

**TATA STEEL**

A black and white photograph of a cable-stayed bridge, viewed from a low angle looking up at the structure. The bridge's deck is in the foreground, showing rivets and structural details. Several tall, white pylons support the bridge with numerous stay cables. The sky is a uniform grey.

Tata Steel UK Holdings  
Limited  
Report & Accounts 2016

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## A1. Group's business

### Introduction

The directors have pleasure in presenting their strategic report together with the audited accounts of Tata Steel UK Holdings Limited ('TSUKH' or the 'Company'), and TSUKH and its subsidiary companies (the 'Group'), for the year ended 31 March 2016.

### Ownership

The ultimate UK parent company of TSUKH is Tata Steel Europe ('TSE'), which is a wholly-owned subsidiary of Tata Steel Global Holdings Pte. Limited, an unlisted company based in Singapore. The ultimate parent company is Tata Steel Limited ('TSL'), which is a company incorporated in India with shares listed on BSE Limited (formerly the Bombay Stock Exchange Limited), Mumbai and the National Stock Exchange of India, and with global depository receipts listed on the London and the Luxembourg Stock Exchanges.

### Principal activities

The principal activities of the Group in 2015/16 comprised the manufacture and sale of steel products throughout the world. The Group produces carbon steel by the basic oxygen steelmaking method at two integrated steelworks in the UK at Port Talbot and Scunthorpe, and at one in the Netherlands at IJmuiden. Strip products are manufactured at Port Talbot and IJmuiden, and long products are manufactured at Scunthorpe. Speciality steel and bar products are produced in the UK at Rotherham using the electric arc furnace method. These plants produced a total of 14.5mt of steel products in the current year (2014/15: 15.2mt).

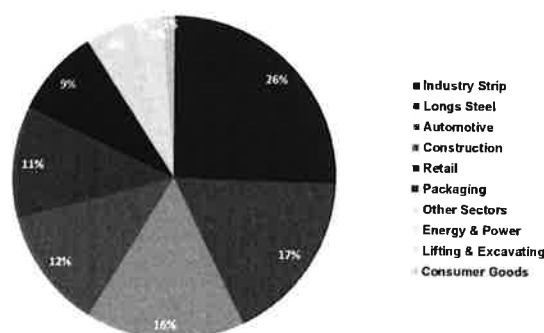
On 5 August 2015 discussions regarding the disposal of TSE's Long Products Europe business to Klesch & Co. were discontinued but were re-opened on 22 December 2015 with Greybull Capital LLP ('Greybull'). This culminated in TSE announcing on 11 April 2016 the signing of an agreement to sell, subject to completion of a number of outstanding conditions, its Long Products Europe business to Greybull. The disposal completed on 31 May 2016. On 29 March 2016 the TSL Board announced that it had advised the TSE Board to explore all options for a portfolio restructuring of its European business including the potential divestment of its subsidiary Tata Steel UK Limited ('TSUK'), in whole or in parts. Discussions are ongoing to evaluate and implement the most feasible option in a time bound manner. If these disposals proceed the Group's principal activities will, in future, be focused on the manufacture and sale of just strip products from IJmuiden.

The Group currently organises its commercial activities into strategic sectors and these sector teams identify demand, which is met from a single, pan-European, supply chain function. The supply chain function allocates demand across the European manufacturing asset base and distribution channels.

The Group has sales offices, stockholders, service centres and joint venture or associate arrangements in a number of markets for the distribution and further processing of steel products. These are supported by various agency agreements. The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the financial year are listed in Note 36 to the financial statements.

In the current year, approximately 77% (2014/15: 75%) of the Group's steel production was rolled into hot rolled coil. Most of the remainder was further processed into sections, plates, speciality steels or wire rod, or sold in semi-finished form. Approximately 23% (2014/15: 25%) of hot rolled coil was sold without further processing, approximately 70% (2014/15: 65%) 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 user markets for the Group's steel products are industry strip, long products, construction, automotive, retail and packaging. A full list of all sectors is shown in the chart below.



Market sector breakdown (% sales volume)

Further information on TSUKH can be obtained from either TSE's website ([www.tatasteeleurope.com](http://www.tatasteeleurope.com)) and/or the TSL 2015/16 Annual Report & Accounts which may be obtained from its registered office at Bombay House, 24 Homi Mody Street, Mumbai, 400 001.

## A2. Principal risks and uncertainties

In addition to the proposed restructuring or sale of TSUK disclosed on page 17 of the Strategic Report and on page 28 of the Financial Statements, the principal risks and uncertainties affecting the Group are as follows:

Risks	Mitigating factors
<b>Health, safety, environmental and other compliance matters</b>	
<p>The Group's businesses are subject to numerous laws, regulations and contractual commitments relating to health, safety, the environment and regulatory compliance in the countries in which it operates. The risk of substantial costs, liabilities and damage to reputation related to these laws and regulations is an inherent part of the Group's business.</p> <p>EU environmental regulations and UK energy costs continue to absorb additional resources when compared to competitors. In addition TSE must contend with competitors and end users importing steel into the EU that has not been subject to the same legislation.</p>	<p>The Group has policies, systems and procedures in place aimed at ensuring substantial compliance and there is a strong commitment from the TSE Board and Executive Committee to enforce compliance, to continuously improve safety performance and to minimise the impact of the Group's operations on the environment.</p> <p>TSE has a number of ongoing projects to deliver compliance with EU Regulations (for example REACH and the Emissions Trading Scheme) and the Group continues to engage with EU legislators to secure a level playing field.</p> <p>The disparities in legislation across steel producers reinforce the continued need to build brand reputation, loyalty and the promotion of steel's qualities for transition to loyalty and product differentiation.</p>
<b>Our workforce</b>	
<p>The economic climate, the global steel market and the changes and uncertainty for TSUKH continues to put pressure on industrial relations and the recruitment and retention of key talent and their critical skills across all levels of the Group.</p>	<p>The long term success and competitiveness of steel making in the EU requires the ongoing partnership with trade bodies and continuance of beneficial industrial relations in the face of future uncertainties. Strong succession planning must be implemented to ensure continuity in the management of the complex challenges facing TSUKH.</p>
<b>The supply chain</b>	
<p>Following the instruction to the TSE board to explore options to divest TSUK, customers are seeking to ensure a continuity of supply. If this period of uncertainty continues and is exaggerated by negative media coverage it will be reflected in TSE's order book.</p> <p>The challenging economic environment is also impacting on TSE suppliers and customers, and the credit insurance market is also reducing its exposure to the European steel industry.</p>	<p>Efforts will continue to ensure continuity of supply and seek out opportunities to find best value. These activities will continue alongside dialogue with our customers to provide reassurance.</p> <p>The same level of scrutiny TSUKH finds itself under must also apply to its suppliers and customers to ensure management of supply and liabilities with careful financial monitoring.</p>

## A2. Principal risks and uncertainties

<b>Financing</b>	
<p>TSUKH is financed in part through external bank facilities referred to as the senior facility agreement ('SFA'). The SFA facility is provided by a syndicate of international banks, and provides flexibility to fund future capital expenditure schemes. Servicing of interest payments in challenging trading conditions continues to represent a risk to the business.</p> <p>A significant amount of funding has also been provided to TSUKH from TSL Group companies.</p>	<p>In order to effectively manage this risk, the forecast requirements of the Group continue to be closely monitored and 'downside' sensitivities are undertaken regularly to ensure the adequacy of facilities.</p>
<b>General economic conditions</b>	
<p>The Group's financial performance is influenced by the economic climate in Europe and by changes in the global steel market. A key driver for Tata Steel continues to be improving EBITDA, overall performance and profitability. This will continue to be a significant challenge with overcapacity and competitors flooding markets with products at below cost price and unfavourable exchange rates.</p>	<p>Downturns in economic activity are normally mitigated by an acceleration of commercial and operational improvement initiatives, delivery of significant fixed cost savings and, if deemed necessary, further rationalisations to operations.</p>
<b>Long-term competitiveness</b>	
<p>The Group's manufacturing facilities are largely in Europe, which is a relatively high cost area and where demand growth for steel products is lower than in developing parts of the world.</p>	<p>In order to maintain its ability to successfully compete in the long term the Group is undertaking a number of initiatives, including cost reduction measures and business specific improvement plans.</p> <p>TSUK, a subsidiary of TSUKH has completed the sale of its Long Products Europe business to Greybull and has also asked the TSE Board to explore opportunities to divest UK operations in order to improve long term competitiveness.</p>
<b>Impact of China and other exporters</b>	
<p>China, which is the dominant force in world steel production, is the world's largest exporter of steel. This brings the risk that it may impact the markets into which TSUKH sells, resulting in loss of market share or a further reduction in steel prices. This risk applies not only to Chinese exports, but also to exports from other countries such as Ukraine, Turkey and Russia.</p> <p>The result of China's and others destocking has seen protectionist activities, in particular the raising of tariffs in US markets, placing further barriers to TSUKH's competitiveness.</p>	<p>The Group monitors import activity closely and, where unfair trading behaviour is evident, and where under the Group's control, seeks appropriate action from the European Commission and other authorities against relevant suppliers.</p>

## A2. Principal risks and uncertainties

### Performance and operations

The Group can be adversely affected by the cyclical nature of the steel industry, general economic conditions, and increased competition from steel producers within the EU and around the world.

Whilst the Group seeks to differentiate its products and to manage down the level of its 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, implementing best practices in asset management, enhancing technical knowledge and skills, improving process safety, targeted capital expenditure and focused risk management.

### Pensions

The Group provides retirement benefits for substantially all of its employees, including defined benefit plans and the market value of existing pension assets and liabilities is significantly greater than the net assets of the Group. 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 calculation of liabilities is also highly influenced by the Trustees' assessment of the employer covenant. Given the announcement on the intention to divest TSUK, there is a risk that the Trustees/Regulator may reopen the valuation.

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.

Last year both the company and trade unions jointly agreed a new package that addressed the projected pension deficit. The changes saw fair and balanced modifications to existing scheme arrangements and continued to provide employees with a high-quality pension.

On 26 May 2016 the UK Government issued a public consultation paper outlining possible regulatory support to facilitate potential changes to the British Steel Pension Scheme ('BSPS'). This forms part of a wider package of UK Government support to assist the UK steel industry and follows intense discussions between TSE, the UK Government, the BSPS trustees and regulators to find the best option for members of the scheme. TSE will consider its position once the consultation process has been concluded and the UK Government has announced the actions it will take or has taken.

## A2. Principal risks and uncertainties

<b>Exchange rates</b>	
<p>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 purchases are denominated mainly in US dollars. As a result, the Group is impacted by the relationship between sterling, the euro and the US dollar. In general, a strengthening of sterling reduces the sterling value of export revenues from the UK, it improves the relative competitiveness of steel producers in countries with weaker currencies enabling them to discount prices in the UK market, and it exposes customers to similar pressures leading to a reduction in demand for steel in the UK. In contrast, a strengthening of sterling reduces the sterling cost of the Group's raw materials, which are purchased predominantly in US dollars.</p> <p>Any exchange rate hedging policy faces additional challenges this year with the uncertainty of the outcome of the UK referendum on EU membership and future trading agreements.</p>	<p>The Group operates a hedging policy to minimise the volatility of rapid and significant movements in these exchange rates. The Group is also actively diversifying its geographic customer base which helps mitigate dependence on particular currency zones.</p>
<b>Raw materials and energy</b>	
<p>The Group has limited access to captive iron ore and coal supplies, therefore access to and pricing of raw materials supplies depend, to a large extent, on worldwide supply and demand relationships, notably iron ore, metallurgical coal and scrap.</p>	<p>The Group maintains operations through strong supplier relationships and flexible sourcing. The Group continues to closely monitor market conditions and seeks to put in place contractual arrangements to ensure security of critical supplies.</p> <p>The Group is working with suppliers to agree competitive prices and has agreed a range of pricing bases, whilst adjusting its commercial portfolio to maximise opportunities presented by moves to shorter term pricing.</p> <p>Exposure to energy shortages and price increases are mitigated by accelerating the implementation of self-generation of electricity and by initiatives to improve the Group's energy efficiency which include capital expenditure.</p>
<b>UK referendum on European Union membership</b>	
<p>On 23 June 2016 the British public voted in a referendum for the UK to leave the European Union. The political and economic impact of this decision is uncertain and may represent a risk but also opportunity to TSE's business.</p>	<p>TSE is currently assessing the impact of the decision on its business.</p>

### A3. Key Performance Indicators (KPIs)

KPI	Rationale	Comments
<p><b>Safety:</b></p> <p>LTIF</p> <p>Recordables</p> <p>1.2 0.8 0.4 0.0</p> <p>5.0 4.5 4.0 3.5 3.0 2.5 2.0</p> <p>FY 13 FY 14 FY 15 FY 16</p> <p>■ LTIF — Recordables</p>	<ul style="list-style-type: none"> <li>The Group measures Lost time injury frequency ('LTIF') to provide a basis of comparison with industry peers. The frequency rate (as with 'recordables') is reported per million employee and contractor hours worked as a rolling twelve-month average.</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>	<ul style="list-style-type: none"> <li>The combined contractor and employee LTIF rate increased to 0.99 in 2015/16 (2014/15: 0.76) due to an increase in contractor injuries.</li> <li>Recordables decreased from 4.24 in 2014/15 to 4.07 in 2015/16 due to reductions to the number of contractor and employee incidents.</li> </ul>
<p><b>EBITDA &amp; EBITDA Margin:</b></p> <p>£m</p> <p>%</p> <p>750 600 450 300 150 0</p> <p>9.0% 6.0% 3.0% 0.0%</p> <p>FY 13 FY 14 FY 15 FY 16</p> <p>■ EBITDA — EBITDA%</p>	<ul style="list-style-type: none"> <li>This shows earnings from continuing operations (before restructuring &amp; impairment credits/costs, profit/loss on disposals, interest, tax, depreciation and amortisation) as a percentage of Group revenue.</li> <li>It measures how efficiently revenue is converted into EBITDA.</li> </ul>	<ul style="list-style-type: none"> <li>9% for 2015/16 (EBITDA: £630m), which increased from 4% in 2014/15 (EBITDA: £292m).</li> <li>2015/16 EBITDA included one-off pension credits of £954m (see page 14). Excluding these credits the EBITDA margin in 2015/16 deteriorated to -5% due mainly to lower steel margins and lower production volume.</li> </ul>
<p><b>Working capital/turnover:</b></p> <p>20% 18% 16% 14% 12% 10% 8% 6% 4% 2% 0%</p> <p>FY 13 FY 14 FY 15 FY 16</p>	<ul style="list-style-type: none"> <li>This shows year-end working capital as a percentage of the annualised quarter 4 revenue for each relevant year.</li> <li>It measures how efficiently the Group manages its raw material, steel and other inventories, and payment terms and cashflow with suppliers and customers.</li> <li>It excludes the impact of arrangements with TSL group companies (see Note 33).</li> </ul>	<ul style="list-style-type: none"> <li>10% for 2015/16 (2014/15: 16%).</li> <li>Decrease due mainly to lower inventories which reduced by £368m compared to the previous year due to lower prices and quantity.</li> </ul>
<p><b>Net Debt:</b></p> <p>£bn</p> <p>6.00 5.00 4.00 3.00 2.00</p> <p>FY 13 FY 14 FY 15 FY 16</p>	<ul style="list-style-type: none"> <li>This shows total debt less cash and cash equivalents, and short term investments.</li> <li>It reflects the Group's overall funding position.</li> </ul>	<ul style="list-style-type: none"> <li>£4,920m at the end of 2015/16 (2014/15: £3,729m).</li> <li>Increase in net debt is primarily due to net cash outflows used in both operating and investing activities.</li> <li>The arrangements with Tata Steel Global Procurement Co. Pte Limited ('Proco') (see Note 33) continued to favourably impact net debt levels.</li> </ul>



### A3. Key Performance Indicators (KPIs)

KPI	Rationale	Comments										
<p><b>Volume Performance:</b> mt</p> <table border="1"> <caption>Volume Performance (mt)</caption> <thead> <tr> <th>Fiscal Year</th> <th>Volume (mt)</th> </tr> </thead> <tbody> <tr> <td>FY 13</td> <td>13.5</td> </tr> <tr> <td>FY 14</td> <td>15.2</td> </tr> <tr> <td>FY 15</td> <td>15.0</td> </tr> <tr> <td>FY 16</td> <td>14.5</td> </tr> </tbody> </table>	Fiscal Year	Volume (mt)	FY 13	13.5	FY 14	15.2	FY 15	15.0	FY 16	14.5	<ul style="list-style-type: none"> <li>Liquid steel production. This reflects the level of physical activity and is a key indicator of the manufacturing performance of upstream assets.</li> <li>It is also a measure by which the steel industry compares the size of companies on a global scale.</li> </ul>	<ul style="list-style-type: none"> <li>14.5mt in 2015/16 (2014/15: 15.2mt).</li> <li>Decrease due to restructuring measures undertaken in the UK in 2015/16 to rationalise costs and focus on higher margin business.</li> </ul>
Fiscal Year	Volume (mt)											
FY 13	13.5											
FY 14	15.2											
FY 15	15.0											
FY 16	14.5											
<p><b>Environment:</b> CO<sub>2</sub> /tcs</p> <table border="1"> <caption>Environment (CO<sub>2</sub> /tcs)</caption> <thead> <tr> <th>Fiscal Year</th> <th>CO<sub>2</sub> /tcs</th> </tr> </thead> <tbody> <tr> <td>FY 13</td> <td>1.95</td> </tr> <tr> <td>FY 14</td> <td>1.88</td> </tr> <tr> <td>FY 15</td> <td>1.89</td> </tr> <tr> <td>FY 16</td> <td>1.88</td> </tr> </tbody> </table>	Fiscal Year	CO <sub>2</sub> /tcs	FY 13	1.95	FY 14	1.88	FY 15	1.89	FY 16	1.88	<ul style="list-style-type: none"> <li>CO<sub>2</sub> emissions. The Group measures its CO<sub>2</sub> emissions per tonne of crude steel produced through the integrated steelmaking route, including direct and indirect emissions.</li> </ul>	<ul style="list-style-type: none"> <li>1.88 tonnes CO<sub>2</sub> per tonne of crude steel for 2015/16 (2014/15: 1.89).</li> <li>Slight decrease due to an improvement in CO<sub>2</sub> efficiency, partially offset by the negative impact of lower liquid steel output.</li> </ul>
Fiscal Year	CO <sub>2</sub> /tcs											
FY 13	1.95											
FY 14	1.88											
FY 15	1.89											
FY 16	1.88											

## A4. Business Review

### Business environment and prospects

#### *Dynamics of the business*

The steel industry is a highly cyclical industry. Financial performance is affected by general macroeconomic conditions that set the demand from the downstream steel using industries, as well as by available global production capacity and exchange rate relativities. As integrated steel players seek to maintain high capacity utilisation, changes in margins across regions lead to changes in the geographical sales pattern. As a result, in addition to market developments in the UK and mainland Europe, changes in the global market for steel influence the financial performance of the Group.

#### *Economic climate*

Global GDP growth in 2015 was 2.3% unchanged from the previous year. The Eurozone economy grew by 1.6% compared to 1.0% in 2014. In order to avoid a deflationary environment the European Central Bank extended its quantitative easing programme, which led to a further depreciation of the euro. The UK economy grew by 1.9% in 2015 (2.8% in 2014). The performance of the UK manufacturing sector was adversely impacted by sterling's appreciation against the euro, which increased from 1.28 in January 2015 to 1.42 in November 2015. Growth in China again decelerated in 2015 to 6.9% (2014: 7.3%). The government is seeking to transform the Chinese economy from being investment led to more consumer driven, as its cost advantage is being eroded.

#### *Global steel market*

Global steel demand decreased by 3.0% in 2015 to 1,496mt (2014: increase of 0.7%). Demand for steel in China contracted by 5.4% to 672mt compared to a decrease of 3.3% in 2014. Steel demand in the EU grew by 3.5% to 151mt (2014: 4.5%), mainly due to growth in the automotive sector. The number of cars and trucks produced by the EU rose by 7.6% in 2015 (2014: 4.7%). Construction activity increased by 0.8% (2014: 3.2%).

Global steel production decreased by 3.5% in 2015 (2014: increase of 2.3%) to 1,591mt due mainly to lower production in China which decreased by 2.7% to 798mt (2014: increase of 2.4%). EU output also decreased in 2015 reducing by 2.0% to 166mt (2014: increase of 1.8%).

In 2015 the EU became a net importer of steel, for the first time since 2008. The net import was 4mt in 2015, with imports of 38mt exceeding exports of 34mt. Exports from China were

at a record high at 112mt, as demand growth weakened more than production levels.

Global steelmaking capacity utilisation decreased from 73.0% in 2014 to 69.7% in 2015. EU utilisation rates remained stable at 72.9%.

Steel spot prices in most regions fell during 2015 due to declining raw material prices and low capacity utilisation rates.

#### *Raw materials*

The principal raw materials used in the carbon steelmaking processes are iron ore, metallurgical coal and steel scrap. The market reference price of iron ore fines (China CFR 62%) fell significantly in 2015 from \$68/t in January 2015 to \$39/t in December 2015 due to increased supply from Australia and Brazil, and a slowdown of demand growth from China. Hard coking coal spot prices (Australia FOB) fell from \$110/t to \$76/t in 2015 as the market remained oversupplied. Scrap prices also declined in 2015 in line with the reductions to iron ore and hard coking coal.

