limited  
Corus UK Limited  
Corus International (Overseas Holdings) Ltd  
Tata Steel UK Limited  
Tulip UK Holdings (No 2) Limited (a)  
Tulip UK Holdings (No 3) Limited

##### *Belgium*

Corus International Services NV  
Corus Packaging Plus Belgium NV

##### *Brazil*

Corus International Representações Do Brasil LTDA

##### *Bulgaria*

Corus Building Systems Bulgaria AD

##### *Canada*

Cogent Power Inc Canada

##### *China*

Kalzip (Guangzhou) Limited

##### *Czech Republic*

Corus Central Europe sro

##### *Denmark*

Corus Byggesystemer AS

##### *Finland*

Corus Finland Oy

##### *France*

Corus Bâtiment et Systèmes SA  
Corus France SA  
Corus Holdings SA  
Myriad SA  
Corus Rail France SA  
Unitol SA  
Sakra Nord SA

##### *Germany*

Blume Stahlservice GmbH  
Corus Stahl GmbH  
S A B Profil GmbH  
Kalzip GmbH

##### *Ireland (Republic of)*

The Steel Company of Ireland Limited

##### *India*

Corus International (India) Private Ltd

##### *Italy*

Corus Italia Srl

##### *Netherlands*

Corus Nederland BV  
Corus Services Nederland BV  
Corus Staal BV  
Corus Investment BV  
BS International BV  
British Steel Benelux BV  
BS Holdings BV  
BS Nederland International BV  
Tata Steel Netherlands BV  
Tulip Netherlands (No 1) BV  
Tulip Netherlands (No 2) BV  
S A B Profiel BV

##### *New Zealand*

Corus New Zealand Limited

##### *Norway*

Corus Norge AS

##### *Poland*

Corus Polska Sp z o o

##### *Singapore*

Kalzip Asia Pte Ltd

##### *Spain*

Corus Laminación y Derivados SL

##### *Sweden*

Surahammar Bruks AB  
Corus Byggsystem AB

##### *Switzerland*

Montana-Bausysteme AG

##### *Turkey*

Corus Metal Sanayi ve Ticaret AS

##### *United Arab Emirates*

Corus Middle East FZE

##### *United States of America*

Tata Steel International (Americas) Holding Inc (formerly Corus America Holdings Inc)  
Tata Steel International (Americas) Inc (formerly Corus America Inc)  
Hoogovens USA Inc

##### **Insurance underwriting for certain risks of the Group**

##### *Isle of Man*

Crucible Insurance Company Limited

##### **Other undertakings**

##### *England and Wales*

UK Steel Enterprise Limited

### 37. Main subsidiaries and investments continued

Unless indicated otherwise, subsidiary undertakings are wholly owned within the Group, and the Group holding comprises ordinary shares and 100% of the voting rights

(a) The Company only owns shares directly in Tulip UK Holdings (No 2) Limited (100%) All other undertakings are owned by other subsidiaries of the Company

#### Joint ventures and associates

	Products	Annual sales £m		Issued capital Number of shares	% held
<i>England and Wales</i>					
Caparo Merchant Bar plc	Light sections	82	ordinary shares of £1	2,466,667	25
<i>Greece</i>					
Corus Kalpinos Simos SA	Importing, processing and trading of steel and panels/profiles manufacture	19	shares of €29	233,500	50
<i>Netherlands</i>					
HKS Scrap Metals BV	Purchase and sale of scrap	214	shares of €454	40,000	50
Laura Metaal Holding BV	Trading and processing of non-prime metal	84	shares of €454	5,600	49
Danieli Corus Technical Services BV	Supply of engineering, proprietary equipment contracting in the metals industry	57	shares of €355	41,750	50
<i>Norway</i>					
Norsk Stål AS	Stockholders and processing of strip and long products	169	shares of NOK1,000	63,500	50
Norsk Stål Tynnplater AS		39	shares of NOK1,000	26,500	50

## **Statement of directors' responsibilities on the parent company's financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# **Independent auditors' report to the members of Tata Steel Europe Limited**

We have audited the parent company financial statements of Tata Steel Europe Limited for the year ended 31 March 2010 which comprise the Parent Company Balance Sheet, the presentation of accounts and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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.

## **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

## **Opinion on financial statements**

In our opinion the parent company financial statements

- give a true and fair view of the state of the parent company's affairs as at 31 March 2010 and of its result for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

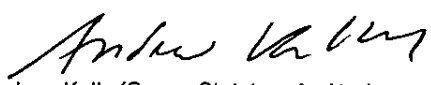
## **Matters on which we are required to report by exception**

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

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

## **Other matter**

We have reported separately on the group financial statements of Tata Steel Europe Limited for the year ended 31 March 2010.

