TATA STEEL

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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 2015.

*Ownership*

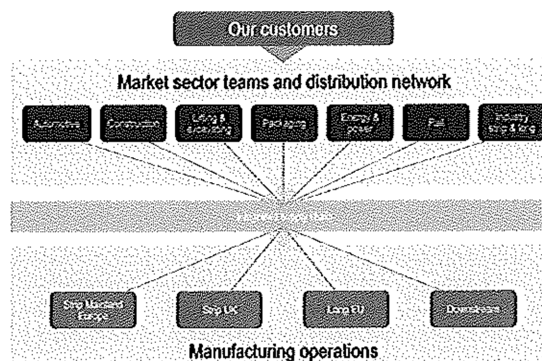
The ultimate UK parent company of TSUKH is Tata Steel Europe ('TSE'), which is a wholly-owned subsidiary of Tata Steel Global Holdings Pte. Limited, an unlisted company based in Singapore. The ultimate parent company is Tata Steel Limited ('TSL'), which is a company incorporated in India with shares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

*Principal activities*

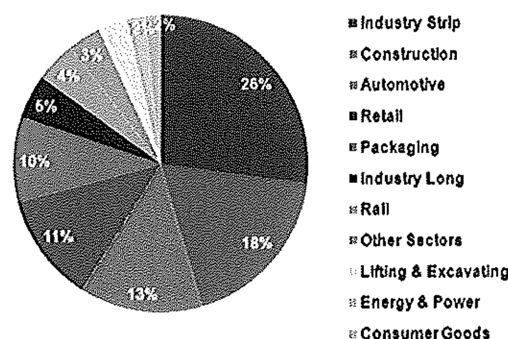
The principal activities of the Group in 2014/15 comprised the manufacture and sale of steel products throughout the world. The Group produces carbon steel by the basic oxygen steelmaking method at two integrated steelworks in the UK at Port Talbot and Scunthorpe, and at one in the Netherlands at IJmuiden. 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 15.2mt of steel products in the current year (2013/14: 15.5mt). On 15 October 2014 TSE announced a proposal to divest its Long Products operations. If the disposal proceeds the Group's principal activities will, in future, be focused on the manufacture and sale of just strip products.

The Group organises its commercial activities into strategic sectors (see opposite) 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 37 to the financial statements.




In the current year, about 75% (2013/14: 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 25% (2013/14: 30%) of hot rolled coil was sold without further processing, approximately 65% (2013/14: 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, 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) and/ or the TSL 2014/15 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

The principal risks and uncertainties affecting the Group are as follows:

| Risks | Mitigating factors |
|---|---|
| **Health, safety, environmental and other compliance matters** | |
| 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 are an inherent part of the Group's business. | The Group has policies, systems and procedures in place aimed at ensuring substantial compliance and there is a strong commitment from the TSE Board and the TSE Executive Committee to enforce compliance, to continuously improve safety performance and to minimise the impact of the Group's operations on the environment (refer to the sections on Employees and on Environment). Environmental matters extend into the EU Emissions Trading Scheme ('EU ETS'), which is currently in Phase 3. |
| **Financing** | |
| 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.<br>A significant amount of funding is also provided to TSE from TSL Group companies. | There has been some de-risking in this area following a successful refinancing of the SFA in October 2014, which has been arranged on more favourable terms including lower interest rates and removal of certain performance conditions (see note 18), as well as an extension to the duration of the facility before repayments of the principal are required. In order to effectively manage the remaining risk, the forecast requirements of the Group continue to be closely monitored and 'downside' sensitivities are undertaken regularly to ensure the adequacy of facilities. |
| **General economic conditions** | |
| The Group's financial performance is influenced by the economic climate in Europe and by changes in the global steel market. | Downturns in economic activity are normally mitigated by an acceleration of commercial and operational improvements initiatives, delivery of significant fixed cost savings and, if deemed necessary, further rationalisations to operations. |
| **Long-term competitiveness** | |
| 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. | 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, business specific improvement plans and securing access to cost effective raw materials. The Group has also announced a proposal to divest its Long Products operations in order to focus on strip products to improve long term competitiveness. |

## A2. Principal risks and uncertainties

| Impact of China and other exporters | |
|---|---|
| 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. | The Group monitors import activity closely and, where unfair trading behaviour is evident, and where under the Group's control, seeks appropriate action (such as anti-dumping or anti-subsidy measures) from the European Commission and other authorities against relevant suppliers. |
| **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. The impact of these factors is exacerbated by the fact that the Steel Industry is capital intensive. | 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. The market value of pension assets and liabilities is significantly greater than the net assets of the Group and, therefore, any change can have a material impact on the Group's financial statements as well as impacting the level of company pension contributions. | The Group has put in place a framework to manage pension risks and works with schemes' trustees to ensure that obligations remain affordable and sustainable. As part of this framework, revisions have been made to the pension scheme in the Netherlands (Stichting Pensioenfonds Hoogovens) under which the Group's contribution level has been fixed for a three year period from 1 January 2015. Under this revised framework, pension contributions will no longer be dependent on the funding ratio of the SPH (see note 32). Consultation with UK employees is also underway in connection with proposed changes to future pension provision in the British Steel Pension Scheme ('BSPS'). Following completion of this statutory consultation, the Group will give consideration to member feedback before confirming the terms of any revisions. The triennial actuarial valuation of the BSPS as at 31 March 2014 is currently on-going. The outcome of the consultation will be reflected in the 2014 valuation results. |

## A2. Principal risks and uncertainties

### Exchange rates

The Group derives most of its revenue in the EU, but has substantial assets and sales in the UK, which is not a member of the euro-zone. Major raw material 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.

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.

### Raw materials and energy

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.

A majority of suppliers of iron ore and coal to the seaborne markets have moved from annual to quarterly pricing in recent years, and some of these are now seeking to further shorten pricing periods to monthly or spot terms.

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.

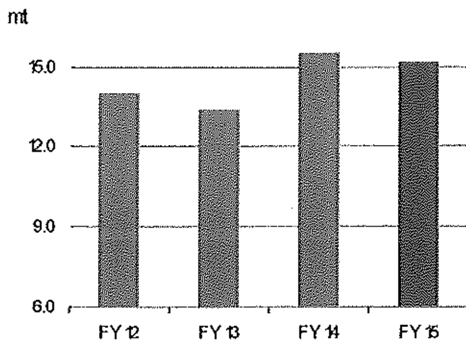
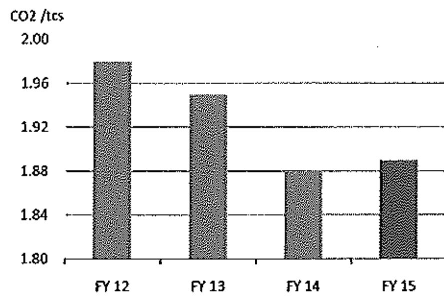
The Group is working with suppliers to agree competitive prices and has agreed a range of pricing bases, whilst adjusting its commercial portfolio to maximise opportunities presented by moves to shorter term pricing. Most quarterly iron ore price settlements are currently made at the end of the quarter for which the price relates. Whilst this matches the spot price to the correct quarter, it also removes an element of cost certainty for commercial price negotiations.

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.

## A3. Key Performance Indicators (KPIs)

| KPI | Rationale | Comments |
|---|---|---|
| **Safety:**<br>LTIF / Recordables<br>1.6, 1.2, 0.8, 0.4, 0.0<br>6.0, 5.5, 5.0, 4.5, 4.0, 3.5, 3.0, 2.5, 2.0<br>FY 12, FY 13, FY 14, FY15<br>LTIF — Recordables | • 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.<br>• Recordables are defined as all work related incidents resulting in harm to a person or persons excluding those that require no more than first aid treatment. | • The combined contractor and employee LTIF rate was 0.76 for 2014/15 (2013/14: 0.82).<br>• A 7% improvement compared to 2013/14 with more sites achieving zero LTIs for the year.<br>• Recordables were at broadly the same level of 4.24 for 2014/15 compared to 4.26 for 2013/14. Improvements to the employee rate were partly offset by a deterioration to the contractor rate. |
| **EBITDA & EBITDA Margin:**<br>£m / %<br>320, 240, 160, 80, 0<br>4.2%, 3.5%, 2.8%, 2.1%, 1.4%, 0.7%, 0.0%<br>FY 12, FY 13, FY 14, FY15<br>EBITDA — EBITDA% | • This shows earnings from continuing operations (before restructuring & impairment credits/costs, profit/loss on disposals, interest, tax, depreciation and amortisation) as a percentage of Group revenue.<br>• It measures how efficiently revenue is converted into EBITDA. | • 4% for 2014/15 (EBITDA: £292m), which increased from 3% in 2013/14 (EBITDA: £257m).<br>• Raw material costs reduced during the year by more than selling prices, thereby leading to improved margins and EBITDA. |
| **Working capital/turnover:**<br>20%, 15%, 10%, 5%, 0%<br>FY 12, FY 13, FY 14, FY 15 | • This shows year-end working capital as a percentage of the annualised quarter 4 revenue for each relevant year.<br>• It measures how efficiently the Group manages its raw material, steel and other inventories, and payment terms and cashflow with suppliers and customers. .<br>• It excludes the impact of arrangements with TSL group companies (see Note 35). | • 16% for 2014/15 (2013/14: 15%).<br>• Slight increase due to lower turnover in the March 2015 quarter caused by a 7% decrease in deliveries, partly offset by lower inventory values. |
| **Net Debt:**<br>£bn<br>4.50, 4.00, 3.50, 3.00, 2.50, 2.00<br>FY 12, FY 13, FY 14, FY 15 | • This shows total debt less cash and cash equivalents, and short term investments.<br>• It reflects the Group's overall liquidity position and is used by management for planning purposes. | • £3,729m at the end of 2014/15 (2013/14: £3,314m).<br>• Increase in net debt is primarily due to net cash outflows used in both operating and investing activities.<br>• The arrangements with Tata Steel Global Procurement Co. Pte Limited ('Proco') (see Note 35) favourably impact net debt levels. |

## A3. Key Performance Indicators (KPIs)

| KPI | Rationale | Comments |
|---|---|---|
| **Volume Performance:** | | |
| <br> | • Liquid steel production. This reflects the level of physical activity and is a key indicator of the manufacturing performance of upstream assets.<br>• It is also a measure by which the steel industry compares the size of companies on a global scale. | • 15.2mt in 2014/15 (2013/14: 15.5mt).<br>• Liquid steel reduced in 2014/15 primarily due to operational stability issues. |
| **Environment:** | | |
| <br> | • $CO_2$ emissions. The Group measures its $CO_2$ emissions per tonne of crude steel produced through the integrated steelmaking route, including direct and indirect emissions. | • 1.89 tonnes $CO_2$ per tonne of crude steel for 2014/15 (2013/14: 1.88).<br>• The marginal increase is consistent with the decrease to crude steel production. |

# 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 2014 increased by 3.3% (3.1% in 2013). The eurozone economy grew by 0.8% (0.4% decrease in 2013). Throughout the last year inflation continued to drift down reflecting considerable excess capacity in the euro area. In order to avoid a deflationary environment the European Central Bank announced the introduction of a quantitative easing programme, which led to a significant depreciation of the euro. The UK economy recovered strongly by 2.6% in 2014 (1.7% in 2013) as consumer spending strengthened. Growth in China again decelerated in 2014 to 7.4% (2013: 7.7%) as the government is seeking to transform the economy from being investment led to become more consumer driven, as its cost advantage is being eroded.

*Global steel market*

Global steel demand is estimated to have increased by 0.6% in 2014 (2013: 6.2%) to reach a new high of 1,537mt. Demand for steel in China contracted by 3.3% to 710mt compared to strong growth of 11.4% in 2013. Steel demand in the EU grew by 4.5% to 147mt (2013: 0.9%) as improvements were seen at the sector level. Production in the EU automotive market expanded by 4.2% (2013: 3.1%) while construction activity increased by 3.0% (2013: 1.9% decrease).

In 2014, global steel production increased by 1.7% (2013: 5.4%) to reach a new record of 1,633mt. Despite demand contracting, steel production in China still increased by 1.8% to 815mt (2013: 11.7%) and equated to 50% (2013: 49%) of global steel production. In the EU output increased by 1.8% to 169mt (2013: 1.3% decrease).

EU net trade decreased from 8.3mt in 2013 to 4.8mt in 2014 due to a 3.8mt increase to imports which more than offset a 0.3mt increase to exports. Exports from China were at a record high as demand growth weakened while production levels continued to increase. Exports were over 90mt for the full year equating to approximately 12% of the ex-China market.

Global steelmaking capacity utilisation decreased slightly from 73.2% in 2013 to 72.3% in 2014. EU utilisation rates improved from 71.2% to 72.9% but still remain significantly lower than pre financial crisis levels in 2008.

Steel spot prices in most regions fell during the fiscal year, in reaction to declining iron ore prices except for the USA where the price decline only started at the end of the year in response to a sharp reduction to scrap prices.

*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 fell significantly in 2014/15 from $116/t in April 2014 to $58/t in March 2015 due to increased supply from Australia and Brazil and a slow down to demand growth from China. In contrast scrap prices remained relatively stable for most of 2014 and despite decreasing towards the end of the year, price levels have still remained at a premium relative to iron ore.

Hard coking coal spot prices were relatively stable during 2014/15 as the market remained over supplied.

*Prospects for 2015/16*

Against the background of a slowly improving economy, the World Steel Association predicts modest global steel demand growth of 0.5% in 2015. Steel demand in China is also expected to increase by 0.5% as the Chinese government continues to rebalance the economy. EU steel demand is expected to grow by 2.1% due to improving economic conditions in Europe albeit still circa 25% below pre-financial crisis levels. Margins in the EU steel industry are expected to remain compressed by 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 third consecutive year in 2014/15 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 50% of the workforce now attending the 4 week programme. Throughout the year 2 day training for Group Senior Managers has been undertaken in H&S Excellence and particularly focusing on their leadership role in knowledge and behaviour.

The combined lost time injury frequency rate ('LTIF') in 2014/15 for employees and contractors fell by 7% to 0.76 compared to 0.82 in the previous year. The next level of severity 'recordables' remained at broadly the same frequency rate of 4.24 compared to 4.26 in 2013/14.