#### *Trade*

Changing trade flows have caused an increase in the amount of anti-dumping measures in 2015. Amongst others the US and EU have issued duties for a broad range of products, including hot rolled and cold rolled coil.

In 2015 EU steel demand growth was mainly fulfilled by imported steel. In December 2015 the share of imports in the EU market had increased to 18% compared to 13% in the previous year.

#### *Civil society advocacy*

TSUKH continuously engages with Governments at various levels and other civil society stakeholders such as non-Governmental organisations to inform the elements of public policy and regulation relevant to its business. Its objective is to help create the right conditions for a sustainable steel industry in terms of a level playing field versus international competitors, a competitive cost base and attractive conditions for investment.

The fight for a level playing field against unfairly priced steel imports 'dumped' into Europe was a major focus during the year. Progress was made on a number of specific cases, including grain oriented electrical steels and cold rolled coil which both saw the imposition of penalty duties on affected imported materials. The year also saw some improvements in the overall trade defence instrument framework. However,

## A4. Business Review

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much more reform is needed to make the rule set 'fit for purpose' for the prevailing steel industry conditions.

Another area where TSUKH seeks to improve 'level playing conditions' is in energy and climate change policy, and its impacts on competitiveness through indirect taxation. Progress was made in the UK for example with the accelerated introduction of the remaining elements of the Energy Intensive Industries mitigation package. However, other policy instruments in this area, such as the EU Emissions Trading Scheme, require significant reform if competitiveness is to be safeguarded.

More generally, the current prevailing conditions of the steel industry have forced it up the agenda of policy makers. Various summits and round tables have taken place at European, national and local levels involving numerous debates over steel's important place in any modern manufacturing economy. The company continues to work hard to turn positive sentiment into concrete action.

On 21 April 2016 the UK Government announced details of a support package for potential buyers of TSUK, which includes significant levels of financial support and additional grant funding support (see page 17).

### *Prospects for 2016*

The World Steel Association predicts global demand for steel is likely to decline by 0.8% in 2016 with an estimated 4.0% contraction in China offsetting resilient growth in developing markets, in particular in South and Southeast Asia, and NAFTA. No steel demand growth is forecast in the EU due to low activity growth in steel using sectors and a reduction to stocks which built up in the second half of 2015.

Margins in the global steel industry are expected to remain under pressure due to high levels of excess capacity, with little expectation that capacity will be reduced significantly in the near future.

### **Employees**

#### *Health and safety*

Health and safety continues to be the Group's first priority as it strives to achieve the ambition of being an industry benchmark.

Positively there were no fatal accidents for the fourth consecutive year in 2015/16 with wide ranging interventions to ensure that this is maintained. The extensive programme called 'Taskforce Safety' introduced at IJmuiden following the

fatality at the coke plant in April 2011 has continued with over 75% of the workforce now attending the 4 week programme. Throughout the year a 2 day training course for Group Senior Managers has been undertaken in H&S Excellence focusing on their leadership role in knowledge and behaviour. A Process Safety Leadership course has also been piloted for deployment in FY17.

The combined lost time injury frequency rate ('LTIF') in 2015/16 for employees and contractors deteriorated to 0.99 compared to 0.76 in the previous year. This was primarily due to an increase in contractor injuries and improvements in learning and deployment of contractor management safety standards is being undertaken. The next level of severity 'recordables' improved from 4.24 in 2014/15 to 4.07 due to reductions to the number of contractor and employee incidents.

#### *Employee numbers*

At 31 March 2016 the number of employees in the Group was 28,300 compared to 30,300 at 31 March 2015. The reduction was mainly attributable to restructuring measures implemented in the UK in response to difficult steel market conditions.

On 16 July 2015 TSE announced restructuring plans to refocus its Speciality and Bar business on high-value markets such as aerospace, have led to a loss of 720 jobs in the business.

On 26 August 2015 TSE announced restructuring plans to concentrate UK production of hot rolled coil at its hot strip mill in Port Talbot and, until market conditions become more favourable, mothball some of its coil processing facilities, including the sibling hot strip mill at Llanwern, Newport. TSE employees impacted by this restructuring in Llanwern were redeployed within the business.

On 20 October 2015 TSE announced restructuring plans to stop production of steel plate in its Long Products business. Plate mills in Scunthorpe, Dalzell and Clydebridge would be mothballed while one of the two coke ovens at the Scunthorpe steelworks would be closed. Subject to full and formal consultation the plans are expected to lead to a loss of 910 jobs in the business. However, on 27 April 2016, TSE sold the Clydebridge and Dalzell plate mills in Scotland to the Scottish Government and on 31 May sold its remaining Long Products business to Greybull Capital.

## A4. Business Review

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On 18 January 2016 TSE announced a further restructuring to its UK operations which, subject to full and formal consultation, will involve an estimated headcount reduction of 1,050 employees in the UK supply chain.

### *Employment policies*

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 been operating 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.

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 employ 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.

UK Steel Enterprise Limited ('UKSE') is the Company's subsidiary that helps the economic regeneration of communities affected by changes in the steel industry and it has delivered packages of support measures to a variety of businesses across all steel areas of the UK to help them create new job opportunities for steel communities. UKSE has been very active in 2015 in response to the restructurings announced in the UK in the year.

### *Pension arrangements*

The principal defined benefit pension scheme in the Group at 31 March 2016 was the BSPS in the UK. On 31 July 2015 some significant benefit changes to the BSPS were agreed. On 7 July 2015 the Stichting Pensioenfonds Hoogovens scheme ('SPH') in the Netherlands was reclassified from defined benefit to defined contribution following signing of a

new pension agreement. Further details on these schemes and the above changes are provided in Note 33.

### *Modern Slavery Act*

Section 54 of the Modern Slavery Act 2015 requires relevant organisations carrying on business in the UK to publish a statement setting out the steps taken to ensure that no slavery or human trafficking is taking place within the organisation or its supply chains. The board of Tata Steel Europe Limited has approved a statement setting out the measures taken by the Group during the financial year ended 31 March 2016. The statement will be issued by Tata Steel Europe on behalf of itself and its relevant UK subsidiary companies and published on the Tata Steel Europe website.

## Environment

### *Policy*

The Group 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. As such, respect for the environment is critical to the success of the Group. To implement its environmental policy, systems are in place to manage and minimise the effects of the Group's operations. For example, 100% of manufacturing operations are certified to the independently verified international environmental management standard, ISO 14001.

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 CO<sub>2</sub>.

However, the Group's products are also 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 lighter, stronger and safer transport systems, and in affordable and energy-efficient modular homes. As a result, CO<sub>2</sub> emissions in steel production can be offset by reductions in direct and indirect emissions through the life cycle of steel products, achieved through effective product development and design, and through recycling at end-of-life. Some related developments are discussed in the section on research and development.

## A4. Business Review

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Furthermore, the Group aims to contribute positively to the communities around or near to its operations and encourages biodiversity and nature conservation.

### *Energy efficiency and CO<sub>2</sub> emissions*

In the Netherlands, the Group currently participates in a voluntary agreement with the Dutch government regarding energy efficiency improvements over the period 2013 to 2016 (with the previous agreement extending from 2009 to 2012 inclusive). The primary requirement of the agreement is an energy efficiency improvement of 2% per annum, covering both energy used within the manufacturing process and energy saved across the product life cycle. The total energy efficiency improvement in 2015 was 4.1% (2014: 5.0%).

In the UK, as a result of being in a Climate Change Agreement ('CCA'), the Group has continued to benefit from reduced rates in relation to the Climate Change Levy ('CCL'). This CCA includes a specific energy reduction target of 7% by 2020 (compared to 2008). Achievement of this target and various intermediate milestone targets will allow the Group to continue to benefit from reduced rates of CCL.

In April 2014, the UK Government introduced an exemption from CCL for certain metallurgical and mineralogical processes. As a result, exposure to CCL for TSUKH significantly reduced from 2014/15 onwards. However, the CCA (and the 7% reduction target) has been retained in order to continue to allow a reduced rate of CCL for those processes not covered by the exemption. Performance in the first milestone period (2013 and 2014 inclusive) exceeded the target (-4.7% compared with -3.5%). This over-achievement will be used to support achievement of the second milestone period target (2015 and 2016 inclusive).

More generally, the Group continues to invest in short to medium term CO<sub>2</sub> emission reduction and energy efficiency improvements. In addition to these improvements, the Group is also working with other steelmakers in Europe on a longer term major research and development project to develop a new smelting reduction technology ('Hlsarna') to produce steel from lower grade raw materials without the need for cokemaking or agglomeration processes, thereby improving efficiency and reducing energy consumption as well as reducing CO<sub>2</sub> emissions.

The Group met its environmental obligations in Phase 1 (2005 to 2007) and Phase 2 (2008 to 2012) of the EU ETS and expects to do the same in Phase 3 (2013 to 2020). The Group

was in surplus over Phase 2, primarily as a result of generally lower production levels since October 2008, but expects to be short of allowances over Phase 3. The emission rights trading price at 31 March 2016 was approximately €5 per tonne of CO<sub>2</sub> (31 March 2015: €7).

TSUKH CO<sub>2</sub> emissions (tonnes per tonne of crude steel) decreased slightly to 1.88 in 2015/16, compared to 1.89 in the previous year, due to an improvement in CO<sub>2</sub> efficiency, which was partially offset by the negative impact of the significant reduction in liquid steel output.

On 18 November 2015 TSE announced plans to create one of the world's largest solar energy projects of its kind in the Netherlands. Working with Pure Energie (a sustainable energy developer) TSE will mount 80,000 solar panels on the factory roofs at its IJmuiden steelworks. The solar project will have a 22 megawatt capacity and will generate the same amount of energy needed to power about 7,000 homes.

### *Climate change taxes, levies and compensation*

In response to concerns being raised by energy intensive industries, including steel, in relation to the effects that climate change related taxes and levies such as the carbon price floor and the emission costs under Phase 3 of the EU ETS are having on international competitiveness, a compensation package for energy intensive industries was announced in principle by the UK Government in 2012. This has now been largely implemented. In the March 2014 Budget, the UK Government announced an extension of the already announced compensation package to 2019/20, that the carbon price floor rate would be capped from 2016/17 to 2020 and that mitigation measures would be extended to the Renewables Obligation energy tax from 2016/17. In the March 2015 budget, the UK Government announced that compensation to energy intensive industries for increased energy prices resulting from the Renewables Obligation & from Feed in Tariffs (FiTs) would be brought forward to 2015/16.

## **Research & development**

### *Organisational changes*

In September 2015 the Advanced Coatings Knowledge group operating within TSUKH's research and development organisation in the UK opened a new facility co-located with Warwick University. This new facility will further develop innovative products which help TSUKH's customers become more competitive. The move is to allow greater collaboration with world-class scientists and researchers to create new

## A4. Business Review

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steels for customers who are shaping the low-carbon technologies of tomorrow.

As part of the process to ring fence the Long Products business within TSUKH, the long products research and development programme, including the employees who perform the research, was transferred into the Long Products business.

### *Research & Technology programme*

Approximately 85% of the TSUKH technology programme was developed under the governance of the Global Expert Committees ('GECs') of Tata Steel in the year, which cover process development and product market sector developments. The remaining capacity was allocated to the Strategic Thrust programme to develop projects like the HIsarna technology. These are governed by the TSE R&D Management team.

### *Process development*

The process technology programme in 2015/16 was focused on robust and stable manufacturing processes, better use of raw materials and resolution of quality issues. The programme supports the company's manufacturing strategy.

### *Product market sector developments*

A key element of the Group's strategy is the development of new steel products. Structured programmes are initiated for all market segments identified by strategic marketing with particular emphasis on the automotive, lifting & excavation, construction, energy & power and rail sectors.

During 2015/16 31 new products were introduced into the Group's product portfolio (2014/15: 35) and included the following:

- HP335: a high-performance rail steel to combat the issue of cracking caused by rail traffic, known as 'rolling contact fatigue';
- Celsius® 420: a new hot-finished structural steel hollow section with a high yield strength allowing engineers to design structures that can be up to 17% lighter compared to TSE's well-established Celsius® 355 product range. This makes Celsius® 420 ideal for structural and dynamically loaded components, such as vehicle axles and cabin systems.
- Coretinium®: a new innovative product with the potential to become the flooring and sidewall material of choice for European bus and trailer manufacturers

looking to reduce vehicle weight and CO2 emissions. It also offers a viable, lightweight and durable alternative for customers in the manufactured goods arena where it can be used in a wide range of applications.

- DD13WR: a new wheel rim product designed to meet the particular needs of wheel rims used in off-highway vehicles, such as tractors, cranes and wheeled excavators.
- HR CP800-UC: a new hot-rolled, complex-phase, advanced high-strength steel grade for chassis and suspension applications, which combines the high strength required to meet stringent performance requirements with good formability, allowing automotive engineers to design relatively complex shaped chassis components.

### **Post balance sheet events**

On 27 April 2016 TSE completed the sale of its Clydebridge and Dalzell plate mills in Scotland to the Scottish Government. The mills were in the process of being mothballed following TSE's announcement on 20 October 2015 to exit the plate market. There was no impact on the income statement from the sale.

On 22 December 2015 TSUK signed a non-binding letter of intent ('LOI') with Greybull to enter negotiations for the potential sale of its Long Products Europe business. This culminated in TSE announcing on 11 April 2016 the signing of an agreement to sell, subject to completion of a number of outstanding conditions, its Long Products Europe business to Greybull. The disposal was subsequently completed on 31 May 2016 (see note 34).

## A5. Financial Review

<i>£m</i>	2015/16	2014/15	B/(w) than 2014/15
<b>Revenue</b>	<b>6,762</b>	<b>7,879</b>	<b>(1,117)</b>
Liquid steel production (mt)	14.5	15.2	(0.7)
Steel deliveries (mt)	13.6	13.7	(0.1)
<b>EBITDA</b>	<b>630</b>	<b>292</b>	<b>338</b>
Depreciation and amortisation (net of grants)	(257)	(362)	105
<b>Operating profit/(loss) before restructuring, impairment and disposals</b>	<b>373</b>	<b>(70)</b>	<b>443</b>
Restructuring and impairment costs	(1,018)	(287)	(731)
Profit on disposals	3	8	(5)
<b>Operating loss</b>	<b>(542)</b>	<b>(349)</b>	<b>(193)</b>
Net finance costs	(357)	(403)	46
Share of post-tax results of joint ventures and associates	1	(1)	2
<b>Loss before taxation</b>	<b>(898)</b>	<b>(753)</b>	<b>(145)</b>
Taxation credit/(charge)	14	(84)	98
<b>Loss after taxation</b>	<b>(884)</b>	<b>(837)</b>	<b>(47)</b>

### *Profit and loss*

Group revenue of £6,762m in 2015/16 was 14% lower than the previous year due to a 14% decrease to average revenue per tonne, caused by a reduction to steel demand in China and a related increase in low priced Chinese imports into the EU which placed downward pressure on steel prices in TSE's main markets. Liquid steel production in 2015/16 at 14.5mt was 0.7mt lower than 2014/15 due to restructuring measures implemented in the UK to reduce production levels to rationalise costs and focus on higher margin business.

The operating result before restructuring, impairment and disposals improved from a loss of £70m in 2014/15 to a profit of £373m in 2015/16 but included a past service credit of £897m in respect of benefit changes to the BSPS implemented on 31 July 2015 and a credit of £57m arising from the reclassification of the SPH from defined benefit to defined contribution (see Note 30). Excluding the pension credits the operating result before restructuring, impairment and disposals was a loss of £581m, £511m worse than the previous year. The shortfall was explained by a significant reduction to steel margins, with lower selling prices more than offsetting a decrease to raw material prices, and lower production volume, partly offset by a lower depreciation and amortisation charge of £257m (2014/15: £362m) due to assets becoming either impaired or fully depreciated in the year. Excluding the pension items EBITDA decreased from £292m in 2014/15 to a loss of £324m in 2015/16 due to the same factors. This equated to a negative EBITDA margin of 5% (2014/15: positive margin of 4%).

The operating loss after restructuring, impairment and disposals was £542m in 2015/16, £193m worse than 2014/15 but included a significant charge of £1,018m (2014/15: £287m) for restructuring and impairment. This included impairment charges of £61m for computer software (see Note 7) and £765m for property, plant and equipment (see Note 8) primarily relating to an impairment of assets in the UK due to lower margins exacerbated by a significant weakening of the euro versus sterling. There were net redundancy and rationalisation costs of £192m (2015: £11m) relating mainly to redundancy costs of £75m in the UK businesses impacted by restructuring and a related curtailment strain of £112m on the BSPS (see Note 2). Profit on disposals of £3m (2014/15: £8m) in the year related to land sales in the UK.

Net finance costs in 2015/16 of £357m were £46m lower than the previous year due to lower charges of £40m on bank and other borrowings following the refinancing of the SFA in October 2014 and £41m on working capital arrangements with Proco, partly offset by increased charges of £39m on increased intra-group borrowings (see Note 17). The Group share of post-tax results of joint ventures and associates was a profit of £1m (2014/15: £1m loss).

Taxation was a net credit of £14m in 2015/16 (2014/15: charge £84m) due primarily to deferred tax credits recognised in the income statement to offset a net deferred tax charge in reserves relating to actuarial gains on TSE's main defined benefit pension schemes, partly offset by a net reduction in tax losses recognised across the group for deferred tax purposes. The Group loss after tax in 2015/16 was £884m (2014/15: £837m).

## A5. Financial Review

### *Financing*

The majority of the external borrowings of the Group are accounted for by the SFA which was successfully refinanced in October 2014. The SFA is secured by guarantees and debentures granted by material subsidiaries of TSE (other than Tata Steel Nederland B.V. ('TSN') and its subsidiaries) and by a share pledge over the shares in TSN. The SFA has a financial covenant which sets an annual maximum capital expenditure level. The SFA comprises:

- a bullet term loan facility of €370m for five years;
- an amortising term loan facility of €1,500m for seven years (amortisation starts from the end of year five);
- an amortising term loan facility of US\$379.5m for seven years (amortisation starts from the end of year five); and
- a revolving credit facility of £700m for six years (this facility may be extended by a further year if certain conditions are satisfied).

The SFA term loans are denominated in euros and US dollars. However, 100% of the proceeds received in US dollars have been hedged into euros. The refinancing of the SFA was accompanied by a €800m subordinated loan injection into TSE from Tata Steel Global Holdings ('TSGH').

### *Acquisitions and Disposals*

On 6 May 2015 Tata Steel Nederland Consulting and Technical Services B.V. sold its 50% interest in Danieli Corus Technical Services B.V. to Industrielle Beteiligung S.A. (the other 50% shareholder). The investment had been classified as held for sale in the 2014/15 financial statements.

On 26 June 2015 TSUKH sold its 50% interest in Norsk Stål AS to Leif Hübert AS (the other 50% shareholder).

On 2 August 2015 TSUKH's Long Products UK business, with the associated distribution facilities, was hived down into a new legal entity, called Longs Steel UK Limited, which is a wholly owned subsidiary of TSUK. This enabled the company to progress alternative strategic options for the business.

On 29 September 2015, TSUKH sold the land and buildings of the Ashorne Hill Management College (AHMC) in the UK to Jaguar Land Rover.

On 30 September 2015, TSUKH ceased to participate in the Stichting Centraal Administratie Bureau (SAB). SAB is a trust which provides agency services to Tata Steel IJmuiden BV (TSIJ) but was not previously consolidated into the TSE Group accounts due to its status as a trust.

On 22 December 2015 TSUK signed a non-binding letter of intent ('LOI') with Greybull to enter negotiations for the potential sale of its Long Products Europe business. This culminated in TSUKH announcing on 11 April 2016 the signing of an agreement to sell, subject to completion of a number of outstanding conditions, its Long Products Europe business to Greybull. The disposal was subsequently completed on 31 May 2016.

On 23 March 2016 TSUKH signed a business purchase agreement to sell its Clydebridge and Dalzell plate mills in Scotland to the Scottish Government. The mills were in the process of being mothballed following the Company's announcement on 20 October 2015 to exit the plate market. The transaction completed on 27 April 2016.

On 29 March 2016 the TSL Board announced that it had advised the TSE Board to explore all options for a portfolio restructuring of its European business including the potential divestment of its subsidiary TSUK, in whole or in parts. Discussions are ongoing to evaluate and implement the most feasible option in a time bound manner.

### *Cash flow*

Net cash flow used in operating activities in 2015/16 was an outflow of £581m (2014/15: outflow of £329m) due mainly to the operating loss and interest payments. The working capital/turnover ratio (excluding the impact of arrangements with TSL Group companies) decreased to 10% by 31 March 2016 (31 March 2015: 16%) due to lower inventories. Net cash flow used in investing activities was an outflow of £273m (2014/15: outflow £289m) due mainly to capital expenditure of £287m (2014/15: £303m). After a net cash inflow of £900m from financing activities (2014/15: inflow of £453m) arising from mainly an increase to intercompany loans, this gave a net increase in cash and cash equivalents of £46m (2014/15: decrease £165m). The Group cashflows in 2015/16 continued to benefit from a number of working capital arrangements implemented with TSL Group companies. Further details on these arrangements are included in Note 33.