  
Andrew Kelly (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom  
23 June 2010

## Parent company balance sheet

As at 31 March	Note	2010 £m	2009 £m
<b>Fixed assets</b>			
Investments in subsidiary and fellow group undertakings	2	3,503	3,503
		<b>3,503</b>	<b>3,503</b>
<b>Current assets</b>			
Debtors amounts falling due within one year	3	4	1
<b>Current liabilities</b>			
Creditors amounts falling due within one year	4	(28)	(14)
<b>Net current liabilities</b>		<b>(24)</b>	<b>(13)</b>
<b>Total assets less current liabilities</b>		<b>3,479</b>	<b>3,490</b>
<b>Net assets</b>		<b>3,479</b>	<b>3,490</b>
<b>Capital and reserves</b>			
Called up share capital	5	3,515	3,515
Profit and loss account	6	(36)	(25)
		<b>3,479</b>	<b>3,490</b>

Approved by the Board and signed on its behalf by

F P Royle  
23 June 2010



Notes and related statements forming part of these accounts appear on pages 71 to 73

## **Presentation of parent company accounts and accounting policies**

### **I Basis of preparation of parent company accounts**

The separate accounts for the parent company Tata Steel Europe Limited ('TSE'), are presented on pages 68 to 73. They have been prepared under the historical cost convention in accordance with the Companies Act 2006, the accounting policies set out below, and following applicable accounting standards in the UK. These pages only show the individual accounts of the Company itself. All accounting policies have been applied consistently.

### **II Use of estimates**

The preparation of accounts in line with generally accepted accounting principles 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.

Actual results could differ from those estimates. The most significant techniques for estimation are described in the accounting policies below.

### **III Taxation**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. In contrast, deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Liabilities are not recognised for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Both current and deferred tax items are calculated using the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. This means using tax rates that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **IV Financial instruments**

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The detailed accounting treatment for such items can differ, as described in the following sections:

#### **(a) Investments**

Investments are stated at cost. Provisions are made for any permanent diminution in value. Income from investments comprises dividends declared up to the balance sheet date and, where relevant, before deductions of withholding tax.

#### **(b) Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the individual contractual arrangements.

### **V Statement of cash flows and related party transactions**

The Company has taken advantage of the exemption available to it under FRS 1 'Statement of cash flows' not to prepare a statement of cash flows. The exemptions afforded by FRS 8 'Related Party Disclosures' paragraphs 3(a) and (c) have also been taken in disclosing related party transactions.

## Notes to the parent company accounts

### 1. Result of the Company

The Company recorded a loss of £11m (2009 £14m) and has taken advantage of the exemption under section 408 of the Companies Act 2006 allowing it not to present its own profit and loss account

### 2. Fixed asset investments

	2010 Shares in subsidiary undertakings £m	2009 Shares in subsidiary undertakings £m
Cost and net book value at beginning and end of period	3,503	3,503

The Company's main subsidiaries and investments are listed in Note 37 of the consolidated accounts, on pages 66 and 67

### 3. Debtors: amounts falling due within one year

	2010 £m	2009 £m
Amounts owed by subsidiary undertakings	4	1

### 4. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Amounts owed to group undertakings	28	14

### 5. Share capital

Authorised	2010 £m	2009 £m
5,000,000,000 (2009 5,000,000,000) ordinary shares of £1 each	5,000	5,000

Allotted, called up and fully paid	2010 £m	2009 £m
3,514,860,999 (2009 3,514,860,999) ordinary shares of £1 each	3,515	3,515

The movements in share capital are set out below

Authorised 2010	Ordinary shares	
	No. of shares	£m
At beginning and end of period	5,000,000,000	5,000

Authorised 2009	Ordinary shares	
	No. of shares	£m
At beginning and end of period	5,000,000,000	5,000

**5. Share capital continued**

Issued	Ordinary shares	
	No. of shares	£m
<b>2010</b>		
At beginning and end of period	3,514,860,999	<b>3,515</b>

Issued	Ordinary shares	
	No. of shares	£m
<b>2009</b>		
At beginning of period	3,514,423,996	3,514
New shares issued	437,003	1
At end of period	3,514,860,999	<b>3,515</b>

**6. Reconciliation of movements in share capital and reserves**

	Share capital £m	Profit and loss reserves £m	Total £m
<b>2010</b>			
At beginning of period	3,515	(25)	<b>3,490</b>
Loss retained	-	(11)	<b>(11)</b>
At end of period	3,515	(36)	<b>3,479</b>

	Share capital £m	Profit and loss reserves £m	Total £m
<b>2009</b>			
At beginning of period	3,514	(11)	3,503
Loss retained	-	(14)	(14)
New shares issued	1	-	1
At end of period	3,515	(25)	<b>3,490</b>



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