*Employee numbers*

At 31 March 2015 the number of employees in the Group was 30,300 compared to 31,200 at 31 March 2014. The reduction was mainly attributable to restructuring measures due to the continued economic downturn and from the disposal of the Group's 100% interest in Tata Steel International (Australasia) Ltd on 14 April 2014, partly offset by an increased headcount arising from acquisitions (see page 13).

*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 employs them where suitable work can be found. The requirements of job applicants and existing members of staff who have a disability are reviewed to ensure that reasonable adjustments are made to enable them to perform as well as possible during the recruitment process and while employed. All reasonable measures are taken to ensure that disabled employees are given the opportunity and facilities to participate fully in the workplace, in training and in career development and promotion opportunities. In addition, every effort is made to find appropriate alternative jobs for those who become disabled while working for the Group.

During the March 2015 quarter the Company initiated an Employee Survey. The results were concluded in May 2015 and will be discussed in workgroups with employees to identify suitable action plans for implementation during 2015/16.

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.

*Pension arrangements*

The principal defined benefit pension schemes in the Group are the British Steel Pension Scheme ('BSPS') in the UK and the Stichting Pensioenfonds Hoogovens scheme ('SPH') in the Netherlands. Further details on these schemes is provided in Note 32.

## 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 $CO_2$.

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 affordable and energy-efficient modular homes, and in lighter, stronger and safer transport systems. As a result, $CO_2$ 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.

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 $CO_2$ 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 2014 was 5.0% (2013: 4.9%).

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 the 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.

More generally, the Group continues to invest substantially in short to medium term $CO_2$ 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 ('HIsarna') 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 $CO_2$ 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 2015 was approximately €7 per tonne of $CO_2$ (31 March 2014: €5).

TSUKH $CO_2$ emissions (tonnes per tonne of crude steel) increased slightly to 1.89 in 2014/15 compared to 1.88 in the previous year due to lower liquid steel output which adversely impacted $CO_2$ efficiency.

*Carbon price floor*

The UK government announced in the 2011 budget their intention to introduce a 'carbon price floor' with effect from 2013/14. This is an additional UK only tax on electricity generation related to the carbon intensity of the generation fuel used. The objective of the tax is to ensure that the economics of electricity generation are tilted in favour of low carbon technologies, including nuclear power, and hence to encourage investment in these technologies. The impact of the tax for consumers is to raise the price of electricity in the UK. European steelmakers already face significantly higher emission costs under Phase 3 of the EU ETS and the carbon price floor has imposed additional cost on the UK steel industry (and hence is opposed by the Group). However, in response to concerns being raised in relation to the effects that this and other policy decisions would have on international competitiveness, a compensation package for energy intensive industries was announced in principle by the UK Government in 2012, and has now been partially implemented. In the March 2014 Budget, as a result of representations from energy intensive industries, including

steel, 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 Feed in Tariffs (FITs) would be brought forward to 2015/16.

## Research & development

*Organisational changes*

On 2 December 2014 the Group announced the transfer of assets and employees in its Teesside Technology centre to a new centre contained in a new independent entity called the Materials Processing Institute (MPI) owned jointly by TSUKH, Harsco and the Centre for Process Innovation. The centre has the support of the Local Enterprise Partnership, Tees Valley Unlimited, the Institute of Materials, Minerals and Mining (IOM3) and a doctoral centre relationship with the University of Sheffield and the University of Durham Business School. As a fully independent entity, the MPI can seek work from any clients of its choosing and is not restricted to steel-based work nor subject to the tighter restrictions in grant and project applications that apply to large companies.

On 25 March 2015 the University of Warwick was awarded a £14.5m grant from the UK Government's Research Partnership Investment Fund for the Warwick Manufacturing Group ('WMG') to bring together researchers to work with industry in an Advanced Steel Research Hub. The WMG will work with TSE to research steel related emerging and breakthrough technologies.

*Research & Technology programme*

Most of the TSUKH technology programme is developed under the governance of the Global Expert Committees ('GECs') of Tata Steel, which cover process development and product market sector developments.

*Process development*

The process technology programme in 2014/15 was focused on robust and stable manufacturing processes, and better use of raw materials. 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.

Automotive developments remain a major component of the technology development portfolio. The development of new and stronger grades of steel, that maintain significant forming capabilities, enable the automotive industry to continuously improve their product offering through optimising weight (and hence energy consumption in use), safety (especially in crash situations) and cost simultaneously.

The development programme in the lifting and excavation sector is focused on new grades of plate that offer higher strengths, whilst retaining other key properties such as fatigue, weldability, and formability.

In the construction sector, developments for buildings are focused on the next generation of higher value added branded products and functional coatings, and optimisation of life cycle energy.

Energy and power developments focus on tailor made solutions for specific pipe projects. TSUKH is leading the development of high thickness over diameter ratio pipelines.

During 2014/15 35 new products were introduced into the Group's product portfolio (2013/14: 30).

## Post balance sheet events

On 6 May 2015 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).

| £m | 2014/15 | 2013/14 | B/(W) than 2013/14 |
|---|---|---|---|
| **Revenue** | **7,879** | **8,556** | **(677)** |
| Liquid steel production (mt) | 15.2 | 15.5 | (0.3) |
| Steel deliveries (mt) | 13.7 | 13.9 | (0.2) |
| **EBITDA** | **292** | **257** | **35** |
| Depreciation and amortisation (net of grants) | (362) | (409) | 47 |
| **Operating loss before restructuring, impairment and disposals** | **(70)** | **(152)** | **82** |
| Restructuring and impairment costs | (287) | (32) | (255) |
| Profit on disposals | 8 | 2 | 6 |
| **Operating loss** | **(349)** | **(182)** | **(167)** |
| Net finance costs | (403) | (356) | (47) |
| Share of post-tax results of joint ventures and associates | (1) | 4 | (5) |
| **Loss before taxation** | **(753)** | **(534)** | **(219)** |
| Taxation (charge)/ credit | (84) | 47 | (131) |
| **Loss after taxation** | **(837)** | **(487)** | **(350)** |

*Profit and loss*

Group revenue of £7,879m in 2014/15 was 8% lower than the previous year due to a 7% decrease to average revenue per tonne due to downward pressure on steel selling prices, caused primarily by lower raw material prices and a 1% decrease to steel deliveries which was largely attributable to lower production. Liquid steel production in 2014/15 at 15.2mt was 0.3mt lower than 2013/14 due to a number of operational issues in the Group's steel making sites, in particular in Scunthorpe due to a material outage to the Queen Victoria blast furnace in the June 2014 quarter.

The operating result before restructuring, impairment and disposals improved from a loss of £152m in 2013/14 to a loss of £70m in 2014/15. The improvement of £82m was explained by improved steel margins with lower raw material costs more than offsetting a decrease to selling prices, a more efficient usage of materials and tighter control of costs, and a lower depreciation and amortisation charge of £362m (2013/14: £409m) due to assets becoming fully depreciated in the year. EBITDA increased from £257m in 2013/14 to £292m in 2014/15 due to the same factors. This equated to an EBITDA margin of 4% (2013/14: 3%).

The operating loss after restructuring, impairment and disposals was £349m in 2014/15, £167m worse than 2013/14 but included a significant charge of £287m (2013/14: £32m) for restructuring and impairment. This included an impairment charge of £276m for property, plant and equipment (see note 8) primarily relating to an impairment of £276m against the assets of Long Products Europe (including associated distribution units) as a result of a weaker construction market. There are net redundancy and rationalisation costs of £11m relating mainly to the restructuring of the Strip Products UK business (see note 2). Profit on disposals at £8m arose from the sale of Group undertakings (see note 33) and property, plant and equipment.

The Group's net finance cost in 2014/15 of £403m was £47m higher than the previous year due primarily to higher finance charges of £40m on increased intra-group borrowings, partly offset by lower charges of £11m on working capital arrangements with Proco. Bank and other borrowings has increased by £13m due to the expiration of interest rate caps on the SFA debt, partly offset by a decrease in margins on the refinanced SFA in October 2014.

The Group share of post-tax results of joint ventures and associates was a loss of £1m (2013/14: £4m profit), but included impairment charges of £6m against some of the Group's equity investments (see note 9).

Taxation was a charge of £84m in 2014/15 (2013/14: credit £47m) due primarily to a deferred tax loss recognised in the UK and in the Netherlands, to offset a deferred tax credit in reserves relating to actuarial losses on the BSPS and SPH pension schemes. The Group loss after tax in 2014/15 was £837m (2013/14: £487m).

*Refinancing*

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 TSUKH (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 15 October 2014 subsidiaries of TSUKH (namely Tata Steel UK Ltd ('TSUK'), Tata Steel France Holdings SAS ('TSFH') and Tata Steel Germany GmbH ('TSGG')) signed a non-binding memorandum of understanding ('MOU') with Klesch & Co ('Klesch') to enter into negotiations to sell its Long Products business and associated distribution units. The MOU expired on 28 February 2015 and discussions with Klesch to extend the MOU are ongoing.

On 14 April 2014 TSUKH sold its 100% interest in Tata Steel International (Australasia) Ltd, a stainless steel service centre in New Zealand to Steel & Tube Holdings Ltd (see note 33).

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 Group's interest in Danieli Corus Technical Services B.V. was classified as held for sale at 31 March 2015 (see note 9 and 16).

On 10 December 2014 Tata Steel Nederland B.V. signed binding agreements with subsidiaries of steel producer SSAB (namely SSAB Europe OY, Ruukki Sverige AB and Tibnor Aktiebolag) to acquire SSAB's strip products service centres at Halmstad in Sweden and Naantali, and the remaining 50% stake in Norsk Stål Tynnplater AS, another strip products service centre based in Fredrikstad, Norway and a 50/50 joint venture between TSUKH and Tibnor. The transaction was completed on 31 March 2015 (see note 9 and 34).

*Cash flow*

Net cash flow used in operating activities in 2014/15 was an outflow of £329m (2013/14: inflow of £40m) due mainly to the operating loss and interest payments. The working capital/turnover ratio (excluding the impact of arrangements with TSL Group companies) deteriorated to 16% by 31 March 2015 (31 March 2014: 15%) due to lower turnover in the March 2015 quarter, which more than offset lower inventory values. Net cash flow used in investing activities was an outflow of £289m (2013/14: outflow £313m) due mainly to capital expenditure of £303m (2013/14: £300m). After a net cash inflow of £453m from financing activities (2013/14: inflow of £288m) arising from mainly the refinancing in October 2014, this gave a net decrease in cash and cash equivalents of £165m (2013/14: decrease £152m). The Group cashflows in 2014/15 benefitted from a number of working capital arrangements implemented with TSL Group companies. Further details on these arrangements are included in Note 35 on page 62.

*Balance sheet*

TSUKH's consolidated net liabilities at 31 March 2015 were £1,101m (31 March 2014: net liabilities of £64m). The deterioration of £1,037m was due to the loss after taxation of £837m and other comprehensive losses of £199m caused mainly by actuarial losses on defined benefit pension and other post-retirement plans (see page 20). Net debt at 31 March 2015 amounted to £3,729m (31 March 2014: £3,314m). Of the gross debt, approximately 42% related to borrowings from within the TSL Group (31 March 2014: 23%). Cash and short-term deposits at 31 March 2015 amounted to £221m (31 March 2014: £403m). Further details on borrowings can be found in Note 18 on page 43.

*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 21 on pages 46 to 50.

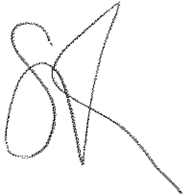
## A6. Going concern

The directors have assessed the future funding requirements of the Group and the Company, and have compared them to the level of available borrowing facilities, including working capital facilities authorised and supported by the ultimate parent, TSL, and assessed future financial performance against the borrowing facilities as set out in Note 18 to the financial statements, and as supported by a commitment from TSL. As part of these assessments, the directors considered a number of scenarios and the mitigating actions the Group could take to limit any adverse consequences. In particular, the directors considered separately the impact of lower steel margins, higher raw material costs, lower production volume and different exchange rates than had been assumed in the Group's Annual Plan. Having undertaken this work, the directors are of the opinion that the Group has access to adequate resources to fund its operations for the foreseeable future and so determine that it is appropriate for the financial statements to be prepared on a going concern basis.

## A7. Approval of Strategic Report

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
9 June 2015

## B. Directors' Report

### The Board

The directors of the Company who served throughout the period from 1 April 2014 to the date of this report (unless otherwise stated) were as follows:

K Chatterjee (resigned 1 June 2014)
N K Misra
S Biswas (appointed 1 June 2014)

### 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 (2013/14: 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 are 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.

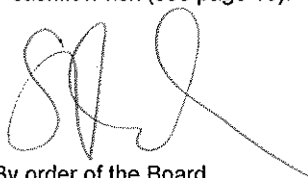
### Auditor

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 11)
- Factors likely to affect the Group's future development, performance and position (see page 8);
- Policies on employment of disabled persons, employee involvement, communication, consultation, recruitment and training (see page 9);
- Research & development activities (see page 11); and
- An indication of exposure to price, credit, liquidity and cashflow risk (see page 13).



By order of the Board
S V Gidwani
Company Secretary
9 June 2015

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the 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 to the member of Tata Steel UK Holdings Limited

We have audited the financial statements of Tata Steel UK Holdings Limited for the year ended 31 March 2015 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 37. 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 2015 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.

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

In our opinion 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.

### 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.

Andrew Kelly (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
9 June 2015

# E1. Consolidated income statement

| For the financial year ended 31 March | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| **Revenue** | | **7,879** | 8,556 |
| **Operating costs** | 1 | **(8,228)** | (8,738) |
| **Operating loss** | | **(349)** | (182) |
| Finance costs | 4 | **(405)** | (366) |
| Finance income | 4 | **2** | 10 |
| Share of post-tax results of joint ventures and associates | 9 | **(1)** | 4 |
| **Loss before taxation** | | **(753)** | (534) |
| Taxation (charge)/credit | 5 | **(84)** | 47 |
| **Loss after taxation** | | **(837)** | **(487)** |
| Attributable to: | | | |
| Owners of the Company | | **(837)** | (487) |

All references to 2015 in the Financial Statements, the Presentation of accounts and accounting policies and the related Notes 1 to 37 refer to the financial period ended 31 March 2015 or as at 31 March 2015 as appropriate (2014: the financial period ended 31 March 2014 or as at 31 March 2014).

The Company recorded a loss of £1,081m (2014: profit of £56m) and has taken advantage of the exemption under section 408 of the Companies Act 2006 allowing it not to present its own profit and loss account.