### *Capital expenditure*

Capital expenditure in 2015/16 at £287m (2014/15: £303m) included spend on a number of major capital projects in both the Netherlands and the UK. In the Netherlands these included in the Strip Products Mainland Europe business the replacement of Converter 21 and 22, and Caster Crane 25, the repair of the Blast Furnace 6 hot stoves and pre-engineering work on revamping Blast Furnace 6, and in the



## A5. Financial Review

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Packaging business the introduction of Protact® NG, a multi-layered polymer system that meets increasingly stringent food requirements. In addition, significant capital expenditure has been committed in the Netherlands to a Strategic Asset Roadmap Programme (STAR) to support the strategic growth of differentiated, high value products in the automotive, lifting and excavating, and energy and power market sectors. The main projects ongoing within the UK in 2015/16 included the installation of an automotive finishing line in the Strip Products UK business in Port Talbot, which is key to the strategic development of the UK's automotive full finish capability, and the installation of a vacuum induction melting furnace in the Speciality & Bar business in Stocksbridge for the production of high purity alloy steel ingots for the aerospace sector.

### *Balance sheet*

TSUKH's consolidated net liabilities at 31 March 2016 were £1,838m (31 March 2015: net liabilities of £1,101m). The deterioration of £737m was due to the loss after taxation of £884m offset by other comprehensive gains of £147m caused mainly by actuarial gains on defined benefit pension and other post-retirement plans (see page 24). Net debt at 31 March 2016 amounted to £4,921m (31 March 2015: £3,729m). Of the gross debt, approximately 52% related to borrowings from within the TSL Group (31 March 2015: 42%). Cash and short-term deposits at 31 March 2016 amounted to £286m (31 March 2015: £221m). Further details on borrowings can be found in Note 17.

### *Financial risk management*

TSUKH'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 rates, exchange rates and 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 19.

## A6. Going concern

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On 29 March 2016, following a recommendation from TSL, the Company's ultimate shareholder, the Directors of the Company's ultimate UK parent, TSE, resolved to consider all possible restructuring options including the potential divestment of TSUK. Following public announcement of the proposed restructuring or sale, the UK and Welsh Governments announced on 21 April 2016 that a package of support worth hundreds of millions of pounds will be made available to potential purchasers and that equity co-investment is also available. In addition, in respect of the BSPS, the Department for Work and Pensions published a consultation document on 26 May 2016 in respect of potential secondary legislation that would enable TSUK to reduce the total liabilities of BSPS so that the scheme can remain outside the Pension Protection Fund ('PPF') on a self-sufficient basis.

This process has started and remains ongoing but, pending its conclusion and the conclusion of the current consultation period in respect of the BSPS, the outcome of the restructuring or sale, the form of any support package from the UK and Welsh Government and a legislative solution to the BSPS remain uncertain.

The Company and its subsidiaries are financed in part through the Senior Facilities Agreement and other long term loans introduced by the parent from time to time and in part through working capital support provided by Proco a subsidiary of TSL, under arrangements which have been authorised, and are supported, by TSL.

TSL has approved the continued provision of working capital support to the Company and the operations of the Company's material subsidiaries, including in the Netherlands and the UK, subject to certain restrictions. The Netherlands subsidiary continues to be cash generative and trading performance of the Group, including the UK, in quarter one FY 2016/17 has been positive leading to an improved outlook for the remainder of the financial year.

Based on the mandate of the ultimate parent of the Company, TSL, on 29 March 2016, the Board of TSE is evaluating all options for TSUK, including the potential divestment. Currently, the process of evaluation of a potential divestment is underway and TSE is engaged in discussions with the UK and Welsh Government to facilitate the restructuring options. In the absence of a conclusive outcome of the restructuring or sale, there exists a material uncertainty for the future of TSUK.

For these reasons, while the Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future, they have concluded that there exists a material uncertainty which may cast significant doubt about TSUK's ability to continue as a going concern. The Company has considered the position of TSUK, its arrangements with TSUK and the mitigating actions that could be taken and on this basis the directors of the Company have concluded that it is appropriate to prepare these financial statements for the Company on a going concern basis. However, if TSUK were not a going concern, adjustments might be required to the consolidated financial statements (including to write-down fixed assets and to provide for any claims or obligations) and to write down the carrying value of the investment in and inter-company loans to subsidiary undertakings in the Company's own balance sheet.


However, the Directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result from a potential sale or restructuring as it is not practicable to identify or quantify them.

## A7. Approval of Strategic Report

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Section A of this Annual Report comprises a strategic report for the Group which has been prepared in accordance with, and in reliance upon, applicable English company law, in particular Chapter 4A of the Companies Act 2006, and the liabilities of the directors in connection with this report shall be subject to the limitations and restrictions provided by the law. It should be noted that the strategic report has been prepared for the Group as a whole, and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiaries when viewed as a whole.

Approved by the Board of Directors and signed on behalf of the Board



S V Gidwani  
Company Secretary  
7 July 2016

## B. Directors' Report

### *The Board*

The directors of the Company who served throughout the period from 1 April 2015 to the date of this report (unless otherwise stated) were as follows:

N K Misra

D Dutta (appointed 20 August 2015)

S Biswas (resigned 27 August 2015)

### *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). In addition, directors and officers of the Company and its subsidiaries are covered by Directors & Officers liability insurance.

### *Dividends*

The directors do not recommend that a dividend be paid and no dividends were paid or proposed during the year (2014/15: nil).

### *Political donations*

The Company does not make any donations to political parties and none were made during the year.

### *Statement as to disclosure of information to the Company's auditor*

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

- a) so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) the directors have 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 auditor is 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.

### *Auditor*

Deloitte LLP have indicated their willingness to be reappointed as auditor to the Company for another term and appropriate

arrangements are being made for them to be deemed reappointed as auditor in the absence of an AGM. Deloitte Haskins & Sells in India is the auditor of the ultimate parent company, TSL.

### *Information provided in the Strategic report*

In accordance with section 414C of the Companies Act 2006 the directors have chosen to disclose the following information in the Company's strategic report:

- Particulars of any events affecting the Company (or any of its subsidiary undertakings) which have occurred since the end of the financial year (see page 13)
- Factors likely to affect the Group's future development, performance and position (see page 10);
- Policies on employment of disabled persons, employee involvement, communication, consultation, recruitment and training (see page 10);
- Research & development activities (see page 12); and
- An indication of exposure to price, credit, liquidity and cashflow risk (see page 15).



By order of the Board  
S V Gidwani  
Company Secretary  
7 July 2016

## C. Directors' responsibilities statement on consolidated financial statements

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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 Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with Financial Reporting Standard ('FRS') 101 '*Reduced Disclosure Framework*' and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 '*Reduced Disclosure Framework*' has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 '*Presentation of Financial Statements*' 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.

## D. Independent Auditor's Report

We have audited the financial statements of Tata Steel UK Holdings Limited for the year ended 31 March 2016 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and parent company balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the presentation of the Group and parent company accounts and accounting policies and the related Notes 1 to 36. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statement is applicable law and FRS 101 'Reduced Disclosure Framework'.

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

### *Respective responsibilities of directors and auditor*

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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 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 and 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. In addition, we read all

the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### *Opinion on financial statements*

In our opinion the Group and parent company financial statements:

- give a true and fair view of the state of the Group and Parent Company's affairs as at 31 March 2016 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### *Emphasis of matter – carrying value of assets and liabilities relating to TSUK*

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in page 17 of the Strategic Report and on page 28 of the financial statements concerning the material uncertainty relating to the ongoing restructuring and sales process of the Company's subsidiary TSUK. The uncertainty over the completion of the restructuring or sale of TSUK and the provision of working capital support to TSUK along with the other matters set out on page 17 indicate the existence of a material uncertainty which may cast significant doubt about TSUK's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business. The directors have considered the position of TSUK, its arrangements with TSUK and the mitigating actions it could take and on this basis the directors have concluded that it is appropriate to prepare the financial statements for the Group on a going concern basis. However, if TSUK were not a going concern, adjustments might be required to the consolidated financial statements (including to write-down fixed assets and to

## D. Independent Auditor's Report

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provide for any claims or obligations) and to write down the carrying value of the investment in and inter-company loans to subsidiary undertakings in the Company's own balance sheet. The financial statements do not include the adjustments that would result from a potential sale or restructuring as it is not practicable to identify or quantify them.

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

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

### *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.



Christopher Powell FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

7 July 2016

## E1. Consolidated income statement

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**For the financial year ended 31 March**

	<b>Note</b>	<b>2016</b> £m	<b>2015</b> £m
<b>Revenue</b>		<b>6,762</b>	7,879
<b>Operating costs</b>	<b>1</b>	<b>(7,304)</b>	(8,228)
<b>Operating loss</b>		<b>(542)</b>	(349)
Finance costs	<b>4</b>	<b>(358)</b>	(405)
Finance income	<b>4</b>	<b>1</b>	2
Share of post-tax results of joint ventures and associates	<b>9</b>	<b>1</b>	(1)
<b>Loss before taxation</b>		<b>(898)</b>	(753)
Taxation credit/(charge)	<b>5</b>	<b>14</b>	(84)
<b>Loss after taxation</b>		<b>(884)</b>	(837)
Attributable to:			
Owners of the Company		<b>(884)</b>	(837)

All references to 2016 in the Financial Statements, the Presentation of accounts and accounting policies and the related Notes 1 to 36 refer to the financial period ended 31 March 2016 or as at 31 March 2016 as appropriate (2015: the financial period ended 31 March 2015 or as at 31 March 2015).

The Company recorded a loss of £463m (2015: loss of £1,081m) and has taken advantage of the exemption under section 408 of the Companies Act 2006 allowing it not to present its own income statement.

Notes and related statements forming part of these accounts appear on pages 36 to 75.



## E2. Consolidated statement of comprehensive income

For the financial year ended 31 March

	Note	2016 £m	2015 £m
<b>Loss after taxation</b>		<b>(884)</b>	<b>(837)</b>
<b>Items that will not be reclassified subsequently to the income statement:</b>			
Actuarial gains/(losses) on defined benefit pension and other post-retirement plans	30	204	(392)
Income tax relating to items that will not be reclassified		(34)	72
<b>Items that may be reclassified subsequently to the income statement:</b>			
Available for sale investments	10	2	-
Gains arising on cash flow hedges	19	12	58
Income tax relating to items that may be reclassified	19	(1)	(15)
Exchange rate movements on currency net investments		(34)	83
Exchange rate movements recycled income statement on disposal of Group company	32	-	(5)
Exchange rate movements recycled to income statement on disposal of assets held for sale	15	(2)	-
<b>Other comprehensive income/(loss) for the year net of tax</b>		<b>147</b>	<b>(199)</b>
<b>Total comprehensive loss for the year</b>		<b>(737)</b>	<b>(1,036)</b>
Attributable to:			
<b>Owners of the Company</b>		<b>(737)</b>	<b>(1,036)</b>

The Company has taken advantage of the exemption under section 408 of the Companies Act 2006 allowing it not to present its own statement of comprehensive income.

Notes and related statements forming part of these accounts appear on pages 36 to 75.

## E3. Balance sheets

As at 31 March		Group		Company	
		2016	2015	2016	2015
	Note	£m	£m	£m	£m
<b>Non-current assets</b>					
Goodwill	6	405	405	-	-
Other intangible assets	7	83	144	-	-
Property, plant and equipment	8	1,852	2,425	-	-
Equity accounted investments	9	29	38	-	-
Investments in subsidiary and fellow group undertakings	9	-	-	4,907	4,291
Other investments	10	51	49	-	-
Retirement benefit assets	30	1,206	144	-	-
Deferred tax assets	21	59	73	-	33
		<b>3,685</b>	<b>3,278</b>	<b>4,907</b>	<b>4,324</b>
<b>Current assets</b>					
Inventories	11	1,190	1,558	-	-
Trade and other receivables	13	949	957	330	328
Current tax assets	12	4	3	-	-
Short term investments	14	1	2	-	-
Cash and short term deposits	14	286	221	-	-
Assets classified as held for sale	15	2	16	-	-
		<b>2,432</b>	<b>2,757</b>	<b>330</b>	<b>328</b>
<b>TOTAL ASSETS</b>		<b>6,117</b>	<b>6,035</b>	<b>5,237</b>	<b>4,652</b>
<b>Current liabilities</b>					
External borrowings	17	(714)	(660)	(1)	(1)
Trade and other payables	16	(2,136)	(2,709)	(32)	(25)
Current tax liabilities	12	(6)	(9)	-	-
Retirement benefit obligations	30	(5)	(6)	-	-
Short term provisions and other liabilities	20	(144)	(58)	-	-
		<b>(3,005)</b>	<b>(3,442)</b>	<b>(33)</b>	<b>(26)</b>
<b>Non-current liabilities</b>					
Inter-group borrowings	17	(2,716)	(1,677)	(2,597)	(1,568)
External borrowings	17	(1,786)	(1,626)	-	-
Deferred tax liabilities	21	(1)	(1)	-	-
Retirement benefit obligations	30	(164)	(176)	-	-
Provisions and other liabilities	20	(255)	(165)	-	-
Other non-current liabilities	18	(32)	(32)	(463)	(451)
Deferred income	22	(16)	(17)	-	-
		<b>(4,950)</b>	<b>(3,694)</b>	<b>(3,060)</b>	<b>(2,019)</b>
<b>TOTAL LIABILITIES</b>		<b>(7,955)</b>	<b>(7,136)</b>	<b>(3,093)</b>	<b>(2,045)</b>
<b>NET (LIABILITIES)/ASSETS</b>		<b>(1,838)</b>	<b>(1,101)</b>	<b>2,144</b>	<b>2,607</b>
<b>Equity</b>					
Called up share capital	23	3,497	3,497	3,497	3,497
Share premium		450	450	450	450
Accumulated deficit		(6,081)	(5,367)	(1,803)	(1,340)
Other components of equity		296	319	-	-
Equity attributable to owners of the Company		<b>(1,838)</b>	<b>(1,101)</b>	<b>2,144</b>	<b>2,607</b>
Non-controlling interests		-	-	-	-
<b>TOTAL EQUITY</b>		<b>(1,838)</b>	<b>(1,101)</b>	<b>2,144</b>	<b>2,607</b>

Approved by the Board and signed on its behalf by:

  
 N K Misra  
 Executive Director, Finance  
 7 July 2016  
 Tata Steel UK Holdings Limited  
 Registered No: 05887351

## E4. Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Accumulated deficit £m	Hedging reserve £m	Translation reserves £m	Investment revaluation reserves £m	Total £m	Non-controlling interests £m	Total equity £m
<b>Balance as at 31 March 2014</b>	<b>3,497</b>	<b>450</b>	<b>(4,210)</b>	<b>(60)</b>	<b>261</b>	<b>(3)</b>	<b>(65)</b>	<b>1</b>	<b>(64)</b>
Loss for the year	-	-	(837)	-	-	-	(837)	-	(837)
Other comprehensive (loss)/income for the year	-	-	(320)	47	74	-	(199)	-	(199)
Total comprehensive (loss)/income for the year	-	-	(1,157)	47	74	-	(1,036)	-	(1,036)
Adjustment arising from change in non-controlling interest	-	-	-	-	-	-	-	(1)	(1)
<b>Balance as at 31 March 2015</b>	<b>3,497</b>	<b>450</b>	<b>(5,367)</b>	<b>(13)</b>	<b>335</b>	<b>(3)</b>	<b>(1,101)</b>	<b>-</b>	<b>(1,101)</b>
Loss for the year	-	-	(884)	-	-	-	(884)	-	(884)
Other comprehensive income/(loss) for the year	-	-	170	11	(36)	2	147	-	147
Total comprehensive (loss)/income for the year	-	-	(714)	11	(36)	2	(737)	-	(737)
<b>Balance as at 31 March 2016</b>	<b>3,497</b>	<b>450</b>	<b>(6,081)</b>	<b>(2)</b>	<b>299</b>	<b>(1)</b>	<b>(1,838)</b>	<b>-</b>	<b>(1,838)</b>

Notes and related statements forming part of these accounts appear on pages 36 to 75.

## E5. Consolidated statement of cash flows

<b>For the financial year ended 31 March</b>			
	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>£m</b>	<b>£m</b>
<b>Operating activities</b>			
Cash used in operations	27	(316)	(1)
Interest paid		(253)	(320)
Interest element of finance lease rental payments		(6)	(5)
UK corporation tax		(2)	1
Overseas taxation		(4)	(4)
<b>Net cash flow used in operating activities</b>		<b>(581)</b>	<b>(329)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(287)	(303)
Sale of property, plant and equipment		13	24
Purchase of other intangible assets		(17)	(26)
Sale of other fixed asset investments		4	2
Sale of businesses and subsidiary undertakings	32	-	13
Sale of investments in joint ventures		11	-
Sale of investments in associates		8	-
Dividends from joint ventures and associates		2	5
Interest received		-	2
Loans to external parties		(6)	-
Loans repaid by external parties		2	-
Acquisition of assets and subsidiaries	31	(3)	(6)
<b>Net cash flow used in investing activities</b>		<b>(273)</b>	<b>(289)</b>
<b>Financing activities</b>			
New loans (including drawdowns of revolving credit facility)		912	1,270
Repayment of borrowings (including repayments of revolving credit facility)		-	(806)
Capital element of finance lease rental payment		(12)	(21)
Proceeds used to restructure capital leases		-	10
<b>Net cash flow from financing activities</b>		<b>900</b>	<b>453</b>
Increase/(decrease) in cash and cash equivalents	29	46	(165)
Cash and cash equivalents at beginning of period	29	218	398
Effect of foreign exchange rate changes	29	20	(15)
<b>Cash and cash equivalents at end of period</b>	<b>29</b>	<b>284</b>	<b>218</b>
Cash and cash equivalents consist of:			
Cash and short term deposits	14	286	221
Bank overdrafts	17	(2)	(3)
		<b>284</b>	<b>218</b>

Notes and related statements forming part of these accounts appear on pages 36 to 75.

## E6. Presentation of accounts and accounting policies

### I Basis of preparation

TSUKH is a private limited company incorporated in the United Kingdom under the Companies Act 2006. The consolidated financial statements of the Group for the year ended 31 March 2016 comprise the Company and its subsidiaries 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).

TSUKH meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council. As such the Company's financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' ('FRS 101').

As permitted by FRS 101, the parent has taken advantage of the disclosure exemptions available under that Standard in relation to financial instruments, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, Standards not yet effective, impairment of assets and related party transactions. Where relevant, equivalent disclosures have been included as part of the Group consolidated financial statements.

The financial statements for the parent company and Group have been prepared under the historical cost convention, with the exception of the Group financial statements which have been modified by the revaluation of available for sale investments and derivative financial instruments.

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.

On 29 March 2016, following a recommendation from TSL, the Company's ultimate shareholder, the Directors of the Company's ultimate UK parent, TSE, resolved to consider all possible restructuring options including the potential divestment of TSUK. Following public announcement of the proposed restructuring or sale, the UK and Welsh Governments announced on 21 April 2016 that a package of support worth hundreds of millions of pounds will be made available to potential purchasers and that equity co-investment is also available. In addition, in respect of the BSPS, the Department for Work and Pensions published a consultation document on 26 May 2016 in respect of potential secondary legislation that would enable TSUK to reduce the total liabilities of BSPS so that the scheme can remain outside the Pension Protection Fund ('PPF') on a self-sufficient basis. This process has started and remains ongoing but, pending its conclusion and the conclusion of the current consultation period in respect of the BSPS, the outcome of the restructuring or sale, the form of any support package from the UK and Welsh Government and a legislative solution to the BSPS remain uncertain.

The Company and its subsidiaries are financed in part through the Senior Facilities Agreement and other long term loans

introduced by the parent from time to time and in part through working capital support provided by Proco a subsidiary of TSL, under arrangements which have been authorised, and are supported, by TSL.

TSL has approved the continued provision of working capital support to the Company and the operations of the Company's material subsidiaries, including in the Netherlands and the UK, subject to certain restrictions. The Netherlands subsidiary continues to be cash generative and trading performance of the Group, including the UK, in quarter one FY 2016/17 has been positive leading to an improved outlook for the remainder of the financial year.

Based on the mandate of the ultimate parent of the Company, TSL, on 29 March 2016, the Board of TSE is evaluating all options for TSUK, including the potential divestment. Currently, the process of evaluation of a potential divestment is underway and TSE is engaged in discussions with the UK and Welsh Government to facilitate the restructuring options. In the absence of a conclusive outcome of the restructuring or sale, there exists a material uncertainty for the future of TSUK.

For these reasons, while the Directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future, they have concluded that there exists a material uncertainty which may cast significant doubt about TSUK's ability to continue as a going concern. The Company has considered the position of TSUK, its arrangements with TSUK and the mitigating actions that could be taken and on this basis the directors of the Company have concluded that it is appropriate to prepare these financial statements for the Company on a going concern basis. However, if TSUK were not a going concern, adjustments might be required to the consolidated financial statements (including to write-down fixed assets and to provide for any claims or obligations) and to write down the carrying value of the investment in and inter-company loans to subsidiary undertakings in the Company's own balance sheet.

However, the Directors continue to adopt the going concern basis in preparing the financial statements. The financial statements do not include the adjustments that would result from a potential sale or restructuring as it is not practicable to identify or quantify them.

### II New Standards and interpretations applied

The following new International Accounting Standards (IAS) and new IFRSs have been adopted in the current year:

		Effective Date*
IAS 19 (Amendment)	Employee Benefits	1 Feb 2015
Annual Improvements	2010/2012 Cycle	1 Feb 2015
Annual Improvements	2011/2013 Cycle	1 Jan 2015

\* periods commencing on or after

The Amendments to the above Standards have had no impact on the TSUKH financial statements

## E6. Presentation of accounts and accounting policies

All other accounting policies in the preparation of the financial statements remained consistent with those applied in the preparation of the Annual Report in 2015.

### III New Standards and interpretations not applied

The International Accounting Standards Board has issued the following Standards, which are relevant to the Group's reporting but have either not been applied as they have not been adopted for use in the EU in the year ended 31 March 2016, or have an effective date after the date of these financial statements:

		Effective Date*
IFRS 9	Financial Instruments	1 Jan 2018
IFRS 14	Regulatory Deferral Accounts	1 Jan 2016
IFRS 15	Revenue from Contracts with Customers	1 Jan 2018
IFRS 16	Leases	1 Jan 2019
IFRS 10 (Amendments)	Consolidated Financial Statements	1 Jan 2016
IFRS 11 (Amendments)	Joint Arrangements on Acquisition of an Interest in a Joint Operation	1 Jan 2016
IAS 7 (Amendments)	Statement of Cash Flows	1 Jan 2017
IAS 12 (Amendments)	Income Taxes	1 Jan 2017
IAS 16 (Amendments)	Property, Plant and Equipment	1 Jan 2016
IAS 38 (Amendments)	Intangible Assets	1 Jan 2016
IAS 27 (Amendments)	Separate Financial Statements	1 Jan 2016
IAS 1 (Amendments)	Presentation of Financial Statements	1 Jan 2016

\* periods commencing on or after

IFRS 9 'Financial Instruments' brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets. The impairment model is based on the concept of providing for expected losses at inception of a contract, except in the case of purchased or originated credit-impaired financial assets, where expected credit losses are incorporated into the effective interest rate. The Standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018. The company has assessed the impact of the new Standard and concluded that it will not have a material impact on the TSUKH financial statements.

IFRS 15 'Revenue from contracts with customers' specifies how and when revenue is recognised as well as describes more informative and relevant disclosures. The Standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue related interpretations. The new Standard provides a single, principles based five-step model to be applied to all contracts with customers. The core principle of IFRS 15 requires an entity to recognize revenue to

depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The Standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalised. Costs that do not meet the criteria must be expensed when incurred. IFRS 15 must be applied for periods beginning on or after 1 January 2018. The Company has assessed the impact of the new Standard and concluded that it will not have a material impact on the TSUKH financial statements.

IFRS 16 'Leases' eliminates the classification of leases as either finance leases or operating leases. All leases are required to be reported on an entity's balance sheet as assets and liabilities. Leases are capitalised by recognising the present value of the lease payments and showing them either as lease assets or together with property, plant and equipment. If lease payments are made over time a financial liability representing its future obligation will be recognised. IFRS 16 will be effective from 1 January 2019, with early application being permitted for entities that also apply IFRS 15 'Revenue from contracts with customers'. The Company is currently assessing the impact of the new Standard and expects there to be a material increase to the asset and liabilities recognised in the TSUKH financial statements, as well as the corresponding impact of the classification on the income statement, once the new Standard is adopted.

The Company does not expect the remaining new Standards to have any material impact on the TSUKH financial statements.

### IV Use of estimates and critical accounting judgements

The preparation of accounts in accordance with IFRS and FRS 101 requires management to make estimates and assumptions that affect the:

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

Critical accounting judgements and the key sources of estimation or uncertainty in applying the Group's accounting policies arise in relation to the basis of preparation (see page 28), impairment of property, plant and equipment and goodwill, assets held for sale and discontinued operations, the recognition of deferred tax assets, retirement benefits, provisions created for rationalisation and related costs, environmental remediation, legal claims and employee benefits. Each of these areas relies upon a number of estimates and judgements which are subject to uncertainty and which may lead to an adjustment within the next financial year.

A significant part of the Group's capital is invested in property, plant and equipment and intangible assets (including goodwill). Determining whether these assets are impaired requires an estimation of value in use of the cash generating unit ('CGU') to which the asset relates. Value in use calculations require an estimation of future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Further details on the Group's impairment review and key assumptions are set out in notes 6, 7 and 8.

## E6. Presentation of accounts and accounting policies

The recognition of non-current assets (or disposal groups) as held for sale is dependent upon whether its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Significant judgement is required to assess whether the sale of the assets (or disposal group) is highly probable. A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale. Judgement is required to assess whether the component represents a separate major line of business or geographical area of operation, and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation. Further information can be found in note 15.

The recognition of deferred tax assets is subject to estimations of the future available taxable profits that the directors consider to be more likely than not to occur, based on the Group's annual plans and future forecasts. Further information can be found in note 21.

The Group's retirement benefit obligations are subject to a number of judgements including discount rates, inflation, salary growth and mortality rates. Significant judgement is required when setting these criteria and a change in each of these assumptions would have a significant impact on the amounts recorded within the Group balance sheet and income statement. The Group sets these judgements based on previous experience and third party actuarial advice. The Group's main defined benefit scheme, being BSPS in the UK, is in a net surplus position at the balance sheet date on an IAS 19 basis. The surplus in the BSPS is not immediately realisable. The final amount realised may differ from the amount recognised in the balance sheet. Further details on the Group's retirement benefit obligations, including a sensitivity analysis of key judgements are included within note 30.

Estimates in calculating provisions for rationalisation and related costs, environmental remediation, legal claims and employee benefits are based on previous experience and third party advice and are reassessed on a regular basis. Judgement is required in assessing the likely costs and the timing of those costs. Further details on the Group's redundancy and rationalisation provisions can be found in note 2 and in note 20.

The detailed accounting policies for each of these areas are outlined in section V below.

### V Critical accounting policies

#### (a) 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.

#### (b) Depreciation, amortisation and impairment of property, plant and equipment and other intangible assets (including goodwill)

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:

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

At each reporting period end, the Group reviews the carrying amounts of its property, plant and equipment and other intangible assets (including goodwill) 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 CGU to which the asset belongs. Other intangible assets with indefinite useful lives are

## E6. Presentation of accounts and accounting policies

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 ('WACC'), which also recognises the comparative WACCs of its European peers, with appropriate adjustments for the risks associated with the relevant units. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised as income immediately, although impairments of goodwill are not subject to subsequent reversal.

### (c) 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 operation, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operation, 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.

### (d) 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.

### (e) 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 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 and net interest cost 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 asset recognised in the balance sheet represents the fair value of scheme assets less the present value of the defined benefit obligation as adjusted for unrecognised past service cost. 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.

The company has assessed the International Accounting Standards Board's exposure draft on proposed amendments to IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, which was issued in June 2015. This provides additional clarity on the role of trustees' rights in an assessment of the recoverability of a surplus in an employee pension fund. Based on the existing scheme rules the assessment concluded that the Company has an unconditional right to a refund of any surplus after a full run-off, or in the event of a



## E6. Presentation of accounts and accounting policies

wind-up as the BPS Trustee does not have any unilateral power to wind-up the scheme or to augment benefits during the life of the plan.

### (f) 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.

TSUKH 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.

## VI Other accounting policies

### (a) 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.

### (b) 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 (including the fair value of any contingent consideration) over the fair values of the Group's share of the identifiable net assets acquired is treated as goodwill. The costs of acquisition are charged to profit and loss in the period in which they are incurred. 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.

Where an acquisition is achieved in stages, upon obtaining control the previously held equity interest is reassessed at fair value and any resulting gain or loss is recognised in profit and loss.

The Group has applied IFRS 3 (Revised) 'Business Combinations' to business combinations after 1 April 2010. The accounting for business combinations transacted prior to this date has not been restated.

### (c) 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.

### (d) Government grants

Grants related to expenditure on property, plant and equipment are credited to the income statement over the useful lives of qualifying assets. Grants related to revenue are credited to the income statement in line with the timing of when costs associated with the grants are incurred. Total grants received less the amounts credited to income statement at the end of the reporting period are included in the balance sheet as deferred income.

### (e) Insurance

Certain aspects of the Group's insurances are handled by its captive insurance company, Crucible Insurance Company Limited, which 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.

### (f) 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

## E6. Presentation of accounts and accounting policies

related security. Premiums payable on early redemptions of debt securities, in lieu of future interest costs, are written off as interest expense when paid.

### **(g) 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 (h) below for details of the Group's accounting policies in respect of such derivative financial instruments). In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions.

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.

### **(h) 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:

#### **(i) 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, and credit insurance. 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. Where trade receivables are sold prior to settlement by customers, they are derecognised with the respective default deductions and discount costs simultaneously charged to profit and loss.

#### **(ii) 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.

#### **(iii) Financial liabilities and equity related instruments**

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

#### **(iv) 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.

#### **(v) Trade payables**

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

#### **(vi) Equity instruments**

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

#### **(vii) 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, 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 interest rate swaps and commodity contracts.

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 re-measured 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

## E6. Presentation of accounts and accounting policies

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 re-measuring 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.

### (i) 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.

Costs are no longer recognised as an asset 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 section V (b) above.

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.

### (j) 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 TSUKH 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 the income statement 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.

### (k) Joint ventures, joint operations 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 section (c) above).

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.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint operations are accounted for by recognising the share of assets, liabilities, expenses and income relating to the joint operation.

### (l) 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

## E6. Presentation of accounts and accounting policies

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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.

### **(m) 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.

## E7. Notes to the financial statements

### For the financial year ended 31 March

#### 1. Operating costs

	2016 £m	2015 £m
<b>Costs by type:</b>		
Raw materials and consumables	3,102	3,659
Maintenance costs (excluding own labour)	582	620
Other external charges (including fuels & utilities, hire charges and carriage costs)	1,243	1,373
Employment costs (Note 3)	765	1,604
Depreciation, amortisation and impairments (Notes 7 and 8)	1,084	640
Regional development and other grants relating to property, plant and equipment released (Note 22)	(1)	(2)
Other operating items (including rents, rates, insurance and general expenses)	353	311
Changes in inventory of finished goods and work in progress	203	59
Own work capitalised	(24)	(28)
Profit on disposal of property, plant and equipment	(3)	(4)
Profit on disposal of group company	-	(4)
	<b>7,304</b>	<b>8,228</b>

	Operating items before restructuring, impairment and disposals £m	Restructuring, impairment and disposals £m	Total £m
<b>The above costs in 2016 include:</b>			
Raw materials and consumables	3,102	-	3,102
Maintenance costs (excluding own labour)	582	-	582
Other external charges (including fuels & utilities, hire charges and carriage costs)	1,243	-	1,243
Employment costs (Note 3)	578	187	765
Depreciation, amortisation and impairments (Notes 7 and 8)	258	826	1,084
Regional development and other grants relating to property, plant and equipment released (Note 22)	(1)	-	(1)
Other operating items (including rents, rates, insurance and general expenses)	348	5	353
Changes in inventory of finished goods and work in progress	203	-	203
Own work capitalised	(24)	-	(24)
Profit on disposal of property, plant and equipment	-	(3)	(3)
	<b>6,289</b>	<b>1,015</b>	<b>7,304</b>

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

	2016 £m	2015 £m
<b>The above costs are stated after including:</b>		
Impairment losses related to amortisation of intangible fixed assets (Note 7)	61	-
Amortisation of other intangible assets (Note 7)	20	21
Depreciation of owned assets (Note 8)	232	334
Impairment losses related to property, plant and equipment (Note 8)	765	276
Depreciation of assets held under finance leases (Note 8)	6	9
Net exchange rate losses/(gains)	16	(7)
Operating leases:		
Plant and machinery	36	37
Leasehold property	35	50
Costs of research and development (gross)	54	50
Recoveries on research and development	(4)	(6)
Release of grants relating to revenue (Note 22)	(2)	(2)
Impairments against trade receivables (Note 13(ii))	5	5
Provision for emission rights	25	-
Sale of emission rights	(78)	-

## E7. Notes to the financial statements

The analysis of the Group auditor's remuneration is as follows:

	2016	2015
	£m	£m
Fees payable to the Group's auditor and their associates for the audit of the Group	2.0	2.0
Audit-related assurance services	0.8	0.9
Taxation services	0.4	0.4
Total non-audit fees	1.2	1.3
Total Group auditor's remuneration	3.2	3.3

Fees payable in respect of the audit of the Company were £10,900 (2015: £10,900). Fees payable for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. Fees payable in respect of audit-related assurance services of £0.8m (2015: £0.9m) primarily relate to quarterly reviews undertaken by the Group's auditor.

### 2. Net restructuring and impairment costs

	2016	2015
	£m	£m
Provision for restructuring and related measures:		
Redundancy and related costs	75	14
Pension curtailment costs (Note 30)	112	4
Impairment losses related to property, plant and equipment (Note 8)	765	276
Impairment losses related to intangible fixed assets (Note 7)	61	-
Other rationalisation costs	13	4
	1,026	298
Credits for restructuring and related measures:		
Redundancy and related costs	-	(7)
Pension curtailment costs	-	(1)
Other rationalisation costs	(8)	(3)
	(8)	(11)
Total net restructuring and impairment costs	1,018	287

The provision for redundancy and related costs of £75m in 2016 related to restructuring measures in mainly UK units including Strip Products UK, the UK Long Products business, Speciality & Bar and the Group's central functions. The pension curtailment costs of £112m in 2016 related to the impact on the BSPS of the restructuring measures announced in the UK in 2016.

The provision for redundancy and related costs of £14m in 2015 related to restructuring measures across a number of units including Strip Products UK, Tubes UK, and the Group's central functions, with the credit for redundancy and related costs of £7m relating mainly to a re-assessment of provisions previously recognised in respect of the Long Products hub and the UK electrical steels site.

### 3. Employees

	2016	2015
	£m	£m
The total employment costs of all employees (including directors) in the Group were:		
Wages and salaries	1,216	1,303
Social security costs	141	145
Other pension costs (Note 30)	(779)	146
Redundancy and related costs (Note 2)	187	10
	765	1,604

(i) The average number of employees during the year was 29,800 (2015: 30,400).

The emoluments of Mr D Dutta and Mr S Biswas are paid by other companies within the Tata Steel Group which make no recharges to TSUKH.

## E7. Notes to the financial statements

Mr N K Misra is a director of TSE and a number of fellow subsidiaries. It is not possible to make an accurate apportionment of his emoluments in respect of each of the subsidiaries. Accordingly, his emoluments are disclosed in the aggregate of the directors emoluments in the financial statements of TSE with whom he has his primary contract.

(iv) Other pension costs can be further analysed as follows:

	2016 £m	2015 £m
Past service credit in BSPS defined benefit scheme (Note 30)	(897)	-
Settlement of SPH defined benefit scheme (Note 30)	(57)	-
Other defined benefit scheme costs (Note 30)	128	141
Other defined contribution scheme costs (Note 30)	47	5
	<b>(779)</b>	<b>146</b>

### 4. Financing items

	2016 £m	2015 £m
Interest expense:		
Bank and other borrowings	119	159
Finance leases	6	5
Interest on loans from immediate parent company (Note 33)	102	64
Interest on loans from parent company (Note 33)	14	15
Interest on loans from other Group companies (Note 33)	46	57
Discount on disposal of trade receivables within purchase agreement with Group company (Note 33)	76	107
Amounts included in the cost of qualifying assets (Note 8 (v))	(5)	(2)
Finance costs	<b>358</b>	<b>405</b>
Interest income:		
Cash and short term deposits and short term investments	(1)	(2)
Finance income	<b>(1)</b>	<b>(2)</b>
	<b>357</b>	<b>403</b>

### 5. Taxation

	2016 £m	2015 £m
UK prior year credit	1	-
UK taxes	-	1
Overseas prior year charge	(2)	-
Overseas taxes	(6)	(1)
Current tax	(7)	-
UK deferred tax	(10)	73
Overseas deferred tax	3	11
	<b>(14)</b>	<b>84</b>

## E7. Notes to the financial statements

The total income statement (credit)/charge for the year can be reconciled to the accounting loss as follows:

	2016	2015
	£m	£m
Loss before taxation	(898)	(753)
Loss multiplied by the applicable corporation tax rate of 20.0% (2015: 21.5%)	(179)	(162)
Effects of:		
Impact of tax rate change	1	-
Adjustments to current tax in respect of prior periods	(1)	-
Adjustments to deferred tax in respect of prior periods	-	(9)
Utilisation of tax losses not previously recognised	(2)	(1)
Tax losses not recognised	168	293
Fees previously capitalised on refinancing	-	(21)
Other permanent differences	(1)	(16)
	<b>(14)</b>	<b>84</b>

The applicable corporation tax rate is the average tax rate weighted in proportion to the accounting profits earned in each geographical area. The decrease in the rate is caused by a change in the profitability and statutory tax rates in the various geographical areas, to include a reduction from 21% to 20% in the UK.

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

	2016	2015
	£m	£m
Relating to components of other comprehensive income:		
Actuarial losses on defined benefit pension plans and other post-retirement plans	34	(72)
Revaluation of financial instruments treated as cash flow hedges	1	15
	<b>35</b>	<b>(57)</b>

### 6. Goodwill

	2016	2015
	£m	£m
<b>As at 31 March</b>		
Net book value	<b>405</b>	<b>405</b>

The total net book value predominantly relates to the goodwill that arose on the acquisition of Corus Group and has been tested against the recoverable amount of the Strip Products Mainland Europe CGU. This goodwill related to expected synergies from combining Corus' activities with those of Tata Steel Limited and to assets, which could not be recognised as separately identifiable intangible assets. Goodwill acquired through this and other acquisitions is tested annually for impairment or more frequently if there are any indications that goodwill may be impaired.

The recoverable amount of the Strip Products Mainland Europe CGU has been determined from a value in use calculation. The calculation uses cash flow forecasts based on the most recently approved financial budgets and strategic forecasts which cover a period of three years and future projections taking the analysis out to 15 years. Key assumptions for the value in use calculation are those regarding expected changes to selling prices and raw material costs, EU steel demand, exchange rates, and a discount rate of 7.4% (2015: 8.0%). Changes in selling prices, raw material costs, exchange rates and EU steel demand are based on expectations of future changes in the steel market based on external market sources. A nil growth rate is used to extrapolate the cash flow projections beyond the three-year period of the financial budgets to year 15. The pre-tax discount rate of 7.4% (2015: 8.0%) is derived from the Group's weighted average cost of capital (WACC) and the WACCs of its main European steel competitors. The outcome of the Group's goodwill impairment test as at 31 March 2016 for the Strip Products Mainland Europe CGU resulted in no impairment of goodwill (2015: £nil). The directors believe that no reasonably possible change in any of the key assumptions used in the value in use calculation would cause the carrying value of the CGU to materially exceed its value in use.



## E7. Notes to the financial statements

### 7. Other intangible assets

Group:					
2016	Computer software £m	Development costs £m	Patents and trademarks £m	Favourable contracts £m	Total £m
Cost as at 1 April 2015	224	51	1	-	276
Additions	14	3	-	-	17
Disposals	(1)	-	(1)	-	(2)
Exchange rate movements	1	5	-	-	6
Change in classification	3	(3)	-	-	-
Cost as at 31 March 2016	241	56	-	-	297
Amortisation as at 1 April 2015	98	34	-	-	132
Charge for the period	14	5	1	-	20
Impairment losses recognised during the period (Note 2)	61	-	-	-	61
Amortisation on disposals	(1)	-	(1)	-	(2)
Exchange rate movements	1	2	-	-	3
Amortisation as at 31 March 2016	173	41	-	-	214
Net book value as at 31 March 2016	68	15	-	-	83

Group:					
2015	Computer software £m	Development costs £m	Patents and trademarks £m	Favourable contracts £m	Total £m
Cost as at 1 April 2014	215	52	1	267	535
Additions	21	5	-	-	26
Disposals	(9)	-	-	(267)	(276)
Exchange rate movements	(3)	(6)	-	-	(9)
Cost as at 31 March 2015	224	51	1	-	276
Amortisation as at 1 April 2014	92	35	-	267	394
Charge for the period	16	5	-	-	21
Amortisation on disposals	(9)	-	-	(267)	(276)
Exchange rate movements	(1)	(6)	-	-	(7)
Amortisation as at 31 March 2015	98	34	-	-	132
Net book value as at 31 March 2015	126	17	1	-	144

The remaining amortisation period for computer software is approximately 4.3 years (2015: 7.9 years).

The Group recognised an impairment charge of £52m in the current year (2015: £nil) against computer software costs previously capitalised for the UK part of the Supply Chain Transformation (SCT) programme. The recoverable amount of this asset was tested for impairment using the Strip Products UK CGU (Note 8). The remaining £9m impairment was associated with the Long Product Business.