Notes and related statements forming part of these accounts appear on pages 31 to 65.

# E2. Consolidated statement of comprehensive income

| For the financial year ended 31 March | Note | 2015 £m | 2014 £m |
|---|---|---|---|
| Loss after taxation | | **(837)** | (487) |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Actuarial losses on defined benefit pension and other post-retirement plans | 32 | **(392)** | (13) |
| Income tax relating to items that will not be reclassified | | **72** | 11 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Available for sale investments | | **-** | (3) |
| Gains arising on cash flow hedges | 21 | **58** | 13 |
| Exchange rate movements on currency net investments | | **83** | (10) |
| Exchange rate movements recycled to profit and loss on disposal of Group company | 33 | **(5)** | - |
| Income tax relating to items that may be reclassified | | **(15)** | (3) |
| **Other comprehensive income for the year net of tax** | | **(199)** | (5) |
| **Total comprehensive income for the year** | | **(1,036)** | (492) |
| Attributable to: | | | |
| Owners of the Company | | **(1,036)** | (492) |

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 31 to 65.

## E4. Consolidated statement of changes in equity

| As at 31 March | Note | Group 2015 £m | Group 2014 (restated) £m | Group 2013 (restated) £m | Company 2015 £m | Company 2014 £m | Company 2013 £m |
|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | |
| Goodwill | 6 | 405 | 405 | 405 | - | - | - |
| Other intangible assets | 7 | 144 | 141 | 122 | - | - | - |
| Property, plant and equipment | 8 | 2,425 | 2,982 | 3,082 | - | - | - |
| Equity accounted investments | 9 | 38 | 69 | 71 | - | - | - |
| Investments in subsidiary and fellow group undertakings | 9 | - | - | - | 4,291 | 4,637 | 4,539 |
| Other investments | 10 | 49 | 52 | 58 | - | - | - |
| Other non-current assets | 11 | - | 3 | 21 | - | - | - |
| Retirement benefit assets | 32 | 144 | 438 | 422 | - | - | - |
| Deferred tax assets | 23 | 73 | 98 | 62 | 33 | 24 | 28 |
| | | **3,278** | **4,188** | **4,243** | **4,324** | **4,661** | **4,567** |
| **Current assets** | | | | | | | |
| Inventories | 12 | 1,558 | 1,738 | 1,880 | - | - | - |
| Trade and other receivables | 14 | 957 | 811 | 800 | 328 | 210 | 22 |
| Current tax assets | 13 | 3 | 4 | 6 | - | - | - |
| Short term investments | 15 | 2 | 2 | 2 | - | - | - |
| Cash and short term deposits | 15 | 221 | 403 | 564 | - | - | - |
| Assets classified as held for sale | 16 | 16 | - | - | - | - | - |
| | | **2,757** | **2,958** | **3,252** | **328** | **210** | **22** |
| **TOTAL ASSETS** | | **6,035** | **7,146** | **7,495** | **4,652** | **4,871** | **4,589** |
| **Current liabilities** | | | | | | | |
| External borrowings | 18 | (660) | (861) | (810) | (1) | (1) | (9) |
| Trade and other payables | 17 | (2,709) | (2,958) | (2,779) | (25) | (9) | (11) |
| Current tax liabilities | 13 | (9) | (4) | (20) | - | - | - |
| Retirement benefit obligations | 32 | (6) | (7) | (6) | - | - | - |
| Short term provisions and other liabilities | 22 | (58) | (85) | (106) | - | - | - |
| | | **(3,442)** | **(3,915)** | **(3,721)** | **(26)** | **(10)** | **(20)** |
| **Non-current liabilities** | | | | | | | |
| Inter-group borrowings | 18 | (1,677) | (869) | (496) | (1,568) | (745) | (496) |
| External borrowings | 18 | (1,626) | (1,992) | (2,346) | - | - | - |
| Deferred tax liabilities | 23 | (1) | (2) | (19) | - | - | - |
| Retirement benefit obligations | 32 | (176) | (131) | (146) | - | - | - |
| Provisions and other liabilities | 22 | (165) | (175) | (197) | - | - | - |
| Other non-current liabilities | 19 | (32) | (104) | (123) | (451) | (428) | (441) |
| Deferred income | 24 | (17) | (22) | (19) | - | - | - |
| | | **(3,694)** | **(3,295)** | **(3,346)** | **(2,019)** | **(1,173)** | **(937)** |
| **TOTAL LIABILITIES** | | **(7,136)** | **(7,210)** | **(7,067)** | **(2,045)** | **(1,183)** | **(957)** |
| **NET (LIABILITIES)/ASSETS** | | **(1,101)** | **(64)** | **428** | **2,607** | **3,688** | **3,632** |
| **Equity** | | | | | | | |
| Called up share capital | 25 | 3,497 | 3,497 | 3,497 | 3,497 | 3,497 | 3,497 |
| Share premium | 25 | 450 | 450 | 450 | 450 | 450 | 450 |
| Accumulated deficit | | (5,367) | (4,210) | (3,721) | (1,340) | (259) | (315) |
| Other components of equity | | 319 | 198 | 201 | - | - | - |
| Equity attributable to owners of the Company | | (1,101) | (65) | 427 | 2,607 | 3,688 | 3,632 |
| Non-controlling interests | | - | 1 | 1 | - | - | - |
| **TOTAL EQUITY** | | **(1,101)** | **(64)** | **428** | **2,607** | **3,688** | **3,632** |

*2014 and 2013 have been restated due to the impact of adopting IFRS 11 (see Accounting Policies on page 24)*

Approved by the Board and signed on its behalf by:

N K Misra
Executive Director, Finance
9 June 2015
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 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 March 2013** | **3,497** | **450** | **(3,721)** | **(70)** | **271** | **-** | **427** | **1** | **428** |
| Loss for the period | - | - | (487) | - | - | - | **(487)** | - | **(487)** |
| Other comprehensive loss for the period | - | - | (2) | 10 | (10) | (3) | **(5)** | - | **(5)** |
| Total comprehensive loss for the period | - | - | (489) | 10 | (10) | (3) | **(492)** | - | **(492)** |
| **Balance as at 31 March 2014** | **3,497** | **450** | **(4,210)** | **(60)** | **261** | **(3)** | **(65)** | **1** | **(64)** |
| Loss for the period | - | - | (837) | - | - | - | **(837)** | - | **(837)** |
| Other comprehensive loss for the period | - | - | (320) | 47 | 74 | - | **(199)** | - | **(199)** |
| Total comprehensive loss for the period | - | - | (1,157) | 47 | 74 | - | **(1,036)** | - | **(1,036)** |
| Adjustment arising from change in non-controlling interest | - | - | - | - | - | - | **-** | (1) | **(1)** |
| **Balance as at 31 March 2015** | **3,497** | **450** | **(5,367)** | **(13)** | **335** | **(3)** | **(1,101)** | **-** | **(1,101)** |

Notes and related statements forming part of these accounts appear on pages 31 to 65.

# E5. Consolidated statement of cash flows

**For the financial year ended 31 March**

| | Note | 2015 £m | 2014 (restated) £m |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 29 | **(1)** | 400 |
| Interest paid | | **(320)** | (338) |
| Interest element of finance lease rental payments | | **(5)** | (6) |
| UK corporation tax | | **1** | 1 |
| Overseas taxation | | **(4)** | (17) |
| **Net cash flow used in operating activities** | | **(329)** | 40 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | **(303)** | (300) |
| Sale of property, plant and equipment | | **24** | 4 |
| Purchase of other intangible assets | | **(26)** | (42) |
| Sale of other fixed asset investments | | **2** | 6 |
| Sale of businesses and subsidiary undertakings | 33 | **13** | - |
| Amounts transferred from mandatory prepayment account in respect of TCP proceeds | | **-** | 6 |
| Dividends from joint ventures and associates | | **5** | 3 |
| Interest received | | **2** | 10 |
| Acquisition of assets and subsidiaries | 34 | **(6)** | - |
| **Net cash flow used in investing activities** | | **(289)** | (313) |
| **Financing activities** | | | |
| New loans (including drawdowns of revolving credit facility) | | **1,270** | 460 |
| Repayment of borrowings (including repayments of revolving credit facility) | | **(806)** | (327) |
| Capital element of finance lease rental payment | | **(21)** | (12) |
| Proceeds used to restructure capital leases | | **10** | - |
| **Net cash flow from financing activities** | | **453** | 121 |
| Decrease in cash and cash equivalents | 31 | **(165)** | (152) |
| Cash and cash equivalents at beginning of period | 31 | **398** | 559 |
| Effect of foreign exchange rate changes | 31 | **(15)** | (9) |
| **Cash and cash equivalents at end of period** | **31** | **218** | 398 |
| Cash and cash equivalents consist of: | | | |
| Cash and short term deposits | 15 | **221** | 403 |
| Bank overdrafts | 18 | **(3)** | (5) |
| | | **218** | 398 |

*2014 has been restated due to the impact of adopting IFRS 11 (see Accounting Policies on page 24)*

Notes and related statements forming part of these accounts appear on pages 31 to 65.

# 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 2015 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. FRS 101 *'Reduced Disclosure Framework'* (FRS 101) as issued by the Financial Reporting Council becomes effective for accounting periods beginning on or after 1 January 2015. As is permitted by that standard, the Company has chosen early application and in the year ended 31 March 2015 the Company has undergone transition from reporting under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) to FRS 101. As such the company financial statements have been prepared in accordance with FRS 101 *'Reduced Disclosure Framework'* and the prior year financial statements have been restated on adoption of FRS 101 in the current year. There has been no financial impact on the Company's reported equity or total comprehensive income during the transition from United Kingdom Generally Accepted Accounting Practice to FRS 101, although there are certain presentational disclosure differences.

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 except for the adoption of IFRS 11 *'Joint Arrangements'*. The impact of adopting this new standard is summarised below.

As set out in the Strategic Report on page 14, the Board of Directors have assessed the ability of the Group to continue as a going concern and these financial statements have been prepared on a going concern basis.

## II New standards and interpretations applied

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

| | | Effective Date* |
|---|---|---|
| IFRS 10 | Consolidated Financial Statements | 1 Jan 2013 |
| IFRS 11 | Joint Arrangements | 1 Jan 2013 |
| IFRS 12 | Disclosure of Interests in Other Entities | 1 Jan 2013 |
| IAS 27 | Separate Financial Statements | 1 Jan 2013 |
| IAS 28 | Investments in Associates and Joint Ventures | 1 Jan 2013 |
| IAS 32 (Amendments) | Financial Instruments | 1 Jan 2014 |
| Amendments to IAS 36 | Recoverable Amount Disclosures for Non-financial Assets | 1 Jan 2014 |
| Amendments to IAS 39 | Novation of Derivatives and Continuation of Hedge Accounting | 1 Jan 2014 |
| Investment Entities (Amendments to IAS 10,11, 12) | Transitional Guidance | 1 Jan 2014 |
| Amendments to IFRS 10, 12 and IAS 27 | Business Qualifying as Business Activities | 1 Jan 2014 |
| IFRIC 21 | Levies | 1 Jan 2014 |

** periods commencing on or after*

Although IFRS 10, 11, 12 and IAS 27 and 28 were issued by the IASB with effective dates for periods commencing on or after 1 January 2013, they only became effective in the European Union for periods beginning on or after 1 January 2014.

Details of each new standard are summarised below:

*IFRS 10 – Consolidated financial statements*
This new standard introduces a single consolidation model that identifies control as the basis for consolidation. Control is determined as an investor being exposed or having rights to variable returns from its involvement with the investee and having the ability to affect those returns through its power over the investee. Application of IFRS 10 has not affected the scope of the consolidation in the TSUKH financial statements.

*IFRS 11 – Joint arrangements*
This standard requires joint arrangements to be accounted for as either a joint operation or a joint venture. 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. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint operations are accounted for by recognising the share of assets, liabilities, expenses and income relating to the joint

operation. Joint ventures are accounted for using the equity method.

As a consequence of adopting IFRS 11 the following entities have been classified as joint operations rather than joint ventures:

- Air Products Llanwern Limited
- BSR Pipeline Services Limited
- Texturing Technology Limited
- Hoogovens Court Roll Service Technologies Vof

Tata Steel Europe Limited holds a 50% share in each of these companies and controls them together with an additional partner. The companies sell their products directly to the partners and have no access to external financing. The financial impact of adopting this new standard was not material to the Group with no change to the loss after taxation or to net assets/liabilities for 2014 and 2013. The adoption of the new standard does however change the classification within the balance sheet, with equity accounted investments in 2014 decreasing by £5m (2013: £6m) and property, plant and equipment, receivables, cash and payables increasing by a net £5m (2013: £6m). As such the balance sheet and related notes have been restated for 2014 and 2013..

*IFRS 12 – Disclosure of interests in other entities*
This standard requires enhanced disclosures of the nature, risks and financial effects associated with the Group's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The disclosures required by this standard have been included in the financial statements.

*IAS 27 – Separate financial statements*
This standard has been amended to only cover requirements for separate financial statements as the element previously relating to consolidated financial statements has been incorporated as part of IFRS 10. The change to this standard has had no impact on the TSUKH financial statements.

*IAS 28 – Investments in associates and joint ventures*
This standard requires associates and joint ventures to be accounted for using the equity method. The change to this standard has had no impact on the TSUKH financial statements.

All other accounting policies in the preparation of the financial statements remained consistent with those applied in the preparation of the Annual Report in 2014.

## 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 European Union in the year ended 31 March 2015, or have an effective date after the date of these financial statements:

| | | Effective Date* |
|---|---|---|
| IFRS 9 | Financial Instruments | 1 Jan 2015 |
| IFRS 15 | Revenue from contracts with customers | 1 Jan 2017 |

** 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 is currently assessing the impact of the new Standard.

IFRS 15 *'Revenue from contracts with customers'* specifies how and when revenue is recognized 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. Furthermore, it provides new guidance on whether revenue should be recognised at a point in time or over time. 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 January 1, 2017. The Company is currently assessing the impact of the new Standard.

## 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 impairment of property, plant and equipment and goodwill, 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.

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 23.

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 schemes, being BSPS in the UK and SPH in the Netherlands, are in a net surplus and deficit position respectively at the balance sheet date. 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 32.

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 22.

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 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) 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.

### (d) 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' (Revised in 2011) 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.