## E7. Notes to the financial statements

### 8. Property, plant and equipment

2016	Land and buildings £m	Plant and machinery £m	Loose plant and tools £m	Assets in course of construction £m	Total £m
Cost or valuation as at 1 April 2015	907	4,689	282	298	6,176
Additions	4	34	48	215	301
Disposals	(9)	(44)	(25)	-	(78)
Exchange rate movements	45	208	7	17	277
Transfers	7	125	-	(132)	-
<b>Cost or valuation as at 31 March 2016</b>	<b>954</b>	<b>5,012</b>	<b>312</b>	<b>398</b>	<b>6,676</b>
Depreciation as at 1 April 2015	450	3,199	198	66	3,913
Charge for the period	47	164	27	-	238
Impairment losses recognised during the period	2	601	52	28	683
Disposals	(4)	(44)	(24)	-	(72)
Exchange rate movements	23	139	4	1	167
Transfers	1	26	-	(27)	-
<b>Depreciation as at 31 March 2016</b>	<b>519</b>	<b>4,085</b>	<b>257</b>	<b>68</b>	<b>4,929</b>
<b>Net book value as at 31 March 2016</b>	<b>435</b>	<b>927</b>	<b>55</b>	<b>330</b>	<b>1,747</b>
Spares (net book value)					105
<b>Net book value as at 31 March 2016</b>					<b>1,852</b>

2015	Land and buildings £m	Plant and machinery £m	Loose plant and tools £m	Assets in course of construction £m	Total £m
Cost or valuation as at 1 April 2014	954	4,791	280	397	6,422
Additions	5	14	47	210	276
Disposals	(14)	(84)	(37)	-	(135)
Acquisition of Group undertakings	13	5	-	-	18
Disposal of Group undertakings	-	(4)	-	-	(4)
Exchange rate movements	(73)	(300)	(9)	(19)	(401)
Transfers	22	267	1	(290)	-
Cost or valuation as at 31 March 2015	907	4,689	282	298	6,176
Depreciation as at 1 April 2014	444	3,010	176	19	3,649
Charge for the period	26	282	35	-	343
Impairment losses recognised during the period	15	169	22	50	256
Disposals	(7)	(70)	(35)	-	(112)
Disposal of Group undertakings	-	(3)	-	-	(3)
Exchange rate movements	(30)	(184)	(5)	(1)	(220)
Transfers	2	(5)	5	(2)	-
Depreciation as at 31 March 2015	450	3,199	198	66	3,913
Net book value as at 31 March 2015	457	1,490	84	232	2,263
Spares (net book value)					162
Net book value as at 31 March 2015					2,425

(i) The Group recognised an impairment charge of £765m in the current year (2015: £276m) against property, plant and equipment (Note 2), with £82m of this impairment charge being allocated against spares (2015: £20m).

Consistent with the annual test for impairment of goodwill as at 31 March 2016 (Note 6), property, plant and equipment was also tested for impairment at that date where indicators of impairment existed. The outcome of this test indicated that the value in use of certain of the Group's CGUs against which property, plant and equipment is included, using a discount rate of 7.4% (2015: 8.0%), was lower than its carrying value due to a significant deterioration to trading conditions in the UK steel market, which are expected to remain weak over the medium term. Accordingly, an impairment charge of £765m was recognised in the year (2015: £276m) contained in the following units: Strip Products UK £677m (2015: £nil), consistent with the impairment recognised against the UK part of the SCT programme (Note 7), the UK Longs Products Business £44m (2015: £267m),

## E7. Notes to the financial statements

Speciality & Bar £14m (2015: £nil), Packaging UK £14m (2015: £nil) and £16m mainly in other smaller UK downstream businesses (2015: £9m).

The Group has conducted sensitivity analysis on the impairment tests of the carrying value of the Group's CGUs and property, plant and equipment. The directors believe that no reasonably possible change in any of the key assumptions used in the value in use calculations (Note 6) would cause the carrying value of property, plant and equipment in any CGU to materially exceed its value in use, other than in respect of the remaining property, plant and equipment at the Strip Products UK business which had a carrying value at 31 March 2016 of £113m. At this site the value in use is dependent on an improvement to UK steel market margins and the implementation of a business transformation plan, which may be impacted by a potential divestment of TSE's UK operations as disclosed on page 28. A reasonably possible change in any of these key assumptions would increase the likelihood of further impairment losses in the future.

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.

(ii)

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
The net book value of land and buildings comprises:		
Freehold	396	420
Long leasehold (over 50 years unexpired)	13	11
Short leasehold	26	26
	<b>435</b>	<b>457</b>
Which may be further analysed as:		
Assets held under finance leases:		
Cost	45	39
Accumulated depreciation	(21)	(19)
	<b>24</b>	<b>20</b>
Owned assets	411	437
	<b>435</b>	<b>457</b>

(iii)

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
The net book value of plant and machinery comprises:		
Assets held under finance leases:		
Cost	189	168
Accumulated depreciation and impairment losses	(168)	(148)
	<b>21</b>	<b>20</b>
Owned assets	906	1,470
	<b>927</b>	<b>1,490</b>

(iv)

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
The net book value of spares comprises:		
Cost	572	541
Accumulated depreciation and impairment losses	(467)	(379)
	<b>105</b>	<b>162</b>

(v) There was £5m (2015: £2m) of borrowing costs capitalised in the period using a capitalisation rate of 1.0% (2015: 0.9%).

## E7. Notes to the financial statements

### 9. Equity accounted investments

Group:

As at 31 March	Interests in joint ventures £m	Investments in associates £m	2016 Total £m	2015 Total £m
<b>Cost</b>				
At beginning of period	28	8	36	68
Disposals	(7)	-	(7)	(11)
Exchange rate movements	1	1	2	(4)
Transfers to assets held for sale	(4)	-	(4)	(17)
At end of period	18	9	27	36
<b>Post acquisition reserves</b>				
Share at beginning of period	1	4	5	1
Share of retained results in the period	(1)	1	-	-
Disposals	(1)	-	(1)	8
Exchange rate movements	1	-	1	(2)
Transfers to assets held for sale	2	-	2	(2)
Share at end of period	2	5	7	5
<b>Cost at end of period</b>	<b>20</b>	<b>14</b>	<b>34</b>	<b>41</b>
Cost at beginning of period	29	12	41	69
<b>Provision</b>				
Provision at beginning of period	3	-	3	-
Charge for the period	3	-	3	3
Transfer to assets held for sale	(1)	-	(1)	-
<b>Provision at end of period</b>	<b>5</b>	<b>-</b>	<b>5</b>	<b>3</b>
<b>Net book value at end of period</b>	<b>15</b>	<b>14</b>	<b>29</b>	<b>38</b>
Net book value at beginning of period	26	12	38	69

(i) The Group's equity accounted investments are listed in Note 36.

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

As at 31 March	2016 £m	2015 £m
Share of the assets and liabilities of the Group's joint ventures:		
Non-current assets	37	41
Current assets	32	51
Current liabilities	(28)	(42)
Non-current liabilities	(21)	(21)
Group's share of net assets	20	29
Share of the revenue and expenses of the Group's joint ventures:		
Revenue	87	207
Expenses	(87)	(202)
Group's share of joint ventures' profit for the period after taxation	-	5
Dividends received	(1)	(5)
Group's share of retained results in the period	(1)	-

## E7. Notes to the financial statements

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

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Summarised balance sheet information:		
Total assets	66	65
Total liabilities	(22)	(27)
Net assets	44	38
Group's share of net assets	14	12
Summarised income statement information:		
Revenue	190	186
Profit for the period	6	4
Group's share of associate's profit for the period after taxation	2	1
Dividends received	(1)	(1)
Group's share of retained results in the period	1	-

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

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Group's share of joint ventures' profit for the period	-	5
Group's share of associates' profit for the period	2	1
	2	6
Impairment due to Danieli Corus Technical Services BV reclassified to assets held for sale (Note 15)	-	(3)
Profit on disposal of Danieli Corus Technical Services BV previously classified as held for sale	2	-
Provision for impairment	(3)	(3)
Revaluation of equity investment in Norsk Stål Tynnplater AS to fair value	-	(1)
Share of post-tax results of joint ventures and associates	1	(1)

(iv) On 31 March 2015 the Group reclassified its 50% investment in Danieli Corus Technical Services BV to assets held for sale for a fair value of £16m. For further information please refer to Note 15. On 7 May 2016, the Group completed the sale of its 50% investment in Danieli Corus Technical Services BV. This resulted in a profit on disposal of £2m recognised in share of post-tax results of joint ventures and associates.

(v) In 2016, the Group recognised an impairment charge of £3m to reflect the diminution in value of Caparo Merchant Bar plc. In 2015, the Group recognised an impairment charge of £3m to reflect the diminution in value of certain of its joint ventures in Greece which have been adversely impacted by the Greek financial crisis and its impact on the local construction market.

(vi) On 31 March 2016 the Group reclassified its 50% investment in Corus Kalpinis Simos Cladding Industry SA to assets held for sale for a fair value of £1m. For further information please refer to Note 15.

(vii) On 22 June 2015, the Group completed the sale of its 50% investment in Norsk Stal AS, which resulted in a profit on disposal of £nil.

## E7. Notes to the financial statements

### Company:

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost at 1 April 2015	3,660	2,036	5,696
Additions	862	1,013	1,875
Disposals	-	(862)	(862)
Foreign exchange movements	-	61	61
Cost at 31 March 2016	4,522	2,248	6,770
Impairment as at 1 April 2015	1,405	-	1,405
Impairment losses recognised in the period	458	-	458
Impairment as at 31 March 2016	1,863	-	1,863
<b>Net book value at 31 March 2016</b>	<b>2,659</b>	<b>2,248</b>	<b>4,907</b>
Net book value at 31 March 2015	2,255	2,036	4,291

During the year ended 31 March 2015, the Company loaned £874m to Tata Steel UK Limited. Interest is charged at LIBOR +5% and is being rolled into the loan on a 6 monthly basis.

The Company's subsidiaries and investments are listed in Note 36 of the consolidated accounts.

The carrying values of the Company's investments are tested annually for impairment using an enterprise value calculation. The calculation uses cash flow forecasts based on the most recently approved financial budgets and strategic forecasts which cover a period of three years and future projections taking the analysis out into perpetuity. Key assumptions for the value in use calculation are those regarding expected changes to selling prices and raw material costs, EU steel demand, exchange rates, and a discount rate of 7.4% (2015: 8.0%). Changes in selling prices, raw material costs, exchange rates and EU steel demand are based on expectations of future changes in the steel market based on external market sources. A nil (2015: nil%) growth rate is used to extrapolate the cash flow projections beyond the three-year period of the financial budgets to year 15 and then 2.0% (2015: nil%) for the period thereafter for the non-UK based businesses. The pre-tax discount rate of 7.4% (2015: 8.0%) is derived from the Group's weighted average cost of capital (WACC) and the WACCs of its main European steel competitors. The outcome of the test at 31 March 2016 resulted in a permanent diminution of £414m in the value of the Company's investment in Tata Steel Netherlands Holdings BV due to weaker market conditions mainly in the UK construction market, which is expected to remain weak over the near and medium term.

As disclosed on page 28 if TSUK was not a going concern adjustments might be required to write down the carrying value of the investment in and inter-company loans to subsidiary undertakings in the Company balance sheet.

### 10. Other investments

	Loans and receivables £m	Available for sale investments £m	2016 Total £m	2015 Total £m
Carrying value as at 1 April 2015	7	42	49	52
Additions	6	8	14	15
Disposals	(2)	(10)	(14)	(18)
Revaluations	-	2	2	-
Carrying value as at 31 March 2016	11	40	51	49

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

## E7. Notes to the financial statements

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

	2016			2015		
	Fixed rate long term financial assets	Floating rate long term financial assets	Total	Fixed rate long term financial assets	Floating rate long term financial assets	Total
	£m	£m		£m	£m	
Sterling	19	4	23	20	5	25
Euros	15	2	17	11	2	13
US Dollars	11	-	11	11	-	11
	<b>45</b>	<b>6</b>	<b>51</b>	<b>42</b>	<b>7</b>	<b>49</b>
Disclosed as:						
Loans and receivables	9	2	11	5	2	7
Available for sale investments	39	4	40	37	5	42

	2016		2015	
	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	4.4	3.9	4.2
Euros	1.9	4.5	2.2	4.9
US Dollars	1.6	2.9	2.6	3.5

(ii) Contractual maturities of other investments are as follows:

As at 31 March	2016	2015
	£m	£m
Within one year	2	4
Between two and five years	26	28
Greater than five years	12	9
No contractual maturity date	11	8
	<b>51</b>	<b>49</b>

(iii) Of the available for sale investments of £41m above (2015: £42m), £36m (2015: £39m) are held by TSUKH's subsidiary company Crucible Insurance Company Limited to fund insurance liabilities of the Group analysed as follows:

As at 31 March	2016	2015
	£m	£m
UK listed investments	14	18
Overseas listed investments	22	21
	<b>36</b>	<b>39</b>

### 11. Inventories

As at 31 March	2016	2015
	£m	£m
Raw materials and consumables	374	572
Work in progress	447	494
Finished goods and goods for resale	369	492
	<b>1,190</b>	<b>1,558</b>

The value of inventories above is stated after impairment of £103m (2015: £97m) for obsolescence and write-downs to net realisable value.

## E7. Notes to the financial statements

### 12. Current tax

	Assets £m	Liabilities £m
<b>2016</b>		
UK corporation tax	-	1
Overseas taxation	4	5
	<b>4</b>	<b>6</b>
<b>2015</b>		
UK corporation tax	-	3
Overseas taxation	3	6
	<b>3</b>	<b>9</b>

### 13. Trade and other receivables

Group:

As at 31 March	2016 £m	2015 £m
Trade receivables	741	711
Less provision for impairment of receivables	(14)	(13)
	<b>727</b>	<b>698</b>
Amounts owed by other Group companies (Note 33)	10	11
Amounts owed by ultimate parent undertaking (Note 33)	-	1
Amounts owed by parent undertaking (Note 33)	41	11
Amounts owed by joint ventures (Note 33)	16	25
Amounts owed by associates (Note 33)	5	3
Derivative financial instruments (Note 19)	31	67
Other taxation	9	13
Prepayments	31	27
Deferred proceeds on sale of business (Note 15)	5	-
Other receivables	74	101
	<b>949</b>	<b>957</b>

(i) Trade receivables are further analysed as follows:

As at 31 March 2016	Gross credit risk amount £m	Subject to credit insurance cover £m	Impairment provision made £m	Net credit risk amount £m
Amounts not yet due	659	(558)	(1)	100
One month overdue	45	(40)	-	5
Two months overdue	5	(4)	-	1
Three months overdue	3	-	-	3
Greater than three months overdue	29	(15)	(13)	1
	<b>741</b>	<b>(617)</b>	<b>(14)</b>	<b>110</b>
<b>As at 31 March 2015</b>				
Amounts not yet due	654	(576)	(1)	77
One month overdue	15	(12)	-	3
Two months overdue	10	(7)	-	3
Three months overdue	7	(6)	-	1
Greater than three months overdue	25	(11)	(12)	2
	<b>711</b>	<b>(612)</b>	<b>(13)</b>	<b>86</b>



## E7. Notes to the financial statements

The Group considers its maximum exposure to credit risk with respect to customers at 31 March 2016 to be £110m (2015: £86m), which is the fair value of trade receivables (after impairment provisions) less those that are subject to credit insurance cover as shown in the table above. The other classes of financial assets within trade and other 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 19.

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

<b>As at 31 March</b>	<b>2016</b>	2015
	£m	£m
At beginning of period	13	20
Impairments in the period (Note 1)	5	5
Amounts utilised, exchange rate and other movements	(4)	(12)
<b>At end of period</b>	<b>14</b>	<b>13</b>
<b>Company:</b>		
<b>As at 31 March</b>	<b>2016</b>	2015
	£m	£m
Amounts owed by subsidiary undertakings	294	290
Interest owed by subsidiary undertakings	36	38
	<b>330</b>	<b>328</b>

Details of the Company's credit risk are not disclosed because the financial statements of TSE disclose such details on a consolidated basis.

### 14. Cash, short term deposits and short term investments

<b>As at 31 March</b>	<b>2016</b>	2015
	£m	£m
Cash at bank and in hand	278	187
Short term deposits	8	34
<b>Cash and short term deposits</b>	<b>286</b>	<b>221</b>
Short term investments	1	2
	<b>287</b>	<b>223</b>

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

<b>As at 31 March</b>	<b>2016</b>				<b>2015</b>			
	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	31	5	-	36	41	31	-	72
Euros	170	-	-	170	108	-	-	108
US Dollars	62	-	-	62	22	-	-	22
Other	15	3	1	19	16	3	2	21
	<b>278</b>	<b>8</b>	<b>1</b>	<b>287</b>	<b>187</b>	<b>34</b>	<b>2</b>	<b>223</b>
Floating interest rate	278	5	1	284	187	1	2	190
Fixed interest rate	-	3	-	3	-	33	-	33

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 1.2% (2015: 0.4%). During each of the periods above cash earned interest based on LIBOR or other official local rates.

## E7. Notes to the financial statements

### 15. Assets held for sale

As at 31 March	2016	2015
	£m	£m
Investment in Corus Kalpinis Simos Cladding Industry SA	1	-
Investment in Danieli Corus Technical Services BV	-	16
Land held by Tata Steel International (India) Limited	1	-
	<b>2</b>	<b>16</b>

On 7 April 2016, the Group's wholly owned subsidiary British Steel Nederland International B.V. completed the sale of its 50% interest in Corus Kalpinis Simos Cladding Industry SA to Elastron S.A. (the other 50% shareholder) which resulted in a profit on disposal of £nil. Prior to the classification as held for sale, the Group's interest in Corus Kalpinis Simos Cladding Industry SA was accounted for as an equity investment with a carrying value of £1m (Note 9).

On 6 May 2015, the Group's wholly owned subsidiary Tata Steel Nederland Consulting and Technical Services B.V. completed the sale of its 50% interest in Danieli Corus Technical Services B.V. to Industrielle Beteiligung S.A. (the other 50% shareholder) for proceeds of £17m, of which £5m is related to deferred consideration (Note 13). Prior to the classification as held for sale, the Group's interest in Danieli Corus Technical Services B.V. was accounted for as an equity investment with a carrying value of £19m (see Note 10). On classification as held for sale at 31 March 2015, the Group recognised an impairment of £3m to write down the carrying value of the equity investment to the fair value less costs to sell of the asset. The impairment was included in the income statement within 'share of post-tax profits of joint ventures and associates'. On completion the Group recognised a profit on disposal of £2m, including foreign exchange recycled to the income statement. These have been included in the income statement within 'share of post-tax profits of joint ventures and associates'.

### 16. Trade and other payables

#### Group:

As at 31 March	2016	2015
	£m	£m
Trade payables	826	896
Amounts owed to immediate parent company (Note 33)	4	4
Amounts owed to parent undertaking (Note 33)	210	295
Amounts owed to other Group companies (Note 33)	587	932
Amounts owed to joint ventures (Note 33)	-	5
Amounts owed to associates (Note 33)	2	3
Other taxation and social security	39	42
Interest payable to immediate parent company (Note 33)	34	28
Interest payable to ultimate parent company (Note 33)	3	3
Interest payable parent undertaking (Note 33)	2	3
Interest payable	-	1
Capital expenditure creditors	67	80
Derivative financial instruments (Note 19)	40	65
Advances from customers	11	20
Deferred consideration on business purchase	-	3
Other payables	311	329
	<b>2,136</b>	<b>2,709</b>

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

#### Company:

As at 31 March	2016	2015
	£m	£m
Amounts owed to subsidiary undertakings	7	6
Amounts owed to immediate parent company	25	19
	<b>32</b>	<b>25</b>



## E7. Notes to the financial statements

The weighted average interest rate on current borrowings was 5.20% (2015: 4.00%) and on non-current borrowings was 4.39% (2015: 4.76%).

(ii) The maturity of borrowings is as follows:

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
In one year or less or on demand	721	664
Between one and two years	17	13
Between two and three years	17	800
Between three and four years	490	13
Between four and five years	738	450
More than five years	3,403	2,114
	<b>5,286</b>	<b>4,054</b>
Less: future finance charges on finance leases	(28)	(23)
Less: capitalisation of transaction costs	(62)	(68)
	<b>5,196</b>	<b>3,963</b>
Analysed as:		
Current liabilities	714	660
Non-current liabilities	4,482	3,303

Amounts payable under finance leases are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
	£m	£m	£m	£m
Not later than one year	18	14	12	10
Later than one year but not more than five years	60	49	46	37
More than five years	41	38	33	31
	<b>119</b>	<b>101</b>	<b>91</b>	<b>78</b>
Less: future finance charges on finance leases	(28)	(23)	-	-
<b>Present value of lease obligations</b>	<b>91</b>	<b>78</b>	<b>91</b>	<b>78</b>

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

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
More than two years	-	53

The Group's senior facility limits the amount of other uncommitted, unsecured credit facilities to £430m (2015: £430m) with a sub-limit of £55m (2015: £55m) for overdrafts, bill discounting, financial guarantees and other debt classed as such on the balance sheet.

(iv) The majority of the external borrowings of the Group are accounted for by the SFA which was successfully refinanced in October 2014. The transaction costs of £72m arising from the refinancing have been capitalised and amortised over the term of the loan. The SFA is secured by guarantees and debentures granted by material subsidiaries of TSE (other than Tata Steel Nederland B.V. ('TSN') and its subsidiaries) and by a share pledge over the shares in TSN. The SFA has a financial covenant which sets an annual maximum capital expenditure level. The SFA comprises:

- a bullet term loan facility of €370m for five years;
- an amortising term loan facility of €1,500m for seven years (amortisation starts from the end of year five);
- an amortising term loan facility of US\$379.5m for seven years (amortisation starts from the end of year five); and
- a revolving credit facility of £700m for six years (this facility may be extended by a further year if certain conditions are satisfied).

The SFA term loans are denominated in euros and US dollars. However, 100% of the proceeds received in US dollars have been hedged into euros. The refinancing of the SFA was accompanied by a €800m subordinated loan injection into TSE from Tata Steel Global Holdings which in turn has been lent to TSUKH. The balance on the term loan tranches of the SFA totalled £1,744m at 31 March 2016 (31 March 2015: £1,620m). In addition, £699m (31 March 2015: £646m) of the revolving credit facility was drawn down at 31 March 2016.

## E7. Notes to the financial statements

Company:

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Current:		
External:		
Floating rate guaranteed loan notes	1	1
	<b>1</b>	<b>1</b>
<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Non-current:		
Inter-group:		
Amounts owed to immediate parent company	2,597	1,568
	<b>2,597</b>	<b>1,568</b>

As at 31 March 2016, the total amount outstanding with Tulip UK Holdings No. 3 Limited, including principal and rolled interest is £2,597m (2015: £1,568m). Interest is charged at LIBOR +5% and is rolled into the loan on a 6 monthly basis. £2,597m is due for repayment in December 2021.

### 18. Other non-current liabilities

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Derivative financial instruments (Note 19)	4	-
Other creditors	28	32
	<b>32</b>	<b>32</b>
<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
An analysis of other creditors by currency is set out below:		
Sterling	28	30
Euros	4	2
	<b>32</b>	<b>32</b>

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

Company:

<b>As at 31 March</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Other creditors	1	12
Stock loan	462	439
	<b>463</b>	<b>451</b>

## E7. Notes to the financial statements

### 19. Financial instruments and risk management

#### (i) Capital risk management

The Group manages its capital with the aim of ensuring that the entities in the Group are able to continue as a going concern. Further details are included in the basis of preparation on page 28. The Group's overall strategy remains unchanged from 2015. The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 17, after deducting cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

(ii) The carrying amounts of the Group's financial assets and financial liabilities (excluding derivative assets and liabilities) are:

As at 31 March	2016	2015
	£m	£m
<b>Financial assets:</b>		
Loans and receivables:		
Other investments (Note 10)	10	7
Trade receivables (Note 13)	727	698
Other receivables <sup>1</sup> (Note 13)	151	152
Other short term investments (Note 14)	1	2
Cash and short term deposits (Note 14)	286	221
	<b>1,175</b>	<b>1,080</b>
<b>Financial liabilities:</b>		
Financial liabilities held at amortised cost:		
Trade and other payables <sup>2</sup> (Note 16)	(2,046)	(2,582)
Current borrowings (Note 17)	(714)	(660)
Non-current borrowings (Note 17)	(4,482)	(3,303)
Other non-current liabilities (Note 18)	(28)	(32)
	<b>(7,270)</b>	<b>(6,577)</b>
	<b>(6,095)</b>	<b>(5,497)</b>

<sup>1</sup> Excludes other taxation and prepayments

<sup>2</sup> Excludes other taxation and social security, and advances from customers

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 with the exception of current and non-current borrowings. The fair values of these are £699m (2015: £653m) and £4,277m (2015: £3,188m) respectively. The fair value of borrowings would be classified as Level 3 within the fair value hierarchy. The fair value is based on discounted cash flows and reflects the credit risk of counterparties.

#### (iii) 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 and interest rate swaps). The Group's derivative financial assets and liabilities are also categorised as Level 2 and their valuation is based on future cash flows (estimated from observable data such as forward exchange rates and yield curves) which are, where material, discounted at a rate which reflects the credit risk of counterparties. 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.

As at 31 March	2016			Total
	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
<b>Financial assets at fair value:</b>				
Derivative financial assets	-	31	-	31
<b>Available for sale financial assets (Note 10)</b>	<b>41</b>	-	-	<b>41</b>
	<b>41</b>	<b>31</b>	-	<b>72</b>
<b>Financial liabilities at fair value:</b>				
Derivative financial liabilities	-	(44)	-	(44)
	-	(44)	-	(44)

## E7. Notes to the financial statements

As at 31 March	2015			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Financial assets at fair value:</b>				
Derivative financial assets	-	67	-	67
Available for sale financial assets (Note 10)	42	-	-	42
	42	67	-	109
<b>Financial liabilities at fair value:</b>				
Derivative financial liabilities	-	(65)	-	(65)
	-	(65)	-	(65)

There were no transfers between any of the levels during the periods presented above.

### (iv) 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 TSE Executive committee. The TSE 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 2016, the Group had £5,196m (2015: £3,963m) in borrowings, of which £2,576m (2015: £2,321m) net of capitalised transaction costs of £62m (£68m) is denominated in euros, £2,415m (2015: £1,449m) is denominated in sterling, £264m (2015: £255m) is denominated in US dollars, and £3m (2015: £6m) is denominated in other currencies. As described in Note 17, the majority of the Group's borrowings relate to the SFA and is held by the euro-denominated subsidiary company Tata Steel Netherlands Holdings BV ('TSNH'). As at 31 March 2016, in order to reduce the Group's exposure to foreign exchange risk, all of the US dollar borrowings have been covered by a euro short term forward rate agreement.

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 is covered by selling or purchasing foreign currency forwards. At 31 March 2016, the Group held forward currency sales of principally euros and US dollars amounting to £494m (2015: £390m) and purchases of principally US dollars and sterling amounting to £1,506m (2015: £1,434m).

A 10% appreciation of sterling at 31 March 2016 would increase the Group's net assets by approximately £225m (2015: £214m), increase equity by approximately £225m (2015: £214m) and decrease operating profit by approximately £nil (2015: £nil). 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. Across the Group forward purchases are also made of zinc, tin, nickel and iron ore to cover sales contracts with fixed metal prices.

At 31 March 2016, a 10% appreciation of market prices would decrease the Group's equity by approximately £5m (2015: £5m). 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 SFA that a minimum of 50% of the debt be converted into fixed rates of interest. At 31 March 2016, of the total SFA term loan borrowings of £1,744m, 66% was subject to interest rate swaps, which swaps floating rates based on EURIBOR to a fixed rate of 0%.

Based on the composition of net debt at 31 March 2016, a 100 basis points increase in interest rates over the 12 month period would increase the Group's net finance expense by approximately £49m (2015: £37m), and increase equity by approximately £10m (2015: £3m).

### (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.

## E7. Notes to the financial statements

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 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 rate 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 17 on page 51, the total undrawn committed borrowing facilities at 31 March 2016 is £nil (2015: £53m).

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

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 2016.

As at 31 March	2016			
	Contractual cashflows	Less than 1 year	Between 1 – 5 years	More than 5 years
	£m	£m	£m	£m
<b>Non-derivative financial liabilities:</b>				
Trade and other payables <sup>1</sup>	(2,046)	(2,046)	-	-
Floating rate guaranteed loan notes	(1)	(1)	-	-
Finance lease obligations	(119)	(18)	(60)	(41)
Bank and other loans	(6,441)	(921)	(2,074)	(3,446)
Other creditors	(28)	-	(28)	-
	<b>(8,635)</b>	<b>(2,986)</b>	<b>(2,162)</b>	<b>(3,487)</b>
<b>Derivative financial liabilities:</b>				
Foreign currency contracts:				
Payables	(2,013)	(2,013)	-	-
Receivables	2,010	2,010	-	-
Interest rate swaps	(4)	(4)	-	-
Forward rate agreement				
Payables	(274)	(274)	-	-
Receivables	263	263	-	-
<b>Total financial liabilities</b>	<b>(8,653)</b>	<b>(3,004)</b>	<b>(2,162)</b>	<b>(3,487)</b>

<sup>1</sup> Excludes other taxation and social security, and advances from customers



## E7. Notes to the financial statements

As at 31 March	2015			
	Contractual cashflows	Less than 1 year	Between 1 – 5 years	More than 5 years
	£m	£m	£m	£m
<b>Non-derivative financial liabilities:</b>				
Trade and other payables <sup>1</sup>	(2,582)	(2,582)	-	-
Floating rate guaranteed loan notes	(1)	(1)	-	-
Finance lease obligations	(101)	(14)	(49)	(38)
Bank and other loans	(4,748)	(801)	(1,718)	(2,229)
Other creditors	(32)	-	(32)	-
	(7,464)	(3,398)	(1,799)	(2,267)
<b>Derivative financial liabilities:</b>				
<b>Foreign currency contracts:</b>				
Payables	(1,778)	(1,778)	-	-
Receivables	1,800	1,800	-	-
Interest rate swaps	(22)	(22)	-	-
<b>Forward rate agreement</b>				
Payables	(244)	(244)	-	-
Receivables	255	255	-	-
	11	11	-	-
<b>Total financial liabilities</b>	<b>(7,453)</b>	<b>(3,387)</b>	<b>(1,799)</b>	<b>(2,267)</b>

<sup>1</sup> Excludes other taxation and social security, and advances from customers

### (v) Derivative financial instruments

Derivative financial instruments used by the Group include forward exchange contracts, commodity contracts and interest rate 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:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
<b>Non-current:</b>				
Interest rate swaps	-	(4)	-	-
	-	(4)	-	-
<b>Current:</b>				
Foreign currency contracts	26	(29)	56	(34)
Commodity contracts	5	-	-	(9)
Interest rate swaps	-	-	-	(22)
Forward rate agreements	-	(11)	11	-
	31	(40)	67	(65)
	31	(44)	67	(65)

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

	Foreign currency contracts £m	Commodity contracts £m	Interest rate swap £m	Taxation £m	2016 £m
Cash flow hedge reserve net of taxation at beginning of period	17	(11)	(22)	3	(13)
Transfer to income statement	(30)	22	-	-	(8)
Charged/(credited) to cash flow hedge reserve	10	(7)	17	(1)	19
Cash flow hedge reserve net of taxation at end of period	(3)	4	(5)	2	(2)

## E7. Notes to the financial statements

	Foreign currency contracts £m	Commodity contracts £m	Interest rate swap £m	Cross currency swaps £m	Taxation £m	2015 £m
Cash flow hedge reserve net of taxation at beginning of period	(7)	(3)	(72)	3	19	(60)
Transfer to income statement	(12)	12	-	47	-	47
Charged/(credited) to cash flow hedge reserve	37	(20)	44	(50)	(15)	(4)
Foreign exchange movements	(1)	-	6	-	(1)	4
Cash flow hedge reserve net of taxation at end of period	17	(11)	(22)	-	3	(13)

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

	2016 £m	2015 £m
Foreign currency contracts	2,000	1,824
Commodity futures and options	59	77
Interest rate swaps	1,128	1,368
Forward rate agreements	264	255

Ineffectiveness on cash flow hedges recognised in profit and loss was a charge of £nil in 2016 (2015: £nil).

## 20. Provisions for liabilities and charges

	Rationalisation costs (i) £m	Insurance (ii) £m	Employee benefits (iii) £m	Other (iv) £m	Total 2016 £m	Total 2015 £m
At beginning of period	66	32	45	80	223	260
Charged to income statement	88	73	41	34	236	46
Released to income statement	(8)	-	(2)	(5)	(15)	(20)
Utilised in period	(44)	(4)	-	(5)	(53)	(52)
Exchange rate movements	-	-	4	4	8	(11)
At end of period	102	101	88	108	399	223
Analysed as:						
Current liabilities	66	-	2	76	144	58
Non-current liabilities	36	101	86	32	255	165

(i) Rationalisation costs include redundancy provisions as follows:

	2016 £m	2015 £m
At beginning of period	11	30
Charged to income statement	75	14
Released to income statement	-	(7)
Utilised during the period	(32)	(25)
Exchange rate movements	-	(1)
At end of period	54	11
	2016 £m	2015 £m
Other rationalisation provisions arise as follows:		
Onerous lease payments relating to unutilised premises	26	40
Environmental and other remediation costs at sites subject to restructuring/closure	17	11
Other	5	4
	48	55

Although the precise timing in respect of utilising the redundancy provisions is not known, the majority is expected to be incurred within one year. At 31 March 2016 the rationalisation provision included £26m (2015: £40m) in respect of onerous leases on a

## E7. Notes to the financial statements

discounted basis. This provision would have amounted to £28m (2015: £44m) on an undiscounted basis. The outstanding term on these leases ranges between 1 and 17 years.

(ii) The insurance provisions include 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 environmental provisions of £46m (2015: £40m), emission rights provision of £24m (2015: £nil), early retirement provisions of £19m (2015: £20m) and product warranty claims of £6m (2015: £7m). The timing in respect of utilising these provisions is uncertain.

(v) As disclosed on page 28 potential liabilities arising from the proposed restructuring or sale of TSUK have not been included in the financial statements.

### 21. Deferred tax

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

	2016 £m	2015 £m
Deferred tax assets	59	73
Deferred tax liabilities	(1)	(1)
	<b>58</b>	<b>72</b>

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

2016	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Inventory £m	Other £m	Total £m
At 1 April 2015	(83)	198	(20)	(20)	(3)	72
Credited/(charged) to profit and loss	77	80	(156)	5	1	7
Exchange rate movements	(6)	10	-	(3)	4	5
(Charged)/credited to equity	-	-	(34)	-	8	(26)
<b>At 31 March 2016</b>	<b>(12)</b>	<b>288</b>	<b>(210)</b>	<b>(18)</b>	<b>10</b>	<b>58</b>

2015	Accelerated tax depreciation £m	Tax losses £m	Retirement benefit obligations £m	Inventory £m	Other £m	Total £m
At 1 April 2014	(143)	350	(81)	(36)	6	96
Credited/(charged) to profit and loss	52	(136)	(10)	12	(2)	(84)
Exchange rate movements	8	(16)	(1)	4	2	(3)
Credited/(charged) to equity	-	-	72	-	(9)	63
<b>At 31 March 2015</b>	<b>(83)</b>	<b>198</b>	<b>(20)</b>	<b>(20)</b>	<b>(3)</b>	<b>72</b>

Deferred tax assets of £59m (2015: £73m) have been recognised at 31 March 2016. In evaluating whether it is probable that taxable profits will be earned in future accounting periods, all available evidence was considered, including TSE Board approved budgets and forecasts. Following this evaluation, it was determined there would be sufficient taxable income generated to realise the benefit of the deferred tax assets. Deferred tax assets have not been recognised in respect of total tax losses of £5,373m (2015: £4,493m). These losses comprise UK losses of £4,015m (2015: £3,894m) and non-UK losses of £1,358m (2015: £1,099m). The non-UK losses include losses of £1,028m (2015: £221m) that expire between the years 2016 to 2034.

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 £223m (2015: £205m). 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.

## E7. Notes to the financial statements

### 22. Deferred income

	Grants relating to revenue £m	Grants relating to property, plant & equipment £m	2016 £m	2015 £m
At 1 April	6	11	17	22
New contributions received	-	1	1	-
Exchange rate movements	-	1	1	(1)
Released to income statement	(2)	(1)	(3)	(4)
At 31 March	4	12	16	17

### 23. Share capital

#### Group and Company:

The share capital of the Company is shown below as at 31 March:

<b>Authorised</b>	<b>2016</b>	<b>2015</b>
	£m	£m
5,000,000,000 ordinary shares of £1 each	<b>5,000</b>	5,000
<b>Allotted, called up and fully paid</b>	<b>2016</b>	<b>2015</b>
	£m	£m
3,497,479,295 ordinary shares of £1 each	<b>3,497</b>	3,497

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

#### Company reconciliation of share capital and equity:

	Ordinary share capital £m	Share premium £m	Profit and loss reserves £m	Total £m
At 1 April 2015	3,497	450	(1,340)	2,607
Loss retained	-	-	(5)	(5)
<b>At 31 March 2016</b>	<b>3,497</b>	<b>450</b>	<b>(1,345)</b>	<b>2,602</b>

	Ordinary share capital £m	Share premium £m	Profit and loss reserves £m	Total £m
At 1 April 2014	3,497	450	(259)	3,688
Loss retained	-	-	(1,081)	(1,081)
At 31 March 2015	3,497	450	(1,340)	2,607

### 24. Future capital expenditure

	<b>2016</b>	<b>2015</b>
	£m	£m
Contracted but not provided for	<b>255</b>	157
Authorised but contracts not yet placed	<b>248</b>	130

At the end of the period there was £17m (2015: £21m) of future expenditure planned in relation to intangible assets.

## E7. Notes to the financial statements

### 25. Operating leases

	2016	2015
	£m	£m
Future minimum lease payments for the Group at the end of the period are:		
Not later than one year	76	80
Later than one year and not later than five	259	262
More than five years	129	244
	<b>464</b>	<b>586</b>

Of the total operating lease payments, £164m (2015: £183m) relates to the time charter hire of 6 (2015: 11) vessels by the Group's central supplies and transport function. The lease period for these assets ranges from two to seven years (2015: one month to eight years).

This includes the time charter hire of three vessels that have been novated to Proco as part of its provision of a full freight service to TSE (see note 33) on the basis that the menu pricing mechanism is designed to recover all costs incurred by Proco in the provision of that service to TSE, and TSE therefore effectively retains the liabilities under the lease contracts.

TSE has entered into an arrangement that includes the sub-letting of 2 (2015: 2) of the time charter hire vessels, representing £61m (2015: £65m) of the total operating lease payments above. The total of future minimum sublease payments expected to be received under these sub-leases is £61m (2015: £72m) as shown below:

	2016	2015
	£m	£m
Future minimum sub-lease receipts for the Group at the end of the period are:		
Not later than one year	13	13
Later than one year and not later than five	48	51
More than five years	-	8
	<b>61</b>	<b>72</b>

A further two vessels have been sublet to Proco but excluded from the sublet analysis above on the basis the cost is retained by TSE under the Proco freight services agreement.

### 26. Contingencies

	2016	2015
	£m	£m
Guarantees given under trade agreements	59	59
Others	55	55

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.

The Group is party to a number of environmental obligations where there is a possibility that an obligation may crystallise. No provision has been made in these financial statements where the Group does not consider that there is any probable loss.

The Group is party to a number of claims which may provide the Group with a future inflow of cash. No amount has been recorded in these financial statements on the basis that the Group does not consider it virtually certain that an amount will be received.

## E7. Notes to the financial statements

### 27. Reconciliation of cash generated from total operations

	2016 £m	2015 £m
Loss after taxation	(884)	(837)
Adjustments for:		
Taxation	(14)	84
Depreciation and amortisation including impairment items (net of grants released)	1,083	638
Profit on disposal of property, plant and equipment and Group companies	(3)	(8)
Finance income	(1)	(2)
Finance expense	358	405
Gain on bargain purchases (Note 31)	-	(8)
Share of post tax results of joint ventures and associates	(1)	1
Movement in pensions and post-retirement benefits	(881)	(52)
Movement in provisions for impairments of trade receivables	-	(6)
Movement in insurance and other provisions	132	4
Movement in spares	(18)	20
Movement in inventories	417	95
Movement in receivables	62	(106)
Movement in payables	(602)	(197)
Net rationalisation costs provided	80	8
Utilisation of rationalisation provisions	(44)	(40)
<b>Net cash flow generated from operations</b>	<b>(316)</b>	<b>(1)</b>

### 28. Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Movement in cash and cash equivalents	46	(165)
Movement in short term investments	(1)	-
Movement in total debt excluding bank overdrafts	(900)	(453)
Change in net debt resulting from cash flows in period	(855)	(618)
Exchange rate movements	(184)	249
Fair value of forward rate agreements	(22)	8
Other non cash changes	(130)	(54)
Movement in net debt in period	(1,192)	(415)
Net debt at beginning of period	(3,729)	(3,314)
<b>Net debt at end of period</b>	<b>(4,920)</b>	<b>(3,729)</b>

## E7. Notes to the financial statements

### 29. Analysis of net debt

	2015 £m	Cash flow £m	Exchange rate movements £m	Other non- cash movements £m	2016 £m
Cash and short term deposits	221	45	20		286
Bank overdrafts	(3)	1			(2)
<b>Cash and cash equivalents</b>	<b>218</b>	<b>46</b>	<b>20</b>	<b>-</b>	<b>284</b>
Short term investments	2	(1)	-	-	1
<b>Liquid resources</b>	<b>220</b>	<b>45</b>	<b>20</b>	<b>-</b>	<b>285</b>
Other non-current borrowings	(3,235)	(871)	(190)	(107)	(4,403)
Fair value of forward rate agreement	11			(22)	(11)
Bank/other loans and loan notes	(647)	(41)	(12)	-	(700)
Obligations under finance leases	(78)	12	(2)	(23)	(91)
<b>Total debt excluding bank overdrafts</b>	<b>(3,949)</b>	<b>(900)</b>	<b>(204)</b>	<b>(152)</b>	<b>(5,205)</b>
	<b>(3,729)</b>	<b>(855)</b>	<b>(184)</b>	<b>(152)</b>	<b>(4,920)</b>

The other non-cash movements in respect of non-current borrowings relate to the rolling up of interest of £97m into principal in respect of the loans from the parent company and £10m of loan transaction costs amortised during the year.