### (e) 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 profit and loss over the useful lives of qualifying assets. Total grants received less the amounts credited to profit and loss at the end of the reporting period are included in the balance sheet as deferred income.

## (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 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, cross currency swaps, interest rate swaps, interest rate caps and London Metal Exchange (LME) contracts. The instruments are employed as economic hedges of transactions included in the accounts or forecast for firm contractual commitments. Contracts do not generally extend beyond 6 months, except for certain cross currency swaps, 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 caps and commodity contracts the fair values are determined based on market forward rates at the end of the reporting period. The Group seeks to adopt hedge accounting for these currency, interest rate and commodity contracts. This means that, at the inception of each hedge there is a formal, documented designation of the hedging relationship. This documentation includes, inter alia, items such as identification of the hedged item or transaction and the nature of the risk being hedged. At inception each hedge is expected to be highly effective in achieving an offset of changes in fair value or cash flows attributable to the hedged risk. The methodology of testing the effectiveness and the reliability of this approach for testing is also considered and documented at inception. This effectiveness is assessed on an ongoing basis throughout the life cycle of the hedging relationship. In particular, only forecast transactions that are highly probable are subject to cash flow hedges.

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

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

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

### (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 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 (l) below).

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.

### (l) Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is only met when the sale is highly probable and the asset, or disposal groups, is available for immediate sale in its present condition and is marketed for sale at a price that is reasonable in relation to its current fair value. The Group must also be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.
Where a disposal group represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, then it is treated as a discontinued operation. The post-tax profit or loss of this discontinued operation together with the gain or loss recognised on its disposal are disclosed as a single amount on the face of the income statement, with all prior periods being presented on this basis.

### (m) Inventories

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

### (n) 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.

## For the financial period ended 31 March

### 1. Operating costs

| | 2015 £m | 2014 (restated) £m |
|---|---|---|
| **Costs by type:** | | |
| Raw materials and consumables | **3,659** | 4,464 |
| Maintenance costs (excluding own labour) | **620** | 608 |
| Other external charges (including fuels & utilities, hire charges and carriage costs) | **1,373** | 1,435 |
| Employment costs (Note 3) | **1,604** | 1,605 |
| Depreciation, amortisation and impairments (Notes 7 and 8) | **640** | 423 |
| Regional development and other grants relating to property, plant and equipment released (Note 24) | **(2)** | (5) |
| Other operating items (including rents, rates, insurance and general expenses) | **311** | 295 |
| Changes in inventory of finished goods and work in progress | **59** | (62) |
| Own work capitalised | **(28)** | (23) |
| Profit on disposal of property, plant and equipment | **(4)** | (2) |
| Profit on disposal of group company (Note 33) | **(4)** | - |
| | **8,228** | 8,738 |

| | Operating items before restructuring, impairment and disposals £m | Restructuring, impairment and disposals £m | Total £m |
|---|---|---|---|
| **The above costs in 2015 include:** | | | |
| Raw materials and consumables | 3,659 | - | **3,659** |
| Maintenance costs (excluding own labour) | 620 | - | **620** |
| Other external charges (including fuels & utilities, hire charges and carriage costs) | 1,373 | - | **1,373** |
| Employment costs (Note 3) | 1,594 | 10 | **1,604** |
| Depreciation, amortisation and impairments (Notes 7 and 8) | 364 | 276 | **640** |
| Regional development and other grants relating to property, plant and equipment released (Note 24) | (2) | - | **(2)** |
| Other operating items (including rents, rates, insurance and general expenses) | 310 | 1 | **311** |
| Changes in inventory of finished goods and work in progress | 59 | - | **59** |
| Own work capitalised | (28) | - | **(28)** |
| Profit on disposal of property, plant and equipment | - | (4) | **(4)** |
| Profit on disposal of group company (Note 33) | - | (4) | **(4)** |
| | 7,949 | 279 | **8,228** |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| **The above costs are stated after including:** | | |
| Amortisation of other intangible assets (Note 7) | **21** | 21 |
| Depreciation of owned assets (Note 8) | **334** | 384 |
| Net impairment losses related to property, plant and equipment (Note 2) | **276** | 9 |
| Depreciation of assets held under finance leases (Note 8) | **9** | 9 |
| Net exchange rate gains | **(7)** | (2) |
| Operating leases: | | |
| Plant and machinery | **37** | 40 |
| Leasehold property | **50** | 51 |
| Costs of research and development (gross) | **50** | 59 |
| Recoveries on research and development | **(6)** | (7) |
| Release of grants relating to revenue (Note 24) | **(2)** | - |
| Impairments against trade receivables (Note 14(ii)) | **5** | 7 |
| Sale of emission rights | **-** | (3) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Fees payable to the Group's auditor and their associates for the audit of the Group | **2.0** | 2.2 |
| Audit-related assurance services | **0.9** | 0.8 |
| Taxation services | **0.4** | 0.4 |
| Total non-audit fees | **1.3** | 1.2 |
| Total Group auditor's remuneration | **3.3** | 3.4 |

Fees payable in respect of the audit of the Company were £10,900 (2014: £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 £0.9m (2014: £0.8m) primarily relate to quarterly reviews undertaken by the Group's auditor.

## 2. Net restructuring and impairment costs

| | 2015 £m | 2014 £m |
|---|---|---|
| Provision for restructuring and related measures: | | |
| Redundancy and related costs | **17** | 53 |
| Impairment losses related to property, plant and equipment (Note 8) | **276** | 9 |
| Other rationalisation costs | **4** | 11 |
| | **297** | 73 |
| Credits for restructuring and related measures: | | |
| Redundancy and related costs | **(7)** | (32) |
| Other rationalisation costs | **(3)** | (9) |
| | **(10)** | (41) |
| Total net restructuring and impairment costs | **287** | 32 |

The provision for redundancy and related costs of £17m 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.

The provision for redundancy and related costs of £53m in 2014 related to restructuring in mainly the Long Products and the Strip Products Mainland Europe hubs and the UK electrical steels site, and a re-assessment of the curtailment impact to the British Steel Pension Scheme (BSPS) in respect of the UK restructuring announced in 2013, with the credit for redundancy and related costs of £32m relating mainly to a release of provisions in respect of restructuring to the UK operations announced in 2013 and a curtailment gain within the BSPS in respect of the UK restructuring announced in 2014. The net curtailment charge in relation to pension schemes in 2015 was £3m (2014: £2m).

## 3. Employees

| | 2015 £m | 2014 £m |
|---|---|---|
| The total employment costs of all employees (including directors) in the Group were: | | |
| Wages and salaries | **1,303** | 1,291 |
| Social security costs | **145** | 149 |
| Other pension costs (Note 32) | **146** | 144 |
| Redundancy and related costs (Note 2) | **10** | 21 |
| | **1,604** | 1,605 |

(i) The average number of employees during the year was 30,400 (2014: 31,400).

(ii) The emoluments of Mr K Chatterjee, Mr S Biswas and Mr N K Misra are paid by other companies within the Tata Steel Group which make no recharges to TSUKH.

Mr K Chatterjee is a director of Tata Steel Limited (TSL) and a number of fellow subsidiaries. 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 their emoluments in respect of each of the subsidiaries. Accordingly, their emoluments are disclosed in the aggregate of the directors emoluments in the financial statements of the respective companies with whom they have their primary contacts.

## 4. Financing items

| | 2015 £m | 2014 £m |
|---|---|---|
| Interest expense: | | |
| Bank and other borrowings | **159** | 146 |
| Finance leases | **5** | 6 |
| Interest on loans from immediate parent company (Note 35) | **64** | 29 |
| Interest on loans from parent undertakings (Note 35) | **15** | 13 |
| Interest on loans from other group companies (Note 35) | **57** | 56 |
| Discount on disposal of trade receivables within purchase agreement with group company (Note 4) | **107** | 118 |
| Amounts included in the cost of qualifying assets (Note 8 (iv)) | **(2)** | (2) |
| Finance costs | **405** | 366 |
| Interest income: | | |
| Cash and short term deposits and short term investments | **(2)** | (10) |
| Finance income | **(2)** | (10) |
| | **403** | 356 |

## 5. Taxation

| | 2015 £m | 2014 £m |
|---|---|---|
| UK prior year credit | **-** | (12) |
| UK taxes | **1** | 1 |
| Overseas prior year charge | **-** | 2 |
| Overseas taxes | **(1)** | 8 |
| Current tax | **-** | (1) |
| UK deferred tax | **73** | (35) |
| Overseas deferred tax | **11** | (11) |
| | **84** | (47) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Loss before taxation | **(753)** | (534) |
| Loss multiplied by the applicable corporation tax rate of 21.5% (2014: 23.8%) | **(162)** | (127) |
| Effects of: | | |
| Adjustments to current tax in respect of prior periods | **-** | (10) |
| Adjustments to deferred tax in respect of prior periods | **(9)** | (4) |
| Utilisation of tax losses not previously recognised | **(1)** | (1) |
| Tax losses not recognised | **293** | 100 |
| Fees previously capitalised on refinancing | **(21)** | - |
| Other permanent differences | **(16)** | (5) |
| | **84** | (47) |

The adjustments to deferred tax in respect of prior periods include £nil (2014: £4m) in respect of corporate income tax rate changes that became substantively enacted in the UK during the year. 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 23% to 21% 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:

| | 2015 £m | 2014 £m |
|---|---|---|
| Relating to components of other comprehensive income: | | |
| Actuarial losses on defined benefit pension plans and other post-retirement plans | **(72)** | (11) |
| Revaluation of financial instruments treated as cash flow hedges | **15** | 3 |
| | **(57)** | (8) |

## 6. Goodwill

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| Net book value | **405** | 405 |

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 8.0% (2013: 8.3%). 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. The pre-tax discount rate of 8.0% (2014: 8.3%) 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 2015 for the Strip Products Mainland Europe CGU resulted in no impairment of goodwill (2014: £nil). The directors believe that no reasonable 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.

## 7. Other intangible assets

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** |

Group:

| 2014 | Computer software £m | Development costs £m | Patents and trademarks £m | Favourable contracts £m | Total £m |
|---|---|---|---|---|---|
| Cost as at 1 April 2013 | 183 | 46 | 1 | 267 | 497 |
| Additions | 34 | 8 | - | - | 42 |
| Disposals | (1) | - | - | - | (1) |
| Exchange rate movements | (1) | (2) | - | - | (3) |
| Cost as at 31 March 2014 | 215 | 52 | 1 | 267 | 535 |
| Amortisation as at 1 April 2013 | 78 | 30 | - | 267 | 375 |
| Charge for the period | 16 | 5 | - | - | 21 |
| Amortisation on disposals | (1) | - | - | - | (1) |
| Exchange rate movements | (1) | - | - | - | (1) |
| Amortisation as at 31 March 2014 | 92 | 35 | - | 267 | 394 |
| Net book value as at 31 March 2014 | 123 | 17 | 1 | - | 141 |

The remaining amortisation period for computer software is approximately 7.9 years (2014: 7.5 years).

## 8. Property, plant and equipment

| 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 (Note 34) | 13 | 5 | - | - | **18** |
| Disposal of Group undertakings (Note 33) | - | (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 (Note 2) | 15 | 169 | 22 | 50 | **256** |
| Disposals | (7) | (70) | (35) | - | **(112)** |
| Disposal of Group undertakings (Note 33) | - | (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** |

| 2014 (restated) | 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 2013 | 956 | 4,748 | 265 | 286 | 6,255 |
| Additions | - | 8 | 50 | 258 | 316 |
| Disposals | (1) | (22) | (30) | - | (53) |
| Exchange rate movements | (17) | (73) | (3) | (4) | (97) |
| Transfers | 16 | 129 | (2) | (143) | - |
| Cost or valuation as at 31 March 2014 | 954 | 4,790 | 280 | 397 | 6,421 |
| Depreciation as at 1 April 2013 | 413 | 2,752 | 169 | 19 | 3,353 |
| Charge for the period | 36 | 321 | 36 | - | 393 |
| Impairment losses recognised during the period (Note 2) | 2 | 7 | - | - | 9 |
| Disposals | (1) | (21) | (27) | - | (49) |
| Exchange rate movements | (9) | (48) | (1) | - | (58) |
| Transfers | 3 | (2) | (1) | - | - |
| Depreciation as at 31 March 2014 | 444 | 3,009 | 176 | 19 | 3,648 |
| Net book value as at 31 March 2014 | 510 | 1,781 | 104 | 378 | 2,773 |
| Spares (net book value) | | | | | 209 |
| Net book value as at 31 March 2014 | | | | | 2,982 |

The figures for 2014 have been restated due to the impact of adopting IFRS11 '*Joint Arrangements*' (see Accounting Policies on page 24). This restatement resulted in adjustments in the property, plant and equipment cost of £16m (2013: £14m), depreciation £14m (2013: £14m) and net book value of £2m (2013: £nil).

(i)

| **As at 31 March** | **2015 £m** | 2014 (restated) £m |
|---|---|---|
| The net book value of land and buildings comprises: | | |
| Freehold | **420** | 475 |
| Long leasehold (over 50 years unexpired) | **11** | 11 |
| Short leasehold | **26** | 24 |
| | **457** | 510 |
| Which may be further analysed as: | | |
| Assets held under finance leases: | | |
| Cost | **39** | 44 |
| Accumulated depreciation | **(19)** | (19) |
| | **20** | 25 |
| Owned assets | **437** | 485 |
| | **457** | 510 |

(ii)

| As at 31 March | 2015 £m | 2014 (restated) £m |
|---|---|---|
| The net book value of plant and machinery comprises: | | |
| Assets held under finance leases: | | |
| Cost | **168** | 166 |
| Accumulated depreciation and impairment losses | **(148)** | (118) |
| | **20** | 48 |
| Owned assets | **1,470** | 1,733 |
| | **1,490** | 1,781 |

(iii)

| As at 31 March | 2015 £m | 2014 (restated) £m |
|---|---|---|
| The net book value of spares comprises: | | |
| Cost | **541** | 567 |
| Accumulated depreciation and impairment losses | **(379)** | (358) |
| | **162** | 209 |

The Group recognised an impairment charge of £276m in the current year (2014: £9m) against property, plant and equipment (see Note 2), with £20m of this impairment charge being allocated against spares (2014: £nil).

Consistent with the annual test for impairment of goodwill as at 31 March 2015 (see 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 allocated, using a discount rate of 8.0% (2014: 8.3%), was lower than its carrying value due to weaker market conditions in mainly the UK construction market, which is expected to remain weak over the near and medium term. Accordingly, an impairment charge of £276m has been recognised in the year (2014: £9m) comprising £267m in the Long Products Europe business (including relevant distribution units) and £9m in some other smaller downstream businesses.

The Group has conducted sensitivity analysis on the impairment tests of the carrying value of the Group's cash generating units (CGUs) and property, plant and equipment. The directors believe that no reasonable possible change in any of the key assumptions used in the value in use calculations (see 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 property, plant and equipment at the Strip Products UK business which had a carrying value at 31 March 2015 of £753m. At this site the value in use is dependent on an improvement to European steel market margins and a return to operational stability following the implementation of a business transformation programme supported by high levels of capital expenditure. A reasonably possible change in any of these key assumptions would increase the likelihood of 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.

(iv) There was £2m (2014: £2m) of borrowing costs capitalised in the period using a capitalisation rate of 0.9% (2014: 0.8%).

## 9. Equity accounted investments

Group:

| As at 31 March | Interests in joint ventures £m | Investments in associates £m | 2015 Total £m | 2014 (restated) Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning of period | 58 | 10 | **68** | 71 |
| Disposals | (10) | (1) | **(11)** | (1) |
| Exchange rate movements | (3) | (1) | **(4)** | (2) |
| Transfers to assets held for sale | (17) | - | **(17)** | - |
| At end of period | 28 | 8 | **36** | 68 |
| **Post acquisition reserves** | | | | |
| Share at beginning of period | (2) | 3 | **1** | - |
| Share of retained results in the period | - | - | **-** | 2 |
| Disposals | 7 | 1 | **8** | - |
| Exchange rate movements | (2) | - | **(2)** | (1) |
| Transfers to assets held for sale | (2) | - | **(2)** | - |
| Share at end of period | 1 | 4 | **5** | 1 |
| **Total Cost at end of period** | **29** | **12** | **41** | **69** |
| Total Cost at beginning of period | 56 | 13 | **69** | 71 |
| **Provision** | | | | |
| Charge for the period | 3 | - | **3** | - |
| **Total Provision at end of period** | **3** | **-** | **3** | **-** |
| Total Provision at beginning of period | - | - | **-** | - |
| **Net book value at end of period** | **26** | **12** | **38** | **69** |
| Net book value at beginning of period | 56 | 13 | **69** | 71 |

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

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

| As at 31 March | 2015 £m | 2014 (restated) £m |
|---|---|---|
| Share of the assets and liabilities of the Group's joint ventures: | | |
| Non-current assets | **41** | 46 |
| Current assets | **51** | 90 |
| Current liabilities | **(42)** | (56) |
| Non-current liabilities | **(21)** | (24) |
| Group's share of net assets | **29** | 56 |
| Share of the revenue and expenses of the Group's joint ventures: | | |
| Revenue | **207** | 245 |
| Expenses | **(202)** | (243) |
| Group's share of joint ventures' profit for the period after taxation | **5** | 2 |
| Dividends received | **(5)** | (2) |
| Group's share of retained results in the period | **-** | - |

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

| As at 31 March | 2015 £m | 2014 (restated) £m |
|---|---|---|
| Summarised balance sheet information: | | |
| Total assets | **65** | 75 |
| Total liabilities | **(27)** | (34) |
| Net assets | **38** | 41 |
| Group's share of net assets | **12** | 13 |
| Summarised income statement information: | | |
| Revenue | **186** | 205 |
| Profit for the period | **4** | 5 |
| Group's share of associate's profit for the period after taxation | **1** | 2 |
| Dividends received | **(1)** | - |
| Group's share of retained results in the period | **-** | 2 |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Group's share of joint ventures' profit for the period | **5** | 2 |
| Group's share of associates' profit for the period | **1** | 2 |
| | **6** | 4 |
| Impairment due to Danieli Corus Technical Services BV reclassified to assets held for sale (Note 16) | **(3)** | - |
| Provision for impairment | **(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)** | 4 |

(vi) 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 16.

(vii) The Group recognised an impairment charge of £3m in the period 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.

(v) On 31 March 2015, the Group acquired the other 50% of the shares in its 50% joint venture Norsk Stål Tynnplater AS. The carrying value of £3m of the equity investment has been de-recognised with a gain of £1m recognised in the income statement to reflect the re-measurement of the investment to its fair value. For further details please see Note 34.

Company:

| 2015 | Shares in subsidiary undertakings £m | Loans to subsidiary undertakings £m | Total £m |
|---|---|---|---|
| Cost as at 1 April 2014 | 3,660 | 1,277 | 4,937 |
| Additions | - | 759 | 759 |
| Cost as at 31 March 2015 | **3,660** | **2,036** | **5,696** |
| Accumulated impairment losses as at 1 April 2014 | 300 | - | 300 |
| Impairment recognised in the period | 1,105 | - | 1,105 |
| Accumulated impairment losses as at 31 March 2015 | **1,405** | - | **1,405** |
| **Net book value as at 31 March 2015** | **2,255** | **2,036** | **4,291** |
| Net book value as at 31 March 2014 | 3,360 | 1,277 | 4,637 |
| Net book value as at 31 March 2013 | 3,360 | 1,179 | 4,539 |

The carrying values of the Company's investments are tested annually for impairment. The outcome of the test at 31 March 2015 resulted in a permanent diminution of £1,105m (2014: £300m) 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.

During the year ended 31 March 2015, the Company loaned £736m to Tata Steel Netherlands Holdings BV. Interest is charged at LIBOR +5% and is being rolled into the loan on a 6 monthly basis.

The Company's main subsidiaries and investments are listed in Note 34 of the consolidated accounts.

## 10. Other investments

| | Loans and receivables £m | Available for sale investments £m | 2015 Total £m | 2014 Total £m |
|---|---|---|---|---|
| Carrying value as at 1 April 2014 | 6 | 46 | **52** | 58 |
| Additions | 3 | 12 | **15** | 12 |
| Disposals | (2) | (16) | **(18)** | (15) |
| Revaluations | - | - | **-** | (3) |
| Carrying value as at 31 March 2015 | 7 | 42 | **49** | 52 |

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

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Fixed rate long term financial assets £m** | **Floating rate long term financial assets £m** | **Total £m** | Fixed rate long term financial assets £m | Floating rate long term financial assets £m | Total £m |
| Sterling | **20** | **5** | **25** | 22 | 4 | 26 |
| Euros | **11** | **2** | **13** | 14 | 2 | 16 |
| US Dollars | **11** | **-** | **11** | 10 | - | 10 |
| | **42** | **7** | **49** | 46 | 6 | 52 |
| Disclosed as: | | | | | | |
| Loans and receivables | **5** | **2** | **7** | 5 | 1 | 6 |
| Available for sale investments | **37** | **5** | **42** | 41 | 5 | 46 |

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **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 | **4.2** | **3.6** | 4.1 | 3.7 |
| Euros | **2.2** | **4.9** | 2.6 | 4.7 |
| US Dollars | **2.6** | **3.5** | 2.8 | 3.1 |

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

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| Within one year | **4** | 1 |
| Between two and five years | **28** | 33 |
| Greater than five years | **9** | 11 |
| No contractual maturity date | **8** | 7 |
| | **49** | 52 |

(iii) Of the available for sale investments of £42m above (2014: £46m), £39m (2014: £42m) 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 | 2015 £m | 2014 £m |
|---|---|---|
| UK listed investments | **18** | 18 |
| Overseas listed investments | **21** | 24 |
| | **39** | 42 |

## 11. Other non-current assets

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| Derivative financial instruments (Note 21) | **-** | 3 |

## 12. Inventories

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| Raw materials and consumables | 572 | 641 |
| Work in progress | 494 | 559 |
| Finished goods and goods for resale | 492 | 538 |
| | 1,558 | 1,738 |

The value of inventories above is stated after impairment of £97m (2014: £90m) for obsolescence and write-downs to net realisable value.

## 13. Current tax

| | Assets £m | Liabilities £m |
|---|---|---|
| **2015** | | |
| UK corporation tax | - | 3 |
| Overseas taxation | 3 | 6 |
| | 3 | 9 |
| 2014 | | |
| UK corporation tax | - | 1 |
| Overseas taxation | 4 | 3 |
| | 4 | 4 |

## 14. Trade and other receivables

Group:

| As at 31 March | 2015 £m | 2014 (restated) £m |
|---|---|---|
| Trade receivables | 711 | 647 |
| Less provision for impairment of receivables | (13) | (20) |
| | 698 | 627 |
| Amounts owed by other group companies (Note 35) | 11 | 5 |
| Amounts owed by ultimate parent company (Note 35) | 1 | 3 |
| Amounts owed by parent undertakings (Note 35) | 11 | 4 |
| Amounts owed by joint ventures (Note 35) | 25 | 25 |
| Amounts owed by associates (Note 35) | 3 | 6 |
| Derivative financial instruments (Note 21) | 67 | 8 |
| Other taxation | 13 | 32 |
| Prepayments | 27 | 31 |
| Other receivables | 101 | 70 |
| | 957 | 811 |

(i) Trade receivables are further analysed as follows:

| As at 31 March 2015 | Gross credit risk amount £m | Subject to credit insurance cover £m | Impairment provision made £m | Net credit risk amount £m |
|---|---|---|---|---|
| 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 |
| | 711 | (612) | (13) | 86 |

| As at 31 March 2014 (restated) | Gross credit risk amount £m | Subject to credit insurance cover £m | Impairment provision made £m | Net credit risk amount £m |
|---|---|---|---|---|
| Amounts not yet due | 577 | (478) | (4) | 95 |
| One month overdue | 33 | (20) | (1) | 12 |
| Two months overdue | 10 | (6) | - | 4 |
| Three months overdue | 3 | (2) | - | 1 |
| Greater than three months overdue | 24 | (8) | (15) | 1 |
| | 647 | (514) | (20) | 113 |

The Group considers its maximum exposure to credit risk with respect to customers at 31 March 2015 to be £86m (2014: £113m), 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 21.

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

| **As at 31 March** | **2015 £m** | 2014 £m |
|---|---|---|
| At beginning of period | **20** | 25 |
| Impairments in the period (Note 1) | **5** | 7 |
| Amounts utilised, exchange rate and other movements | **(12)** | (12) |
| At end of period | **13** | 20 |

Company:

| **As at 31 March** | **2015 £m** | 2014 £m | 2013 £m |
|---|---|---|---|
| Amounts owed by subsidiary undertakings | **290** | 188 | - |
| Interest owed by subsidiary undertakings | **38** | 22 | 21 |
| Other debtors | **-** | - | 1 |
| | **328** | 210 | 22 |

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

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

| **As at 31 March** | **2015 £m** | 2014 (restated) £m |
|---|---|---|
| Cash at bank and in hand | **187** | 117 |
| Short term deposits | **34** | 286 |
| Cash and short term deposits | **221** | 403 |
| Short term investments | **2** | 2 |
| | **223** | 405 |

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

| **As at 31 March** | **2015** | | | | 2014 (restated) | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | **41** | **31** | **-** | **72** | 2 | 116 | - | 118 |
| Euros | **108** | **-** | **-** | **108** | 71 | 165 | - | 236 |
| US Dollars | **22** | **-** | **-** | **22** | 31 | - | - | 31 |
| Other | **16** | **3** | **2** | **21** | 13 | 5 | 2 | 20 |
| | **187** | **34** | **2** | **223** | 117 | 286 | 2 | 405 |
| Floating interest rate | **187** | **1** | **2** | **190** | 117 | 168 | 2 | 287 |
| Fixed interest rate | **-** | **33** | **-** | **33** | - | 118 | - | 118 |

Short term deposits are highly liquid investments with original maturities of three months or less and short term investments are deposits for periods not exceeding one year. The weighted average interest rate across both these types of investment was 0.4% (2014: 0.1%). During each of the periods above cash earned interest based on LIBOR or other official local rates.

## 16. Assets held for sale

| | 2015 £m | 2014 £m |
|---|---|---|
| Investment in Danieli Corus Technical Services BV | **16** | - |

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). 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 has been included in the income statement within 'share of post-tax profits of joint ventures and associates'.

## 17. Trade and other payables

Group:

| **As at 31 March** | **2015 £m** | 2014 (restated) £m |
|---|---|---|
| Trade payables | **896** | 976 |
| Amounts owed to immediate parent company (Note 35) | **4** | 4 |
| Amounts owed to parent undertakings (Note 35) | **295** | 317 |
| Amounts owed to other group companies (Note 35) | **918** | 1,134 |
| Amounts owed to joint ventures (Note 35) | **5** | 1 |
| Amounts owed to associates (Note 35) | **3** | 3 |
| Other taxation and social security | **56** | 47 |
| Interest payable to ultimate parent company (Note 35) | **3** | 1 |
| Interest payable to immediate parent company (Note 35) | **28** | 12 |
| Interest payable to parent undertakings (Note 35) | **3** | 3 |
| Interest payable | **1** | 1 |
| Capital expenditure creditors | **80** | 122 |
| Derivative financial instruments (Note 21) | **65** | 23 |
| Advances from customers | **20** | 14 |
| Deferred consideration on business purchase | **3** | - |
| Other payables | **329** | 300 |
| | **2,709** | 2,958 |

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

Company:

| **As at 31 March** | **2015 £m** | 2014 £m | 2013 £m |
|---|---|---|---|
| Amounts owed to subsidiary undertakings | **6** | 5 | 8 |
| Amounts owed to immediate parent company | **19** | 4 | 3 |
| | **25** | 9 | 11 |

## 18. Borrowings

Group:

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| Current: | | |
| External: | | |
| Bank overdrafts | **3** | 5 |
| Floating rate guaranteed Loan Notes (v) | **1** | 1 |
| Revolving credit facility | **646** | 571 |
| Bank loans | **-** | 273 |
| Obligations under finance leases | **10** | 11 |
| | **660** | 861 |

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| Non-current: | | |
| Inter-group: | | |
| Amounts owed to immediate parent company (Note 35) | **1,568** | 745 |
| Amounts owed to Group companies (Note 35) | **109** | 124 |
| | **1,677** | 869 |
| External: | | |
| Bank loans | **1,626** | 1,918 |
| Obligations under finance leases | **68** | 74 |
| Capitalisation of transaction costs | **(68)** | - |
| | **1,626** | 1,992 |
| | **3,303** | 2,861 |
| Total borrowings | **3,963** | 3,722 |

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

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

| As at 31 March | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Fixed rate borrowings £m** | **Floating rate borrowings £m** | **Total £m** | Fixed rate borrowings £m | Floating rate borrowings £m | Total £m |
| Sterling | **57** | **1,392** | **1,449** | 63 | 846 | 909 |
| Euros | **23** | **2,298** | **2,321** | 25 | 2,546 | 2,571 |
| US Dollars | **-** | **255** | **255** | - | 242 | 242 |
| Other | **-** | **6** | **6** | - | - | - |
| Capitalisation of transaction costs | **-** | **(68)** | **(68)** | - | - | - |
| | **80** | **3,883** | **3,963** | 88 | 3,634 | 3,722 |

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Weighted average effective fixed interest rate %** | **Weighted average time for which rate is fixed Years** | Weighted Average effective fixed interest rate % | Weighted average time for which rate is fixed Years |
| Sterling | **7.1** | **7.8** | 7.0 | 8.5 |
| Euros | **5.1** | **4.3** | 5.2 | 2.1 |

The majority of floating rate borrowings are bank borrowings bearing interest rates based on EURIBOR or official local rates. Of the total floating rate borrowings of £3,883m, £1,368m (2014: £1,756m) has been converted into fixed rates with interest rate swaps, with contracts covering a period less than 1 year. Interest rate risk management is discussed further in Note 21 on page 48.