### 30. Pensions and post-retirement benefits

#### Defined contribution schemes

The Group 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 contributions that were not due to be paid until after the end of the reporting period. The total cost charged to income in 2016 amounted to £47m (2015: £5m). Of the total cost of £47m, £39m related to payments to the SPH following the change in classification to a defined contribution scheme on 7 July 2015.

#### Defined benefit schemes

The Group operates a number of defined benefit pension and post-retirement schemes covering the majority of employees. Benefits offered by these schemes are largely based on pensionable 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 administered funds that are legally separated from the company. For those pension schemes set up under a trust, the trustees are required by law to act in the best interests of the schemes beneficiaries in accordance with the scheme rules and relevant pension legislation. The trustees are generally responsible for the investment policy with regard to the assets of the fund, after consulting with the sponsoring employer.

The Group accounts for all pension and post-retirement defined benefit arrangements using IAS 19 'Employee Benefits', 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 are 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 principal defined benefit pension scheme of the Group at 31 March 2016 was the BSPS, which is the main scheme for historic and present employees based in the UK. The main scheme for historic and present employees in the Netherlands is the SPH which, from 7 July 2015, switched from being classified as a defined benefit scheme to a defined contribution scheme.

#### a) BSPS

On 31 July 2015 a Deed of Amendment was executed to amend the BSPS Trust Deed and Rules to reflect the 'Post Consultation Pension Package' implemented following consultation with employees and their representatives. Key features of the package include:

- Pensionable earnings growth cap of 1.75% pa with an individual defined contribution top-up on excess pensionable earnings above the cap. The agreement also includes a restoration process for capped pensionable earnings growth if the scheme funding level is equal to 104% or more on a technical provision basis after restoration;
- Early retirement reduction factors implemented equal to 5% for each year the member retires 'with employer's consent' prior to age 65. The new factors will be phased in over a 5 year period from 1 October 2015 to 30 September 2020; and
- For service from 1 April 2016, increases to pensions in payment and deferment limited to statutory minimum (currently CPI capped at 2.5% each year).

The IAS 19 impact of the above pension scheme changes crystallised in 2016 a past service credit of £897m in the income statement with a reduction to the scheme's liabilities for the same amount.

## E7. Notes to the financial statements

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The triennial funding valuation of the BPS as at 31 March 2014 was concluded during the second half of 2015. Whilst assets continued to perform strongly, historically low bond yields had the effect of increasing significantly the value placed on Scheme liabilities. The actuarial valuation as at 31 March 2014 reported a funding level of 93% (2011: 95%) on a "technical provisions" (on-going) basis. Taking account of the changes in the Post Consultation Pensions Package, the funding level increased to 99% (equivalent to a residual deficit on a technical provisions basis of £90m). This shortfall will be addressed by deficit recovery contributions through to March 2018.

Under the terms of the Recovery Plan agreed with the BPS Trustee, deficit recovery contributions of £45m were made to the BPS during the year, which included the final contribution of £10m payable following the merger of the Corus Engineering Steels Pension Scheme ('CESPS') into the BPS on 6 April 2009. Deficit contributions of £60m and £65m are due in 2017 and 2018 respectively.

On 26 May 2016 the UK Government issued a public consultation paper outlining possible regulatory support to facilitate potential changes to the BPS. This forms part of a wider package of UK Government support to assist the UK steel industry and follows intense discussions between TSE, the UK government, the BPS trustees and regulators to find the best option for members of the scheme. TSE will consider its position once the consultation process has been concluded and the UK Government has announced the actions it will take or has taken.

The investment policy of the BPS adopts a defensive strategic asset allocation (currently 70% maturity; 30% growth portfolios). The investment objective of the BPS fund is to provide a high level of security of pension benefits at the lowest reasonable cost, taking into account the nature of the scheme's liabilities, the maturity of the scheme, and the characteristics of the Company's business. This leads to security for the maturity portfolio, which seeks to match a large part of the Scheme's pensioner liabilities with secure bonds, and performance for the growth portfolio, which seeks to achieve a higher level of long term investment return from an equity orientated investment policy. Following completion of the 2014 Valuation, the Scheme's investment strategy has been reviewed. The Company and Trustee have identified to reduce volatility in funding levels as a key strategic priority.

Employer and active members' contributions to the scheme in 2016 amounted to £136m (2015: £129m) and £22m (2015: £28m) respectively, and for 2017 are estimated at £146m and £7m respectively. The continued increase and decrease to employer and active members' contributions respectively during the financial year was due to greater take up of 'Smart Pensions', a salary sacrifice scheme under which active members have the option to elect to stop making contributions and for the employer to make additional contributions on their behalf in return for an equivalent reduction in gross contractual pay. The weighted average duration of the scheme's liabilities at 31 March 2016 was 16 years (2015: 16 years).

As a result of the changes to the Schemes benefits framework agreed during 2015, the joint contribution rate payable in respect of service from 1 April 2016 will decrease from 20.5% of pensionable earnings to 18%, of which the employer will pay 11.5% (previously 13%).

### b) SPH

On 15 December 2014, the Group's subsidiary TSN and the Dutch trade unions agreed to implement with effect from 1 January 2015 a new pension agreement ('pension protocol') which included the following plan changes: switching the calculation of pensions from final to average pay, reducing the accrual rate from 1.900% and 2.150% for final and average pay respectively to 1.875% for just average pay (in line with the above change and new tax rules in the Netherlands), and introducing an individual defined contribution plan for earnings over €100k. These plan amendments resulted in the recognition of a past service credit of £35m in the 2015 income statement with a related reduction to the scheme's liabilities for the same amount. In addition, as part of the new pension agreement the Group agreed with the Dutch trade unions to fix the Group's contribution level at 28% of pensionable earnings for the 3 year period from 1 January 2015 to 31 December 2017.

On 7 July 2015 a new SPH execution agreement was signed by TSN and the SPH. The agreement specifies that the Company's contribution level to the SPH is no longer dependent upon the funding ratio of the scheme, and the Company will no longer have a legal or constructive obligation to pay further contributions if the scheme does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. As a consequence, the SPH has been reclassified and accounted for as a defined contribution scheme with effect from 7 July 2015 rather than a defined benefit scheme. The classification change to a defined contribution scheme resulted in the recognition of a settlement credit of £57m in the 2016 income statement equal to the net defined benefit liability on the scheme at that date.

### 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.



## E7. Notes to the financial statements

The key assumptions applied at the end of the reporting period for the purposes of the actuarial valuations were as follows:

2016	BSPS %	SPH <sup>2</sup> %	Other %
Salary growth	1.50	-	1.00 to 2.50
Pension increases <sup>1</sup>	2.75	-	1.30 to 2.00
Discount rate	3.30	-	0.40 to 4.10
Inflation	2.75	-	1.00 to 3.00

<sup>1</sup> Where applicable a CPI assumption of 1.75% has been applied within BSPS

<sup>2</sup> The key assumptions applied in relation to SPH are nil as a consequence of the reclassification to a defined contribution scheme from 7 July 2015.

2015	BSPS %	SPH %	Other %
Salary growth	2.95	1.85	1.00 to 3.00
Pension increases <sup>3</sup>	2.95	0.95 to 1.14	1.30 to 3.00
Discount rate	3.30	1.60	0.80 to 4.50
Inflation	2.95	1.85	1.00 to 3.00

<sup>3</sup> Where applicable a CPI assumption of 1.95% has been applied within BSPS

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.

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. For the BSPS the liability calculations as at 31 March 2016 use the Self-Administered Pension Schemes (SAPS) base tables, S1NMA adjusted by a multiplier of 0.94 for males and S1DFA for females. In addition, future mortality improvements are allowed for in line with the 2009 CMI Projections from 2011 onwards subject to a long term improvement trend of 1% per annum. This indicates that today's 65 year old male member is expected to live on average to approximately 86 years of age and a male member reaching age 65 in 15 years time is then expected to live on average to 87 years of age.

### Sensitivities

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation, salary growth and mortality. The sensitivity analysis below has been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period:

Assumption	Change in assumption	Impact on scheme liabilities
		Impact on BSPS scheme liabilities
Discount rate	Increase/decrease by 10bps	Decrease/increase by 1.5%
Inflation	Increase/decrease by 10bps	Increase/decrease by 1.2%
Salary growth	Increase/decrease by 25bps	Increase/decrease by 0.3%
Mortality	1 year increase in life expectancy	Increase/decrease by 3.8%

Sensitivities for the BSPS have been provided as it is a material scheme. Sensitivities for SPH are no longer disclosed as the scheme was reclassified to a defined contribution scheme with effect from 7 July 2015.

The above sensitivities may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit at the end of the reporting period, which is the same as that applied in calculating the defined benefit liability recognised in the balance sheet.

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. 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.

## E7. Notes to the financial statements

### 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.
- Net interest cost/(income) on the liability or asset recognised in the balance sheet

These items are treated as a net operating cost in profit and loss within employment costs.

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 discount rate used for calculating the return on scheme assets (credited to profit and loss) and the actual return, the re-measurement 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.

Income statement pension costs arose as follows:

2016	BSPS £m	SPH £m	Other £m	Total £m
Current service cost	126	24	3	153
Net interest (income)/cost	(30)	1	4	(25)
Settlements	-	(57)	-	(57)
Curtailments	112	-	-	112
Past service credit	(897)	-	-	(897)
Defined benefit schemes	(689)	(32)	7	(714)
Defined contribution schemes	4	39	4	47
<b>Total credit for the period</b>	<b>(685)</b>	<b>7</b>	<b>11</b>	<b>(667)</b>
2015	BSPS £m	SPH £m	Other £m	Total £m
Current service cost	118	71	4	193
Net interest (income)/cost	(22)	2	4	(16)
Curtailments	4	-	(1)	3
Past service credit	-	(35)	-	(35)
Defined benefit schemes	100	38	7	145
Defined contribution schemes	-	-	5	5
<b>Total credit for the period</b>	<b>100</b>	<b>38</b>	<b>12</b>	<b>150</b>

The total charge for the period includes a charge of £112m (2015: £3m) included within net restructuring costs and a charge of £nil (2015: £1m) included within share of expenses of the Group's joint ventures. The actual return on plan assets for the above schemes was a loss of £111m (2015: gain of £2,917m).

### Plan assets

The asset classes include national and international stocks, fixed income government and non-government securities and real estate. The majority of the reported plan assets are located in UK and EU. The pension funds invest in diversified asset classes to maximise returns while reducing volatility. The percentage of total plan assets for each category of investment was as follows:

2016	BSPS %	SPH %	Other %
<b>Quoted:</b>			
Equities – UK Entities	8.1	-	0.5
Equities – Non-UK Entities	18.9	-	35.3
Bonds – Fixed Rate	17.7	-	17.0
Bonds – Index Linked	44.6	-	2.0
Derivatives	-	-	2.3
Other	-	-	2.2
<b>Unquoted:</b>			
Property	9.5	-	2.5
Derivatives	(0.5)	-	-
Cash and cash equivalents	0.2	-	7.0
Other	1.5	-	31.2
	<b>100.0</b>	<b>-</b>	<b>100.0</b>

*SPH has zero plan assets due to it being classified as a defined benefit scheme from 7 July 2015.*

## E7. Notes to the financial statements

2015	BSPS %	SPH %	Other %
<i>Quoted:</i>			
Equities – UK Entities	8.1	1.1	0.5
Equities – Non-UK Entities	17.1	34.0	38.0
Bonds – Fixed Rate	18.0	41.0	17.6
Bonds – Index Linked	43.6	1.4	1.5
Derivatives	-	-	2.3
Other	0.2	-	2.7
<i>Unquoted:</i>			
Property	8.6	6.2	2.1
Derivatives	(0.6)	11.1	-
Cash and cash equivalents	0.2	5.0	7.8
Other	4.8	0.2	27.5
	100.0	100.0	100.0

### 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:

2016	BSPS £m	SPH £m	Other £m	Total £m
Fair value of plan assets	13,639	-	152	13,791
Present value of obligation	(12,433)	-	(321)	(12,754)
<b>Defined benefit asset/(liability) at end of period</b>	<b>1,206</b>	<b>-</b>	<b>(169)</b>	<b>1,037</b>
Disclosed as:				
Defined benefit asset	1,206	-	-	1,206
Defined benefit liability – current	-	-	(5)	(5)
Defined benefit liability – non-current	-	-	(164)	(164)
Arising from:				
Funded schemes	1,206	-	(65)	1,141
Unfunded schemes	-	-	(104)	(104)

2015	BSPS £m	SPH £m	Other £m	Total £m
Fair value of plan assets	13,988	5,983	143	20,114
Present value of obligation	(13,844)	(5,991)	(317)	(20,152)
<b>Defined benefit asset/(liability) at end of period</b>	<b>144</b>	<b>(8)</b>	<b>(174)</b>	<b>(38)</b>
Disclosed as:				
Defined benefit asset	144	-	-	144
Defined benefit liability – current	-	-	(6)	(6)
Defined benefit liability – non-current	-	(8)	(168)	(176)
Arising from:				
Funded schemes	144	(8)	(70)	66
Unfunded schemes	-	-	(104)	(104)

## E7. Notes to the financial statements

The movements in the present value of plan assets and defined benefit obligations in 2016 and 2015 were as follows:

2016	BSPS £m	SPH £m	Other £m	Total £m
<b>Plan assets:</b>				
As at 1 April 2015	13,988	5,983	143	20,114
Interest income on plan assets	453	25	4	482
Return on plan assets less than the discount rate	(304)	(285)	(4)	(593)
Contributions from the employer	136	14	12	162
Contributions from plan participants	22	6	-	28
Benefits paid	(656)	(49)	(7)	(712)
Exchange rate movements	-	36	4	40
Settlement of defined benefit scheme	-	(5,730)	-	(5,730)
<b>As at 31 March 2016</b>	<b>13,639</b>	<b>-</b>	<b>152</b>	<b>13,791</b>
<b>Defined benefit obligations:</b>				
As at 1 April 2015	13,844	5,991	317	20,152
Current service cost	126	24	3	153
Interest cost on the defined benefit obligation	423	26	8	457
Past service credit - plan amendments	(897)	-	-	(897)
Past service cost - curtailments	112	-	-	112
Actuarial gain due to actuarial experience	(121)	(22)	(4)	(147)
Actuarial gain due to financial assumption changes	(420)	(224)	(6)	(650)
Benefits paid	(656)	(49)	(11)	(716)
Contributions from plan participants	22	6	-	28
Exchange rate movements	-	35	14	49
Settlement of defined benefit scheme	-	(5,787)	-	(5,787)
<b>As at 31 March 2016</b>	<b>12,433</b>	<b>-</b>	<b>321</b>	<b>12,754</b>

Included within other schemes above are post-retirement medical and similar net obligations of £7m (2015: £7m).

2015	BSPS £m	SPH £m	Other £m	Total £m
<b>Plan assets:</b>				
As at 1 April 2014	12,668	5,755	127	18,550
Interest income on plan assets	547	178	5	730
Return on plan assets greater than the discount rate	1,268	910	9	2,187
Contributions from the employer	129	56	6	191
Contributions from plan participants	28	24	-	52
Benefits paid	(652)	(196)	(8)	(856)
Exchange rate movements	-	(744)	5	(739)
Settlement	-	-	(1)	(1)
<b>As at 31 March 2015</b>	<b>13,988</b>	<b>5,983</b>	<b>143</b>	<b>20,114</b>

## E7. Notes to the financial statements

<i>Defined benefit obligations:</i>				
As at 1 April 2014	12,250	5,736	264	18,250
Current service cost	118	71	4	193
Interest cost on the defined benefit obligation	525	180	9	714
Past service credit - plan amendments	-	(35)	(1)	(36)
Past service cost - curtailments	4	-	-	4
Actuarial (gain)/loss due to actuarial experience	(27)	41	14	28
Actuarial loss due to financial assumption changes	1,598	909	40	2,547
Actuarial loss due to demographic assumption changes	-	4	-	4
Benefits paid	(652)	(196)	(12)	(860)
Contributions from plan participants	28	24	-	52
Exchange rate movements	-	(743)	1	(742)
Settlement	-	-	(2)	(2)
<b>As at 31 March 2015</b>	<b>13,844</b>	<b>5,991</b>	<b>317</b>	<b>20,152</b>

Actuarial gains recorded in the statement of comprehensive income for the period were £204m (2015: loss of £392m).

### 31. Acquisition of assets and subsidiaries

In March 2015 the Group incorporated two new wholly owned subsidiaries - Halmstad Steel Service Centre AB (owned by Tata Steel IJmuiden BV) and Naantali Steel Service Centre Oy (owned by Tata Steel Nederland BV). On 31 March 2015, these subsidiaries purchased certain assets and liabilities from SSAB, including two steel service centres in Sweden and Finland. In addition the Group purchased the 50% of the shares it did not previously hold in Norsk Stål Tynnplater AS. The acquisitions will enable the Group to improve the range of products and services it can offer to customers in the Nordic region.

The Group previously accounted for its 50% share of its investment in Norsk Stål Tynnplater AS using the equity method. The Group has accounted for the acquisition of the 50% it did not previously hold as a step acquisition. Immediately prior to its purchase of the other 50% of the shares, the carrying value of the equity investment was £3m. This was revalued to a fair value of £4m with a £1m gain recognised in the income statement under the heading 'share of post tax results of joint ventures and associates' in 2015.

Given that SSAB sold the businesses as a condition of its takeover of Rautaruukki, the consideration paid by the Group for the two businesses was less than the fair value of the net assets acquired. This led to a gain on bargain purchase of £8m which has been recognised in the income statement as a credit to operating costs within 'other operating charges' in 2015.

The total consideration of £6m was settled in cash with 50% paid in March 2015 and the remaining 50% paid in October 2015. In addition the Group also acquired £3m worth of cash and cash equivalents in the form of bank overdrafts. There were no material acquisition costs.

(i) Net assets acquired during the year were as follows:

	2016 £m	2015 £m
Property, plant and equipment	-	18
Inventories	-	6
Trade and other receivables	-	6
Current borrowings (bank overdrafts)	-	(3)
Trade and other payables	-	(4)
Current tax liabilities	-	(2)
Non current borrowings	-	(3)
<b>Net assets acquired</b>	<b>-</b>	<b>18</b>
Total consideration	-	(6)
Carrying value of previously held equity interest	-	(3)
Gain on revaluation of previously held equity investment	-	(1)
<b>Gain on bargain purchases</b>	<b>-</b>	<b>8</b>

## E7. Notes to the financial statements

(ii) Net cash flow arising on acquisition was as follows:

	2016	2015
	£m	£m
Total consideration	-	(6)
Less: deferred consideration	(3)	3
Add: cash and cash equivalents acquired (bank overdrafts)	-	(3)
<b>Net cash flow</b>	<b>(3)</b>	<b>(6)</b>

### 32. Disposal of subsidiary

On 14 April 2014 TSE disposed of its interest in Tata Steel (Australasia) Limited.

(i) The net assets disposed of were as follows:

2015	£m	£m
Property, plant and equipment	(1)	
Inventories	(11)	
Trade receivables	(7)	
Cash and cash equivalents	(1)	
Trade payables	5	
<b>Net assets disposed of</b>		<b>(15)</b>
Gross consideration due to TSE	14	
Foreign exchange recycled to the income statement	5	
<b>Profit on disposal</b>		<b>4</b>

(ii) Net cash flow arising on disposal was as follows:

	£m	£m
Consideration received in cash and cash equivalents	14	
Less: cash and cash equivalents disposed of	(1)	
<b>Net cash flow</b>		<b>13</b>

## E7. Notes to the financial statements

### 33. 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. The loan owed to the immediate parent company carries interest at 5% above LIBOR per annum charged on the outstanding loan balance.

	2016	2015
	£m	£m
<b>Amounts reported within the Consolidated income statement:</b>		
Sales to joint ventures	90	66
Sales to associates	63	70
Sales to ultimate parent company	-	1
Sales to parent undertakings	17	36
Sales to other group companies	28	65
Other operating income with parent undertakings	40	5
Other operating income with other Group companies	3	4
Purchases from joint ventures	6	9
Purchases from associates	27	25
Purchases from ultimate parent company	5	1
Purchases from parent undertakings	243	305
Purchases from other group companies	960	1,269
Interest on loans from immediate parent Company (Note 4)	102	64
Interest on loans from parent undertakings (Note 4)	14	15
Interest on loans from other group companies (Note 4)	46	57
Discount on disposal of trade receivables within purchase agreement with group company (Note 4)	76	107
<b>Amounts reported within the Consolidated balance sheet:</b>		
Amounts owed by joint ventures (Note 13)	16	25
Amounts owed by associates (Note 13)	5	3
Amounts owed by ultimate parent Company (Note 13)	-	1
Amounts owed by parent undertakings (Note 13)	41	11
Amounts owed by other group companies (Note 13)	10	11
Amounts owed to joint ventures (Note 16)	-	5
Amounts owed to associates (Note 16)	2	3
Amounts owed to immediate parent company (Note 16)	4	4
Amounts owed to parent undertakings (Note 16)	210	295
Amounts owed to other group companies (Note 16)	587	932
Interest payable to ultimate parent company (Note 16)	3	3
Interest payable to immediate parent company (Note 16)	34	28
Interest payable to parent undertakings (Note 16)	2	3
Loans owed to immediate parent company (Note 17)	2,597	1,568
Loans owed to other group companies (Note 17)	119	109

Included in the transactions and balances above are arrangements that have been put in place with T S Global Procurement Co. Pte Limited (Proco), its subsidiary Proco Issuer Pte Limited (Proco Issuer), Tata Steel International (Singapore) Pte Limited (TSIS), ABJA Investment Co. Pte Limited (ABJA) and Tata Sons. These include:

#### *Proco and Proco Issuer*

(a) During 2010/11, an arrangement for extended payment terms was reached between TSUKH, Proco and certain raw material suppliers where the supplier agrees to extend the payment terms in return for an increase in the purchase price, which extension and increase are maintained only if the applicable receivable is purchased from the supplier by Proco. During 2011/12, this was extended to include a further arrangement whereby Proco acts as principal within certain supply agreements (e.g. raw material and fuel). Under this arrangement, Proco makes the payment to the supplier when due and then Proco provides the extended credit terms to TSUKH in return for an increase in purchase price. During 2015/16 TSE entered into a further procurement arrangement whereby Proco purchases sea freight and related services from third party suppliers in order to provide a full freight service to TSUKH under a menu based pricing mechanism. As at 31 March 2016 £511m (2015: £729m) was owed to Proco under these arrangements collectively, with total financing costs in the period of £38m (2015: £47m). Total purchases in the year in relation to this agreement were £946m (2015: £1,252m).