The weighted average interest rate on current borrowings was 4.00% (2014: 4.00%) and on non-current borrowings was 4.76% (2014: 4.80%).

(ii) The maturity of borrowings is as follows:

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| In one year or less or on demand | **664** | 867 |
| Between one and two years | **13** | 1,193 |
| Between two and three years | **800** | 507 |
| Between three and four years | **13** | 1,004 |
| Between four and five years | **450** | 12 |
| More than five years | **2,114** | 169 |
| | **4,054** | 3,752 |
| Less: amounts representing interest in future minimum lease payments | **(23)** | (30) |
| Less: capitalisation of transaction costs | **(68)** | - |
| | **3,963** | 3,722 |
| Analysed as: | | |
| Current liabilities | **660** | 861 |
| Non-current liabilities | **3,303** | 2,861 |

Amounts payable under finance leases are as follows:

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Not later than one year | **14** | 17 | **10** | 11 |
| Later than one year but not more than five years | **49** | 54 | **37** | 39 |
| More than five years | **38** | 44 | **31** | 35 |
| | **101** | 115 | **78** | 85 |
| Less: future finance charges on finance leases | **(23)** | (30) | **-** | - |
| Present value of lease obligations | **78** | 85 | **78** | 85 |

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

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| In one year or less | **-** | - |
| Between one and two years | **-** | 114 |
| More than two years | **53** | - |
| | **53** | 114 |

The Group's senior facility limits the amount of other uncommitted, unsecured credit facilities to £430m (2014: £430m) with a sub-limit of £55m (2014: £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 TSUKH (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 £1,620m at 31 March 2015 (31 March 2014: £2,188m). In addition, £646m (31 March 2014: £571m) of the revolving credit facility was drawn down at 31 March 2015.

(v) In 2014 £1m of the £690m revolving credit facility was carved out to provide a loan note guarantee facility. There is no such provision for 2015.

Company:

| As at 31 March | 2015 £m | 2014 £m | 2013 £m |
|---|---|---|---|
| Current: | | | |
| External: | | | |
| Floating rate guaranteed loan notes | **1** | 1 | 9 |

| As at 31 March | 2015 £m | 2014 £m | 2013 £m |
|---|---|---|---|
| Non-current: | | | |
| Inter-group: | | | |
| Amounts owed to immediate parent company | **1,568** | 745 | 496 |

At the year ended 31 March 2015, the total amount outstanding with Tulip UK Holdings No.3 Limited, including principal and rolled interest is £1,568m. Interest is charged at LIBOR +5% and is rolled into the loan on a 6 monthly basis. £788m is due for repayment in March 2018 and the remaining balance of £884m is due for repayment in December 2021.

## 19. Other non-current liabilities

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| Derivative financial instruments (Note 21) | **-** | 72 |
| Other creditors | **32** | 32 |
| | **32** | 104 |

| As at 31 March | 2015 £m | 2014 £m |
|---|---|---|
| An analysis of other creditors by currency is set out below: | | |
| Sterling | **30** | 30 |
| Euros | **2** | 2 |
| | **32** | 32 |

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

Company:

| As at 31 March | 2015 £m | 2014 £m | 2013 £m |
|---|---|---|---|
| Other creditors | **12** | 5 | 9 |
| Stock loan | **439** | 423 | 432 |
| | **451** | 428 | 441 |

On 19 December 2007 TSUKH granted an indemnity to Corus Group Limited in relation to this Company's guarantee given in relation to the SFA. This guarantee was renewed as part of the refinancing of the SFA on 28 October 2014. In accordance with IAS 39 'Financial Instruments: Recognition and Measurement' the valuation of this guarantee of £12m (2014: £5m; 2013: £9m) is included within other creditors above.

On 25 November 2008, TSUKH borrowed the ordinary share capital in Corus International Overseas Holdings Limited (CIOH) from Corus International Limited (CI) by means of a stock lending transaction. The terms of the stock loan are such that TSUKH is required to return the shares to CI, on demand. In the meantime, whenever CIOH pays a dividend (or other distribution), TSUKH will be obliged to pay a manufactured dividend to CI of the same value. TSUKH does not provide any collateral to CI but will make a regular payment of a stock lending fee, in consideration for the risk of default borne by CI. The fee is calculated at 0.25% of the market value of the shares loaned.

## 20. Currency analysis of net assets

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

| As at 31 March | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Operational net assets by functional currency £m | Cash, short term deposits and short term investments £m | Gross borrowings £m | Net assets/ (liabilities) £m | Operational net assets by functional currency £m | Cash, short term deposits and short term investments £m | Gross borrowings £m | Net assets/ (liabilitie s) £m |
| Sterling | **856** | **72** | **(1,449)** | **(521)** | 1,057 | 118 | (909) | 266 |
| Euros | **1,751** | **108** | **(2,321)** | **(462)** | 2,138 | 236 | (2,571) | (197) |
| US Dollars | **(14)** | **22** | **(255)** | **(247)** | - | 31 | (242) | (211) |
| Other | **46** | **21** | **(6)** | **61** | 58 | 20 | - | 78 |
| Capitalisation of transaction | **-** | **-** | **68** | **68** | - | - | - | - |
| | **2,639** | **223** | **(3,963)** | **(1,101)** | 3,253 | 405 | (3,722) | (64) |

Foreign currency risk management is discussed in Note 21.

## 21. 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. The Group's overall strategy remains unchanged from 2014. The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Note 18, 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 | 2015 £m | 2014 (restated) £m |
|---|---|---|
| **Financial assets:** | | |
| Loans and receivables: | | |
| Other investments (Note 10) | **7** | 6 |
| Trade receivables (Note 14) | **698** | 627 |
| Other receivables [1] | **152** | 113 |
| Other short term investments (Note 15) | **2** | 2 |
| Cash and short term deposits (Note 15) | **221** | 403 |
| | **1,080** | 1,151 |
| **Financial liabilities:** | | |
| Financial liabilities held at amortised cost: | | |
| Trade and other payables [2] | **(2,568)** | (2,874) |
| Current borrowings (Note 18) | **(660)** | (861) |
| Non-current borrowings (Note 18) | **(3,303)** | (2,861) |
| Other non-current liabilities (Note 19) | **(32)** | (32) |
| | **(6,563)** | (6,628) |
| | **(5,483)** | (5,477) |

[1] Excludes other taxation and prepayments
[2] 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 £653m (2014: £851m) and £3,188m (2014: £2,792m) 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, cross currency swaps 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 | 2015 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| **Financial assets at fair value:** | | | | |
| Derivative financial assets | - | 67 | - | 67 |
| **Available for sale financial assets (Note 10)** | 42 | - | - | 42 |
| | 42 | 67 | - | 109 |
| **Financial liabilities at fair value:** | | | | |
| Derivative financial liabilities | - | (65) | - | (65) |
| | - | (65) | - | (65) |

| As at 31 March | 2014 | | | |
|---|---|---|---|---|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Financial assets at fair value: | | | | |
| Derivative financial assets | - | 11 | - | 11 |
| Available for sale financial assets (Note 10) | 46 | - | - | 46 |
| | 46 | 11 | - | 57 |
| Financial liabilities at fair value: | | | | |
| Derivative financial liabilities | - | (95) | - | (95) |
| | - | (95) | - | (95) |

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 2015, the Group had £3,963m (2014: £3,722m) in borrowings, of which £2,321m (2014: £2,571m) is denominated in euros, £1,449m (2014: £909m) is denominated in sterling, £255m (2014: £242m) is denominated in US dollars, and £6m (2014: £nil) is denominated in other currencies. As described in Note 18, the majority of the Group's borrowings relate to the SFA and is held by the euro-denominated subsidiary company Tata Steel Netherlands Holdings BV ('TSNH'). As at 31 March 2015, 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 2015, the Group held forward currency sales of principally euros and US dollars amounting to £390m (2014: £453m) and purchases of principally US dollars and sterling amounting to £1,434m (2014: £1,892m).

A 10% appreciation of sterling at 31 March 2015 would increase the Group's net assets by approximately £214m (2014: £218m), increase equity by approximately £214m (2014: £218m) and decrease operating profit by approximately £nil (2014: £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 2015, a 10% appreciation of market prices would decrease the Group's equity by approximately £5m (2014: £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 2015, of the total SFA borrowings of £1.62bn, 84% was subject to interest rate swaps, which swaps floating rates based on EURIBOR to a fixed rate of 3.24%.

Based on the composition of net debt at 31 March 2015, a 100 basis points increase in interest rates over the 12 month period would increase the Group's net finance expense by approximately £37m (2014: £33m), and increase equity by approximately £3m (2014: £21m).

*(d) Credit risk*

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

Individual operating units are responsible for controlling their own credit risk arising from the Group's normal commercial operations, although they must act within a series of centrally agreed guidelines. Trade receivables are, where appropriate, subject to a credit insurance programme and regular reviews are undertaken of exposure 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 18 on page 44, the total undrawn committed borrowing facilities at 31 March 2015 is £53m (2014: £114m).

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 2015.

| **As at 31 March** | **2015** | | | |
|---|---|---|---|---|
| | **Contractual cashflows £m** | **Less than 1 year £m** | **Between 1 – 5 years £m** | **More than 5 years £m** |
| **Non-derivative financial liabilities:** | | | | |
| Trade and other payables [1] | (2,296) | (2,296) | - | - |
| Floating rate guaranteed loan notes | (1) | (1) | - | - |
| Finance lease obligations | (101) | (14) | (49) | (38) |
| Bank and other loans | (5,308) | (1,168) | (1,963) | (2,177) |
| Other creditors | (32) | - | (32) | - |
| | (7,738) | (3,479) | (2,044) | (2,215) |
| **Derivative financial liabilities:** | | | | |
| Foreign currency contracts: | | | | |
| Payables | (1,778) | (1,778) | - | - |
| Receivables | 1,800 | 1,800 | - | - |
| Interest rate swaps | (22) | (22) | - | - |
| Forward rate agreement | | | | |
| Payables | (244) | (244) | - | - |
| Receivables | 255 | 255 | - | - |
| | 11 | 11 | - | - |
| **Total financial liabilities** | (7,727) | (3,468) | (2,044) | (2,215) |

[1] Excludes other taxation and social security, and advances from customers

| As at 31 March | 2014 (restated) | | | |
|---|---|---|---|---|
| | Contractual cashflows £m | Less than 1 year £m | Between 1 – 5 years £m | More than 5 years £m |
| **Non-derivative financial liabilities:** | | | | |
| Trade and other payables [1] | (2,874) | (2,874) | - | - |
| Floating rate guaranteed loan notes | (1) | (1) | - | - |
| Finance lease obligations | (115) | (17) | (54) | (44) |
| Bank and other loans | (4,235) | (815) | (3,268) | (152) |
| Other creditors | (32) | - | (32) | - |
| | (7,257) | (3,707) | (3,354) | (196) |
| **Derivative financial liabilities:** | | | | |
| Foreign currency contracts: | | | | |
| Payables | (2,375) | (2,375) | - | - |
| Receivables | 2,353 | 2,353 | - | - |
| Interest rate swaps | (90) | (31) | (59) | - |
| Cross currency swaps: | | | | |
| Payables | (277) | (8) | (269) | - |
| Receivables | 279 | 21 | 258 | - |
| | (110) | (40) | (70) | - |
| **Total financial liabilities** | (7,367) | (3,747) | (3,424) | (196) |

[1] 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:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Assets £m** | **Liabilities £m** | Assets £m | Liabilities £m |
| **Non-current:** | | | | |
| Interest rate swaps | - | - | - | (72) |
| Cross currency swaps | - | - | 3 | - |
| | - | - | 3 | (72) |
| **Current:** | | | | |
| Foreign currency contracts | **56** | **(34)** | 8 | (21) |
| Commodity contracts | - | **(9)** | - | (2) |
| Interest rate swaps | - | **(22)** | - | - |
| Forward rate agreements | **11** | - | - | - |
| | **67** | **(65)** | 8 | (23) |
| | **67** | **(65)** | 11 | (95) |

In February 2015 the Group closed out its cross currency swaps which at the time had a fair value of £48m.

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

| | **2015 £m** | 2014 £m |
|---|---|---|
| Foreign currency contracts | **17** | (7) |
| Commodity contracts | **(11)** | (3) |
| Cross currency swaps | - | 3 |
| Interest rate swaps | **(22)** | (72) |
| Cash flow hedge reserve | **(16)** | (79) |
| Deferred and current taxation | **3** | 19 |
| Cash flow hedge reserve net of taxation | **(13)** | (60) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Within one year | **(16)** | (40) |
| Greater than one year | **-** | (39) |
| | **(16)** | (79) |

| | 2015 £m | 2014 £m |
|---|---|---|
| The following amounts have been charged/(credited) to the cash flow hedge reserve: | | |
| Foreign currency contracts | **(37)** | 22 |
| Commodity contracts | **20** | 8 |
| Interest rate swaps | **(44)** | (21) |
| Cross currency swaps | **50** | (19) |

| | 2015 £m | 2014 £m |
|---|---|---|
| The following amounts have been transferred to the income statement: | | |
| Foreign currency contracts | **(12)** | 17 |
| Commodity contracts | **12** | 5 |
| Cross currency swaps | **47** | (19) |

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Foreign currency contracts | **1,824** | 2,350 |
| Commodity futures and options | **77** | 67 |
| Interest rate swaps | **1,368** | 1,756 |
| Cross currency swaps | **-** | 242 |
| Forward rate agreements | **255** | - |

Ineffectiveness on cash flow hedges recognised in profit and loss was a charge of £nil in 2015 (2014: £nil). Cross currency swaps are designated as cash flow hedges and are subject to hedge accounting with their fair values recognised in equity and then recycled to the income statement to match the timing of recognition of the underlying hedged transaction, with the currency element recycled to the income statement each period.

## 22. Provisions for liabilities and charges

| | Rationalisation costs (i) £m | Insurance (ii) £m | Employee benefits (iii) £m | Other (iv) £m | Total 2015 £m | Total 2014 £m |
|---|---|---|---|---|---|---|
| At beginning of period | 98 | 32 | 44 | 86 | **260** | 303 |
| Charged to income statement | 18 | 3 | 6 | 19 | **46** | 76 |
| Released to income statement | (10) | - | - | (10) | **(20)** | (52) |
| Utilised in period | (40) | (3) | - | (9) | **(52)** | (65) |
| Exchange rate movements | - | - | (5) | (6) | **(11)** | (2) |
| At end of period | 66 | 32 | 45 | 80 | **223** | 260 |
| Analysed as: | | | | | | |
| Current liabilities | 15 | - | 2 | 41 | **58** | 85 |
| Non-current liabilities | 51 | 32 | 43 | 39 | **165** | 175 |

(i) Rationalisation costs include redundancy provisions as follows:

| | 2015 £m | 2014 £m |
|---|---|---|
| At beginning of period | **30** | 40 |
| Charged to income statement | **14** | 34 |
| Released to income statement | **(7)** | (15) |
| Utilised during the period | **(25)** | (29) |
| Exchange rate movements | **(1)** | - |
| At end of period | **11** | 30 |

| | 2015 £m | 2014 £m |
|---|---|---|
| Other rationalisation provisions arise as follows: | | |
| Onerous lease payments relating to unutilised premises | **40** | 54 |
| Environmental and other remediation costs at sites subject to restructuring/ closure | **11** | 11 |
| Other | **4** | 3 |
| | **55** | 68 |

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 2015 the rationalisation provision included £40m (2014: £54m) in respect of onerous leases on a discounted basis. This provision would have amounted to £44m (2014: £62m) on an undiscounted basis. The outstanding term on these leases ranges between 1 and 18 years.

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

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

(iv) Other provisions include environmental provisions of £40m (2014: £40m), early retirement provisions of £20m (2014: £19m) and product warranty claims of £7m (2014: £7m). The timing in respect of utilising these provisions is uncertain.

## 23. Deferred tax

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

| | 2015 £m | 2014 £m |
|---|---|---|
| Deferred tax assets | **73** | 98 |
| Deferred tax liabilities | **(1)** | (2) |
| | **72** | 96 |

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.

| **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** |
| At 31 March 2015 | (83) | 198 | (20) | (20) | (3) | **72** |

| 2014 | Accelerated tax depreciation £m | Tax losses £m | Retirement benefit obligations £m | Inventory £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 April 2013 | (179) | 363 | (93) | (41) | (7) | 43 |
| Credited/ (charged) to profit and loss | 34 | (10) | 1 | 4 | 17 | 46 |
| Exchange rate movements | 2 | (3) | - | 1 | (1) | (1) |
| Credited/ (charged) to equity | - | - | 11 | - | (3) | 8 |
| At 31 March 2014 | (143) | 350 | (81) | (36) | 6 | 96 |

Deferred tax assets of £73m (2014: £98m) have been recognised at 31 March 2015. 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 £4,993m (2014: £3,874m). These losses comprise UK losses of £3,894m (2014: £3,140m) and non-UK losses of £1,099m (2014: £734m). The non-UK losses include losses of £221m (2014: £581m) that expire between the years 2015 to 2033.

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 £205m (2014: £211m).

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.

Company:

| | **2015** £m | 2014 £m | 2013 £m |
|---|---|---|---|
| The movement on the deferred tax assets is as follows: | | | |
| At beginning of period | **24** | 28 | 33 |
| Profit and loss account | **9** | (4) | (5) |
| | **33** | 24 | 28 |

## 24. Deferred income

| | Grants relating to revenue £m | Grants relating to property, plant & equipment £m | **2015** £m | 2014 £m |
|---|---|---|---|---|
| At 1 April | 8 | 14 | **22** | 19 |
| New contributions received not yet paid | - | - | - | 8 |
| Exchange rate movements | - | (1) | **(1)** | - |
| Releases to profit and loss | (2) | (2) | **(4)** | (5) |
| At 31 March | 6 | 11 | **17** | 22 |

## 25. Share capital

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

| **Authorised** | **2015** £m | 2014 £m | 2013 £m |
|---|---|---|---|
| 5,000,000,000 ordinary shares of £1 each | **5,000** | 5,000 | 5,000 |

| **Allotted, called up and fully paid** | **2015** £m | 2014 £m | 2013 £m |
|---|---|---|---|
| 3,497,479,296 ordinary shares of £1 each | **3,497** | 3,497 | 3,497 |

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

Company Reconciliation of Share Capital and Reserves:

| **2015** | **Ordinary share capital £m** | **Share premium £m** | **Profit and loss reserves £m** | **Total £m** |
|---|---|---|---|---|
| At beginning of period | 3,497 | 450 | (259) | **3,688** |
| Loss retained | - | - | (1,081) | **(1,081)** |
| **At end of period** | **3,497** | **450** | **(1,340)** | **2,607** |

| 2014 | Ordinary share capital £m | Share premium £m | Profit and loss reserves £m | Total £m |
|---|---|---|---|---|
| At beginning of period | 3,497 | 450 | (315) | 3,632 |
| Profit retained | - | - | 56 | 56 |
| At end of period | 3,497 | 450 | (259) | 3,688 |

| 2013 | Ordinary share capital £m | Share premium £m | Profit and loss reserves £m | Total £m |
|---|---|---|---|---|
| At beginning of period | 3,497 | 450 | (53) | 3,894 |
| Loss retained | - | - | (262) | (262) |
| At end of period | 3,497 | 450 | (315) | 3,632 |

### 26. Future capital expenditure

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Contracted but not provided for | **157** | 95 |
| Authorised but contracts not yet placed | **130** | 109 |

At the end of the period there was £21m (2014: £25m) of future expenditure planned in relation to intangible assets.

### 27. Operating leases

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Future minimum lease payments for the Group at the end of the period are: | | |
| Not later than one year | **80** | 82 |
| Later than one year and not later than five | **262** | 241 |
| More than five years | **244** | 271 |
| | **586** | 594 |

Of the total operating lease payments, £183m (2014: £212m) relates to the time charter hire of 11 (2014: 13) vessels by the Group's central supplies and transport function. The lease period for these assets ranges from one month to eight years (2014: one month to nine years).

TSE has entered into an arrangement that includes the sub-letting of 2 (2014: 4) of the time charter hire vessels, representing £65m (2014: £92m) of the total operating lease payments above. The total of future minimum sublease payments expected to be received under these sub-leases is £72m (2014: £87m) as shown below:

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Future minimum sub-lease receipts for the Group at the end of the period are: | | |
| Not later than one year | **13** | 19 |
| Later than one year and not later than five | **51** | 48 |
| More than five years | **8** | 20 |
| | **72** | 87 |

### 28. Contingencies

| | 2015<br>£m | 2014<br>£m |
|---|---|---|
| Guarantees given under trade agreements | **59** | 19 |
| Others | **55** | 48 |

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.

## 29. Reconciliation of cash generated from total operations

| | 2015 £m | 2014 (restated) £m |
|---|---|---|
| Loss after taxation | **(837)** | (487) |
| Adjustments for: | | |
| Taxation | **84** | (47) |
| Depreciation and amortisation including impairment items (net of grants released) | **638** | 419 |
| Profit on disposal of property, plant and equipment and Group companies | **(8)** | (2) |
| Finance income | **(2)** | (10) |
| Finance expense | **405** | 366 |
| Gain on bargain purchases (Note 34) | **(8)** | - |
| Share of post tax results of joint ventures and associates | **1** | (4) |
| Other non cash items | **-** | (3) |
| Movement in pensions and post-retirement benefits | **(52)** | (36) |
| Movement in provisions for impairments of trade receivables | **(6)** | (4) |
| Movement in insurance and other provisions | **4** | (23) |
| Movement in spares | **20** | (25) |
| Movement in inventories | **95** | 112 |
| Movement in receivables | **(106)** | (47) |
| Movement in payables | **(197)** | 208 |
| Net rationalisation costs provided | **8** | 21 |
| Utilisation of rationalisation provisions | **(40)** | (38) |
| Net cash flow generated from operations | **(1)** | 400 |

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

| | 2015 £m | 2014 (restated) £m |
|---|---|---|
| Movement in cash and cash equivalents | **(165)** | (152) |
| Movement in total debt excluding bank overdrafts | **(453)** | (121) |
| Change in net debt resulting from cash flows in period | **(618)** | (273) |
| Exchange rate movements | **249** | 72 |
| Fair value of cross currency swaps/ forward rate agreements | **8** | (18) |
| Other non cash changes | **(54)** | (30) |
| Change in net debt resulting from cash flows in period | **(618)** | (273) |
| Movement in net debt in period | **(415)** | (249) |
| Net debt at beginning of period | **(3,314)** | (3,065) |
| Net debt at end of period | **(3,729)** | (3,314) |

## 31. Analysis of net debt

| | 2014 (restated) £m | Cash flow £m | Exchange rate movements £m | Other non-cash movements £m | 2015 £m |
|---|---|---|---|---|---|
| Cash and short term deposits | 403 | (167) | (15) | - | **221** |
| Bank overdrafts | (5) | 2 | - | - | **(3)** |
| **Cash and cash equivalents** | 398 | (165) | (15) | - | **218** |
| Short term investments | 2 | - | - | - | **2** |
| **Liquid resources** | 400 | (165) | (15) | - | **220** |
| Non-current borrowings | (2,787) | (823) | 195 | 180 | **(3,235)** |
| Fair value of cross currency swaps/ forward rate agreement | 3 | - | - | 8 | **11** |
| Bank/ other loans and loan notes | (845) | 359 | 67 | (228) | **(647)** |
| Obligations under finance leases | (85) | 11 | 2 | (6) | **(78)** |
| **Total debt excluding bank overdrafts** | (3,714) | (453) | 264 | (46) | **(3,949)** |
| | (3,314) | (618) | 249 | (46) | **(3,729)** |

The other non-cash movements in respect of non-current borrowings relate to the rolling up of interest of £(47)m into principal in respect of the loans from the parent company, £(4)m of loan transaction costs amortised during the year, £3m of debt acquired in the acquisition of Norsk Stål Tynnplatter AS and the portion of the SFA of £228m which was previously disclosed as non-current borrowings and repaid as part of the refinancing. The other non-cash movements in respect of other loans relate to the portion of the SFA of £(228)m which was previously disclosed as non-current borrowings and repaid as part of the refinancing.

## 32. 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 2015 amounted to £5m (2014: £4m).

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. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders of the scheme, and are responsible for the investment policy with regard to the assets of the fund.

The Group accounts for all pension and post-retirement defined benefit arrangements using IAS 19 '*Employee Benefits*' (as amended in 2011), 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 schemes of the Group at 31 March 2015 were the British Steel Pension Scheme ('BSPS'), which is the main scheme for historic and present employees based in the UK, and the Stichting Pensioenfonds Hoogovens ('SPH'), which is the main scheme for historic and present employees based in the Netherlands.

a) BSPS

The triennial funding valuation of the BSPS as at 31 March 2014 is currently on-going. This valuation is expected to conclude in the second half of 2015 following which a revised Recovery Plan will be agreed. In the meantime, deficit recovery contributions continue to be made to the BSPS in line with the Recovery Plan agreed in 2012. Under the terms of this plan, deficit recovery contributions of £40m were made to the BSPS during the year, which included the sixth (of seven) annual contributions of £10m payable following the merger of the Corus Engineering Steels Pension Scheme ('CESPS') into the BSPS on 6 April 2009.

The preliminary valuation results as at March 2014 indicate a potential worsening of the on-going funding position and future service contribution rate of the Scheme. As part of the Group's strategy which seeks to ensure that pension provison is affordable and sustainable and that pension risks are mitigated as far as possible, consultation is currently on-going on a proposal to close the defined benefit Standard Section of the BSPS to future accrual. The employers will consider member feedback before confirming the terms of any revisions.

The investment policy of the BSPS adopts a defensive strategic asset allocation (currently 70% maturity; 30% growth portfolios). The investment objective of the BSPS 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. The Scheme's investment strategy will be reviewed as part of the 2014 Valuation process.

Employer and active members' contributions to the scheme in 2015 amounted to £129m (2014: £106m) and £28m (2014: £40m) respectively, and for 2016 are estimated at £142m and £29m respectively. The increase and decrease to employer and active members' contributions respectively during the financial year was due to the introduction 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 2015 was 16 years (2014: 16 years).

b) SPH

The strategic objective of the SPH is to execute the scheme in accordance with an execution agreement that exists between the SPH and the Company (the 'uitvoeringsovereenkomst'). Pursuant to this execution agreement, the SPH aims to index pension benefits with inflation. Granting indexation is conditional and dependent upon the funding ratio of the SPH. In situations where there is a shortfall in the scheme assets against its obligations, the level of pension benefits may be reduced. Within this framework, the SPH adopts a strategic asset allocation (currently 50% maturity; 50% growth portfolios) with investments made in a low risk maturity portfolio that aims to match the cash flow characteristics of the future pension benefits by investing in secure nominal and inflation-linked bonds, and interest and inflation derivatives, and also in a return portfolio (mainly equities, real estate and infrastructure) in order to fund future indexation and longevity, and to preserve the cost effectiveness of the scheme.