(b) A non-recourse securitisation arrangement is in place with Proco Issuer whereby it purchases certain trade receivables from TSE in the UK, Netherlands, France, Germany and Spain. The purchase price of these transactions is set with reference to the

## E7. Notes to the financial statements

carrying value of the underlying receivables less a default deduction and a discount charge, with the receivables de-recognised by the applicable TSE Group member at the time of sale to Proco Issuer and a discount on disposal (representing the default deduction and discount charge) recognised at the same time. The discount on disposal for the period to March 2016 amounted to £76m (2015: £107m). As at 31 March 2016 £64m (2015: £166m) was owed to Proco Issuer under this arrangement. During the year TSUKH recognised £4m (2015: £4m) of servicing income with Proco which reflects the administration costs incurred by TSE for collecting the debtors on behalf of Proco.

### *Tata Steel International Asia Limited ('TSIA')*

During the December 2013 quarter TSUK received £18.1m advance payment from TSIA in relation to 50kt of wire rod to be sold between December 2013 and 30 November 2014, with provisional value of £22.6m. The amount received was net of a finance charge of 2.2% of the provisional value, equal to £0.5m. During the June 2015 quarter, 5.2kt was delivered resulting in a release of £1.7m of the prepayment and a £0.1m finance charge. No prepaid balances remain as at 31 March 2016.

In July 2014 TSUK received a £11.6m advance payment from TSIA in relation to 32kt of beams to be sold between July 2014 and March 2015, with a provisional value of £14.5m. The amount received was 80% of the provisional value of £14.5m and net of a finance charge of 2.5% of the total provisional value, equal to £0.4m. During the September 2015 quarter, the arrangement was unwound, with payment to TSIA of the remaining £0.5m prepaid balance.

### *ABJA Investment Co. Pte Limited (ABJA)*

During the December 2013 quarter, and the March 2014 quarter Tata Steel Netherlands Holdings BV issued unsecured loan notes both with value of £63m (€75m) to ABJA, redeemable on 2 May 2023. The notes are interest bearing at an arm's length rate, which is payable on a semi annual basis. The cumulative finance costs for these notes were £7m (2015: £8m) in the year.

### *TSE*

During 2015/16, TSUKH entered into a number of arrangements with TSE. These were as follows:

(a) The procurement of insurance and energy from external suppliers for onward sale by TSE to TSUKH on extended credit terms.

(b) An arrangement for extended payment terms was reached between TSUKH, TSE and certain suppliers where the supplier agrees to extend the payment terms in return for an increase in the purchase price, which extension and increase are maintained only if the applicable receivable is purchased from the supplier by TSE.

As at 31 March 2016 £210m (2015: £295m) was owed to TSE under these arrangements collectively, with total financing costs in the period of £14m (£15m).

During 2013/14, TSUK received a payment of £42m for the sale of billets to TSE for onward sale to Caparo Merchant Bar Plc. During the year the remaining £17m of the prepayment was released and recognised as sales to TSE.

### *Tata Sons*

There is also a branding fee payable to Tata Sons under a brand equity and business promotion agreement, based on net income and profit before tax, with £6m being payable for 2016 (2015: £7m).

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

	2016	2015
	£m	£m
Short term employee benefits	4	5
	4	5

## 34. Events after the balance sheet date

On 31 May 2016 TSE completed the divestment of its Long Products Europe business to Greybull Capital LLP. The estimated loss on disposal arising from the transaction was £231m.

On 23 June 2016 the British public voted in a referendum for the UK to leave the European Union. The political and economic impact of this decision is uncertain and may represent a risk but also opportunity to TSE's business. TSE is currently assessing the impact of the decision on its business.

## 35. Ultimate and immediate parent company

T S Global Holdings Pte. Limited is the company's immediate parent company, which is incorporated and registered in Singapore. Tata Steel Limited, a company incorporated in India, is the ultimate parent company and controlling party and the smallest and largest group to consolidate these financial statements.

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



## E7. Notes to the financial statements

### 36. Subsidiaries and investments

The subsidiary undertakings, joint ventures and associates of the Group at 31 March 2016 are set out below. Country names are countries of incorporation. Undertakings operate principally in their country of incorporation.

#### Subsidiary undertakings

Steel producing, further processing or related activities:

##### **Austria**

Kalzip GmbH (ii) (iii)

##### **Belgium**

Societe Europeenne De Galvanisation (Segal) Sa (ii) (iii)

Tata Steel Belgium Packaging Steels N.V. (ii) (iii)

Tata Steel Belgium Services N.V. (ii) (iii)

##### **Brazil**

Tata Steel International (South America) Representacoes Limited (ii) (iii)

##### **Bulgaria**

Corus Building Systems Bulgaria AD (65%) (ii) (iii)

##### **Canada**

Cogent Power Inc. (ii) (iii)

Tata Steel International (Canada) Holdings Inc (ii) (iii)

##### **China**

Kalzip (Guangzhou) Limited (ii) (iii)

Tata Steel Speciality Service Centre Suzhou Co Limited (ii) (iii)

Tata Steel Speciality Service Centre Xian Co. Limited (ii) (iii)

##### **Czech Republic**

Tata Steel International (Czech Republic) S.R.O (ii) (iii)

##### **Denmark**

Tata Steel Denmark Byggsystemer A/S (ii) (iii)

Tata Steel International (Denmark) A/S (ii) (iii)

##### **Finland**

Naantali Steel Service Centre OY (ii) (iii)

Tata Steel International (Finland) OY (ii) (iii)

##### **France**

Cbs Investissement SAS (ii) (iii)

Corus Building Systems SAS (ii) (iii)

Inter Metal Distribution (I.M.D.) SAS (ii) (iii)

SCI Corbeil Les Rives (67.31%) (ii) (iii)

Tata Steel France Bâtiment et Systèmes SAS (ii) (iii)

Tata Steel France Holdings SAS (ii) (iii)

Tata Steel France Rail SAS (ii) (iii)

Tata Steel International (France) SAS (ii) (iii)

Tata Steel Maubeuge SAS (ii) (iii)

Unitol SAS (ii) (iii)

##### **Germany**

Augusta Grundstücks GmbH (ii) (iii)

Blume Stahlservice GmbH (ii) (iii)

Catnic GmbH (ii) (iii)

Corus Aluminium Verwaltungsgesellschaft mbH (ii) (iii)

Corus Beteiligungs GmbH (ii) (iii)

Degels GmbH (ii) (iii)

Fischer Profil GmbH (ii) (iii)

Hille & Müller GmbH (ii) (iii)

Kalzip GmbH (ii) (iii)

S.A.B Profil GmbH (ii) (iii)

Service Center Gelsenkirchen GmbH (ii) (iii)

Tata Steel Germany GmbH (ii) (iii)

Tata Steel International (Germany) GmbH (ii) (iii)

Trierer Walzwerk GmbH (ii) (iii)

##### **Greece**

Tata Steel International Hellas SA (ii) (iii)

##### **India**

Kalzip India Private Limited (ii) (iii)

Tata Steel International (India) Limited (ii) (iii)

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

Corus Ireland Limited (ii) (iii)

Corus Republic Of Ireland Subsidiaries Pension Scheme

Trustee Limited (ii) (iii)

Gamble Simms Metals Limited (ii) (iii)

Lister Tubes Limited (ii) (iii)

Stewarts & Lloyds Of Ireland Limited (ii) (iii)

The Steel Company Of Ireland Limited (ii) (iii)

Walkersteelstock Ireland Limited (ii) (iii)

##### **Isle of Man**

Crucible Insurance Company Limited (ii) (iii)

##### **Italy**

Kalzip Italy Srl (ii) (iii)

Tata Steel International (Italia) Srl (ii) (iii)

##### **Jersey**

Almana Steel Dubai (Jersey) Limited (ii) (iv) (v)

##### **Latvia**

Tata Steel Latvia Buildings Systems SIA (ii) (iii)

##### **Mexico**

Cogent Power SA DE CV (ii) (iii)

##### **Netherlands**

Beheermaatschappij Industriële Produkten B.V. (ii) (iii)

British Steel Nederland International B.V. (ii) (iii)

C. V. Bénine (76.93%) (ii) (iii)

Corus Primary Aluminium B.V. (ii) (iii)

Demka B.V. (ii) (iii) (vii)

Esmil B.V. (ii) (iii)

Hoogovens Finance B.V. (ii) (iii)

Huizenbezit Breesaap B.V. (ii) (iii)

S.A.B Profiel B.V. (ii) (iii)

Service Centre Maastricht B.V. (ii) (iii)

Staalverwerking En Handel B.V. (ii) (iii)

Stainless Velsen-Noord B.V. (ii) (iii)

Tata Steel Europe Distribution B.V. (ii) (iii)

Tata Steel Europe Metals Trading B.V. (ii) (iii)

Tata Steel IJmuiden B.V. (ii) (iii)

Tata Steel International (Benelux) B.V. (ii) (iii)

Tata Steel Nederland B.V. (ii) (iii)

Tata Steel Nederland Consulting & Technical

Services B.V. (ii) (iii)

Tata Steel Nederland Services B.V. (ii) (iii)

Tata Steel Nederland Star-Frame B.V. (ii) (iii)

Tata Steel Nederland Technology B.V. (ii) (iii)

Tata Steel Nederland Tubes B.V. (ii) (iii)

## E7. Notes to the financial statements

Tata Steel Netherlands Holdings B.V. (i) (iii)	British Tubes Stockholding Limited (ii) (iii)
<b>Nigeria</b>	C Walker & Sons Limited (ii) (iii)
Tata Steel International (Nigeria) Limited (ii) (iii)	Catnic Limited (ii) (iii) (viii) (ix)
<b>Norway</b>	Cladding & Decking (UK) Limited (ii) (iii)
Norsk Stal Tynnplater AS (ii) (iii)	Cogent Power Limited (ii) (iii) (x)
Tata Steel Norway Byggsystemer A/S (ii) (iii)	Color Steels Limited (ii) (iii)
<b>Poland</b>	Corby (Northants) & District Water Co. (ii) (iii)
Blume Stahlservice Polska Spółka z.o.o (ii) (iii)	Cordor (C&B) Limited (ii) (iii)
Corus Tubes Poland Spółka z.o.o (ii) (iii)	Corus CNBV Investments (ii) (iii)
Tata Steel International (Poland) Spółka z.o.o (ii) (iii)	Corus Cold Drawn Tubes Limited (ii) (iii)
<b>Romania</b>	Corus Engineering Steels (UK) Limited (ii) (iii)
Corus International Romania SRL (ii) (iii)	Corus Engineering Steels Holdings Limited (ii) (iii) (xi)
<b>Russia</b>	Corus Engineering Steels Limited (ii) (iii) (xi)
Corus Steel Service STP LLC (ii) (iii)	Corus Engineering Steels Overseas Holdings Limited (ii) (iii)
<b>Singapore</b>	Corus Engineering Steels Pension Scheme Trustee Limited (ii) (iii)
Kalzip Asia Pte Limited (ii) (iii)	Corus Group Limited (ii) (iii)
<b>South Africa</b>	Corus Holdings Limited (ii) (iii)
TS South Africa Sales Office Proprietary Limited (ii) (xii)	Corus International (Overseas Holdings) Limited (ii) (iii)
<b>Spain</b>	Corus International Limited (ii) (iii)
Kalzip Spain S.L. (ii) (iii)	Corus Investments Limited (ii) (iii)
Layde Steel S.L. (ii) (iii)	Corus Large Diameter Pipes Limited (ii) (iv) (v) (vii)
Tata Steel International Iberica SA (ii) (iii)	Corus Liaison Services (India) Limited (ii) (iii)
<b>Sweden</b>	Corus Management Limited (ii) (iii)
Erik Olsson & Soner Forvaltnings AB (ii) (iii)	Corus Properties (Germany) Limited (ii) (iii)
Halmstad Steel Service Centre AB (ii) (iii)	Corus Property (ii) (iii)
Skruv Erik AB (ii) (iii)	Corus Service Centre Limited (ii) (iii)
Surahammars Bruks AB (ii) (iii)	Corus UK Healthcare Trustee Limited (ii) (iii)
Tata Steel International (Sweden) AB (ii) (iii)	Cpn (85) Limited (ii) (iii)
Tata Steel Sweden Byggsystem AB (ii) (iii)	Dsrn Group Plc. (ii) (iii)
<b>Switzerland</b>	Europressings Limited (ii) (iii) (x)
Montana Bausysteme AG (ii) (iii)	Federated Property Services Limited (ii) (iii)
Tata Steel International (Schweiz) AG (ii) (iii)	Firsteel Group Limited (ii) (iii)
<b>Turkey</b>	Firsteel Holdings Limited (ii) (iii)
Tata Steel Istanbul Metal Sanayi ve Ticaret AS (ii) (iii)	Firsteel Strip Mill Products Limited (ii) (iii)
<b>UAE</b>	Grant Lyon Eagre Limited (ii) (iii)
Kalzip FZE (ii) (iii)	H E Samson Limited (ii) (iii)
Tata Steel International (Middle East) FZE (ii) (iii)	Hadfields Holdings Limited (62.5%) (ii) (iii)
<b>Ukraine</b>	Hammermega Limited (ii) (iii)
Corus Ukraine LLC (ii) (iii)	Harrowmills Properties Limited (ii) (iii)
<b>United Kingdom</b>	Hoogovens (UK) Limited (ii) (iii)
Automotive Laser Technologies Limited (ii) (iii)	Hoogovens Aluminium UK Limited (ii) (iii)
B.S. Pension Fund Trustee Limited (ii) (iii)	Ickles Cottage Trust Limited (ii) (iv) (v) (vi)
Bell & Harwood Limited (ii) (iii)	Kalzip Limited (ii) (iii)
Blastmega Limited (ii) (iii) (vii)	London Works Steel Company Limited (ii) (iii)
Bore Samson Group Limited (ii) (iii)	Longs Steel UK Limited (ii) (iii)
Bore Steel Limited (ii) (iii)	Midland Steel Supplies Limited (ii) (iii)
British Guide Rails Limited (ii) (iii) (x)	Mistbury Investments Limited (ii) (iii)
British Steel Corporation Limited (ii) (iii)	Nationwide Steelstock Limited (ii) (iii)
British Steel Directors (Nominees) Limited (ii) (iii)	Orb Electrical Steels Limited (ii) (iii)
British Steel Engineering Steels (Exports) Limited (ii) (iii)	Ore Carriers Limited (ii) (iv) (v) (vii)
British Steel Samson Limited (ii) (iii)	Pensions Services Limited (ii) (iii)
British Steel Service Centres Limited (ii) (iii)	Plated Strip International Limited (ii) (iii)
British Steel Trading Limited (ii) (iii)	Precoat International Limited (ii) (iii)
	Precoat Limited (ii) (iii) (x)
	Round Oak Properties Limited (ii) (iv) (xi)
	Round Oak Steelworks Limited (ii) (iii)
	Runblast Limited (ii) (iii)
	Runmega Limited (ii) (iii)
	Seamless Tubes Limited (ii) (iii)
	Steel Stockholdings Limited (ii) (iv) (v)
	Steelstock Limited (ii) (iii)
	Stewarts And Lloyds (Overseas) Limited (ii) (iii)
	Stocksbridge Works Cottage Trust Limited (ii) (iv) (v) (vi)
	Swinden Housing Association (ii) (iii)
	Tata Steel UK Consulting Limited (ii) (iii)

## E7. Notes to the financial statements

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Tata Steel UK Limited (ii) (iii)  
Tata Steel UK Rail Consultancy Limited (ii) (iii)  
The Newport And South Wales Tube Company Limited (ii) (iii) (x)  
The Stanton Housing Company Limited (ii) (iii)  
The Templeborough Rolling Mills Limited (ii) (iv) (v)  
Toronto Industrial Fabrications Limited (ii) (iii) (x) (xi)  
U.E.S. Bright Bar Limited (ii) (iii)  
UK Steel Enterprise Limited (ii) (iii)  
UKSE Fund Managers Limited (ii) (iii)  
Walker Manufacturing And Investments Limited (ii) (iii)  
Walkersteelstock Limited (ii) (iii)  
Westwood Steel Services Limited (ii) (iii)  
Whitehead (Narrow Strip) Limited (ii) (iii)

### USA

Apollo Metals, Limited (ii) (iii)  
Cogent Power Inc. (ii) (iii)  
Hille & Müller USA, Inc. (ii) (iii)  
Hoogovens Usa, Inc. (ii) (iii)  
Kalzip Inc. (ii) (iii)  
Oremco, Inc. (ii) (iii)  
Rafferty-Brown Steel Co Inc Of Conn. (ii) (iii)  
Tata Steel International (Americas) Holdings Inc. (ii) (iii)  
Tata Steel International (Americas) Inc. (ii) (iii)  
Tata Steel USA, Inc. (ii) (iii)  
Thomas Processing Company (ii) (iii)  
Thomas Steel Strip Corp. (ii) (iii)  
Tuscaloosa Steel Corporation (ii) (iii)

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### Classification key:

- (i) Directly owned by Tata Steel UK Holdings Limited
- (ii) Owned by the Group
- (iii) Ordinary shares
- (iv) Ordinary A shares
- (v) Ordinary B shares
- (vi) Ordinary C shares
- (vii) Preference shares
- (viii) Deferred shares
- (ix) Deferred A shares
- (x) Cumulative redeemable preference shares
- (xi) Non-cumulative preference shares
- (xii) No share capital

All subsidiaries are included in the consolidation of these accounts.

Unless indicated otherwise, subsidiary undertakings are wholly owned within the Group.

There are two companies which are consolidated but not by virtue of the majority of voting rights held. These are:

- Stocksbridge Works Cottage Trust Limited
- Ickles Cottage Trust Limited

Tata Steel Europe Limited is the ultimate controlling party of the above two companies by virtue of it bearing the cost of managing the company, including costs of directors and administration.

## E7. Notes to the financial statements

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### Joint ventures, joint operations and associates

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#### **England and Wales**

Afon Tinplate Company Limited (64%) (i) (iv) (vi) (JV)  
Air Products Llanwern Limited (50%) (i) (ii) (JO)  
Appleby Frodingham Cottage Trust Limited (33%) (i) (iii) (AS)  
BSR Pipeline Service Limited (50%) (i) (ii) (JO)  
Caparo Merchant Bar plc (25%) (i) (ii) (JV)  
Fabsec Limited (25%) (i) (iv) (AS)  
ISSB Limited (50%) (i) (ii) (AS)  
Texturing Technology Limited (50%) (i) (iii) (JO)  
Ravenscraig Limited (33%) (i) (iii) (JV)  
Redcar Bulk Terminal Limited (50%) (i) (iii) (v) (JV)

#### **Greece**

Corus Kalpinis Simos Cladding Industry SA (50%) (i) (iii) (JV)  
Tata Elastron Steel Service Center SA (50%) (i) (ii) (JV)

#### **Netherlands**

Gietwalsonderhoudcombinatie B.V. (50%) (i) (ii) (AS)  
Hoogovens Court Roll Surface Technologies VOF (50%) (i) (viii) (JO)  
Hoogovens Gan Multimedia S.A. De C.V. (50%) (i) (vii) (AS)  
Industrial Rail Services IJmond B.V. (50%) (i) (ii) (JV)  
Laura Metaal Holding B.V. (49%) (i) (ii) (JV)  
Wupperman Staal Nederland B.V. (30%) (i) (ii) (AS)

#### **France**

Albi Profils SAS (30%) (i) (ii) (AS)  
Isolation Du Sud SAS (33%) (i) (ii) (AS)

#### **Turkey**

Tata Steel Ticaret AS (50%) (i) (ii) (JV)

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Financial information relating to joint venture and associate companies is disclosed in Note 9.

#### **Classification key:**

- (i) Owned by the Group
  - (ii) Ordinary shares
  - (iii) Ordinary A shares
  - (iv) Ordinary B shares
  - (v) Voting shares
  - (vi) Preference shares
  - (vii) 455,000 shares of the variable part ; 25,000 of the minimum fixed part of the capital stock
  - (viii) Partnership by agreement
- 
- (JV) Joint Venture
  - (JO) Joint Operation
  - (AS) Associate

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