The execution agreement stipulates the level of annual contributions that the Company will make. The Company has no obligation to recover scheme funding deficits over and beyond this level of annual contributions. The level of contributions into the SPH in calendar year 2014 was set at the maximum level permitted under the applicable execution agreement. During

2014/15 the Company made contributions of £56m (2013/14: £57m) from the Company and £24m (2013/14: £25m) from active members.

On 15 December 2014 the Company and the Dutch trade unions agreed to implement with effect from 1 January 2015 a new pension agreement ('pensioen 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 have been recognised in the scheme's IAS 19 funding valuation at 31 March 2015, comprising a past service credit of £35m in the income statement with a related reduction to the scheme's liabilities for the same amount. In addition, as part the new pension agreement the Company agreed with the Dutch trade unions to fix the Company's contribution level at 28% of pensionable earnings for the 3 year period from 1 January 2015 to 31 December 2017.

During the year the SPH granted the following indexation increases to pensions in payment and accrued pensions: 1.0% for the period 1 July to 31 December 2014 (Nil% at 1 January 2014) and 0.94% (accrued pensions) and 0.33% (pensions in payment) effective from 1 January 2015. In line with what was agreed between the Company and the Dutch trade unions on the level of contribution for the calendar year 2014, active members of the SPH were granted an additional 0.62% indexation.

The nominal actual funding level of the SPH as at 31 March 2015 was 105%, a 13% decrease compared to 118% at 31 March 2014. The estimated employer and active members' contributions to the scheme in 2014/15 are £57m and £24m respectively. The weighted average duration of the SPH liabilities at 31 March 2015 was 19 years (2014: 17 years).

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.

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

| **2015** | **BSPS**<br>% | **SPH**<br>% | **Other**<br>% |
|---|---|---|---|
| Salary growth | 2.95 | 1.85 | 1.00 to 3.00 |
| Pension increases[1] | 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 |

[1] Where applicable a CPI assumption of 1.95% has been applied within BSPS

| 2014 | BSPS<br>% | SPH<br>% | Other<br>% |
|---|---|---|---|
| Salary growth | 3.30 | 1.90 | 1.00 to 3.00 |
| Pension increases[2] | 3.30 | 1.71 | 1.50 to 3.30 |
| Discount rate | 4.40 | 3.30 | 2.25 to 4.50 |
| Inflation | 3.30 | 1.90 | 2.00 to 3.40 |

[2] Where applicable a CPI assumption of 2.30% 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 2015 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. Mortality assumptions for the SPH scheme were updated in 2014 to reflect the latest Dutch base tables (Prognosetafel AG 2014) with a SPH specific correction to reflect mortality experience. The correction is derived from the results of an investigation into SPH scheme experience up to 2014. The rates used also reflect future improvements in life expectancy. This indicates that today's 65 year old male member is expected to live on average to 86 years of age and a 65 year old male member in 15 years time is expected to live on average to 88 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 | |
|---|---|---|---|
| | | BSPS | SPH |
| Discount rate | Increase/ decrease by 10bps | Decrease/ increase by 1.5% | Decrease/ increase by 1.9% |
| Inflation | Increase/ decrease by 10bps | Increase/ decrease by 1.4% | Increase/ decrease by 0.8% |
| Salary growth | Increase/ decrease by 25bps | Increase/ decrease by 0.7% | Increase/ decrease by 1.4% |
| Mortality | 1 year increase in life expectancy | Increase/ decrease by 3.8% | Increase/ decrease by 3.9% |

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 statement of financial position.

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.

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 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:

| **2015** | **BSPS £m** | **SPH £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| Current service cost | 118 | 71 | 4 | **193** |
| Net interest (income)/ cost | (22) | 2 | 4 | **(16)** |
| Settlements, curtailments and past service costs | 4 | (35) | (1) | **(32)** |
| Defined benefit schemes | 100 | 38 | 7 | **145** |
| Defined contribution schemes | - | - | 5 | **5** |
| Total charge for the period | 100 | 38 | 12 | **150** |

| 2014 | BSPS £m | SPH £m | Other £m | Total £m |
|---|---|---|---|---|
| Current service cost | 117 | 67 | 3 | 187 |
| Net interest (income)/ cost | (12) | (6) | 4 | (14) |
| Settlements, curtailments and past service costs | 2 | (30) | (2) | (30) |
| Defined benefit schemes | 107 | 31 | 5 | 143 |
| Defined contribution schemes | - | - | 4 | 4 |
| Total charge for the period | 107 | 31 | 9 | 147 |

The total charge for the period includes a charge of £3m (2014: £2m) included within net restructuring costs and a charge of £1m (2014: £1m) included within share of expenses of the Group's joint ventures. The actual return on plan assets for the above schemes was a gain of £2,917m (2014: £492m).

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:

| **2015** | **BSPS %** | **SPH %** | **Other %** |
|---|---|---|---|
| ***Quoted:*** | | | |
| 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** |
| ***Unquoted:*** | | | |
| 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** |

| 2014 | BSPS % | SPH % | Other % |
|---|---|---|---|
| ***Quoted:*** | | | |
| Equities – UK Entities | 8.9 | 0.8 | 1.2 |
| Equities – Non-UK Entities | 16.5 | 30.7 | 27.4 |
| Bonds – Fixed Rate | 19.9 | 42.0 | 15.2 |
| Bonds – Index Linked | 41.0 | 1.9 | 0.4 |
| Derivatives | - | - | 3.8 |
| Other | 1.2 | - | 11.4 |
| ***Unquoted:*** | | | |
| Property | 8.3 | 6.6 | 4.2 |
| Derivatives | (0.1) | 8.4 | - |
| Cash and cash equivalents | 0.3 | 4.7 | 0.7 |
| Other | 4.0 | 4.9 | 35.7 |
| | 100.0 | 100.0 | 100.0 |

Balance sheet measurement

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:

| **2015** | **BSPS £m** | **SPH £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| Fair value of plan assets at end of period | 13,988 | 5,983 | 143 | **20,114** |
| Present value of obligation at end of period | (13,844) | (5,991) | (317) | **(20,152)** |
| Defined benefit asset/(liability) at end of period | 144 | (8) | (174) | **(38)** |
| 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)** |

| 2014 | BSPS £m | SPH £m | Other £m | Total £m |
|---|---|---|---|---|
| Fair value of plan assets at end of period | 12,668 | 5,755 | 127 | 18,550 |
| Present value of obligation at end of period | (12,250) | (5,736) | (264) | (18,250) |
| Defined benefit asset/(liability) at end of period | 418 | 19 | (137) | 300 |
| Disclosed as: | | | | |
| Defined benefit asset | 418 | 19 | 1 | 438 |
| Defined benefit liability – current | - | - | (7) | (7) |
| Defined benefit liability – non-current | - | - | (131) | (131) |
| Arising from: | | | | |
| Funded schemes | 418 | 19 | (44) | 393 |
| Unfunded schemes | - | - | (93) | (93) |

The movements in the present value of plan assets and defined benefit obligations in 2015 and 2014 were as follows:

| **2015** | **BSPS £m** | **SPH £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| ***Plan assets:*** | | | | |
| 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)** |
| **At 31 March 2015** | **13,988** | **5,983** | **143** | **20,114** |
| ***Defined benefit obligations:*** | | | | |
| 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 cost - 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 rates | - | (743) | 1 | **(742)** |
| Settlement | - | - | (2) | **(2)** |
| **At 31 March 2015** | **13,844** | **5,991** | **317** | **20,152** |

Included within other schemes above are post-retirement medical and similar net obligations of £7m (2014: £9m).

| 2014 | BSPS £m | SPH £m | Other £m | Total £m |
|---|---|---|---|---|
| *Plan assets:* | | | | |
| At 1 April 2013 | 12,942 | 5,732 | 111 | 18,785 |
| Interest income on plan assets | 546 | 198 | 5 | 749 |
| Return on plan assets (less)/ greater than the discount rate | (355) | 79 | 19 | (257) |
| Contributions from the employer | 106 | 62 | 6 | 174 |
| Contributions from plan participants | 40 | 27 | - | 67 |
| Benefits paid | (611) | (216) | (8) | (835) |
| Exchange rate movements | - | (127) | (7) | (134) |
| Effect of asset ceiling | - | - | 1 | 1 |
| At 31 March 2014 | 12,668 | 5,755 | 127 | 18,550 |
| *Defined benefit obligations:* | | | | |
| At 1 April 2013 | 12,735 | 5,517 | 263 | 18,515 |
| Current service cost | 117 | 67 | 3 | 187 |
| Interest cost on the defined benefit obligation | 534 | 192 | 9 | 735 |
| Past service cost - plan amendments | - | (30) | - | (30) |
| Past service cost - curtailments | 2 | - | (2) | - |
| Actuarial (gain)/loss due to actuarial experience | (123) | (102) | 1 | (224) |
| Actuarial (gain)/loss due to financial assumption changes | (327) | 363 | 16 | 52 |
| Actuarial (gain)/loss due to demographic assumption changes | (117) | 45 | - | (72) |
| Benefits paid | (611) | (216) | (11) | (838) |
| Contributions from plan participants | 40 | 27 | - | 67 |
| Exchange rates | - | (127) | (13) | (140) |
| Other | - | - | (2) | (2) |
| At 31 March 2014 | 12,250 | 5,736 | 264 | 18,250 |

Actuarial losses recorded in the Statement of Comprehensive Income for the period were £392m (2014: £13m).

## 33. Disposal of subsidiary

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

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

| | £m | £m |
|---|---|---|
| Property, plant and equipment | (1) | |
| Inventories | (11) | |
| Trade receivables | (7) | |
| Cash and cash equivalents | (1) | |
| Trade payables | 5 | |
| Net assets disposed of | | (15) |
| Gross consideration due to TSUKH | 14 | |
| Foreign exchange recycled to the profit and loss account | 5 | |
| Profit on disposal | | 4 |

(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) | |
| Net cash flow | | 13 |

## 34. 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 from SSAB certain assets and liabilities of 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' (see Note 9).

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'.

The total consideration of £6m will all be settled in cash with 50% paid in March 2015 and the remaining 50% deferred until October 2015. In addition the Group also acquired £3m worth of cash and cash equivalents in the form of bank overdrafts. As the transaction completed on 31 March 2015 no revenue or costs are included in these accounts relating to the acquisitions. There were no material acquisition costs.

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

| | 2015<br>£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) |
| Net assets acquired | 18 |
| Total consideration | (6) |
| Carrying value of previously held equity interest | (3) |
| Gain on revaluation of previously held equity investment | (1) |
| Gain on bargain purchases | 8 |

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

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

## 35. 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.

| | 2015 £m | 2014 £m |
|---|---|---|
| **Amounts reported within the Consolidated income statement:** | | |
| Sales to joint ventures | **66** | 151 |
| Sales to associates | **70** | 72 |
| Sales to ultimate parent company | **1** | 1 |
| Sales to parent company undertakings | **36** | - |
| Sales to other group companies | **65** | 74 |
| Other operating income with parent undertakings | **5** | 18 |
| Other operating income with other group companies | **4** | 4 |
| Purchases from joint ventures | **9** | 12 |
| Purchases from associates | **25** | 28 |
| Purchases from ultimate parent company | **1** | 2 |
| Purchases from parent undertakings | **305** | 254 |
| Purchases from other group companies | **1,269** | 1,516 |
| Interest on loans from immediate parent company (Note 4) | **64** | 29 |
| Interest on loans from parent undertakings (Note 4) | **15** | 13 |
| Interest on loans from other group companies (Note 4) | **57** | 56 |
| Discount on disposal of trade receivables within purchase agreement with group company (Note 4) | **107** | 118 |
| **Amounts reported within the Consolidated balance sheet:** | | |
| Amounts owed by joint ventures (Note 14) | **25** | 25 |
| Amounts owed by associates (Note 14) | **3** | 6 |
| Amounts owed by ultimate parent company (Note 14) | **1** | 3 |
| Amounts owed by parent undertakings (Note 14) | **11** | 4 |
| Amounts owed by other group companies (Note 14) | **11** | 5 |
| Amounts owed to joint ventures (Note 17) | **5** | 1 |
| Amounts owed to associates (Note 17) | **3** | 3 |
| Amounts owed to immediate parent company (Note 17) | **4** | 4 |
| Amounts owed to parent undertakings (Note 17) | **295** | 317 |
| Amounts owed to other group companies (Note 17) | **918** | 1,134 |
| Interest payable to ultimate parent company (Note 17) | **3** | 1 |
| Interest payable to immediate parent company (Note 17) | **28** | 12 |
| Interest payable to parent undertakings (Note 17) | **3** | 3 |
| Loans owed to immediate parent company (Note 18) | **1,568** | 745 |
| Loans owed to other group companies (Note 18) | **109** | 124 |

Included in the transactions and balances above are arrangements that have been put in place with Tata Steel 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. As at 31 March 2015 £729m (2014: £882m) was owed to Proco under these arrangements collectively, with total financing costs in the period of £47m (2014: £55m). Total purchases in the year in relation to this agreement were £1,252m (2014: £1,498m).

(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 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 2015 amounted to £107m (2014: £118m). As at 31 March 2015 £166m (2014: £215m) was owed to Proco Issuer under this arrangement. During the year TSUKH recognised £4m (2014: £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 2013/14 TSUK received an £18m advance payment from Tata Steel International (Asia) Ltd in relation to 50kt of wire rod to be sold between December 2013 and 30 November 2014, with provisional value of £23m. The amount received was net of a finance charge of 2.2% of the provisional value, equal to £1m. During the year 37.5kt was delivered resulting in a release of £14m from the prepayment and a £0.5m finance charge.

During 2013/14 TSUK received a £30m advance payment from Tata Steel International (Asia) Ltd in relation to 74.2kt of beams to be sold between December 2013 and 31 December 2014, with a provisional value of £35m. The amount received was 97.5% of £11m and 80% of the provisional value of £23m and net of a finance charge of 2.5% of the total provisional value, equal to £1m. During the year 48.7kt was delivered resulting in a release of £18m from the prepayment and a £0.5m finance charge.

During 2014/15 TSUK received a £12m advance payment from Tata Steel International (Asia) Ltd in relation to 32kt of beams to be sold between July 2014 and March 2015, with a provisional value of £15m. The amount received was 80% of the provisional value of £15m and net of a finance charge of 2.5% of the total provisional value, equal to £0.4m. During the year 13.6kt was delivered resulting in a release of £5m from the prepayment.

*ABJA Investment Co. Pte Limited (ABJA)*
During 2013/14 TSNH issued unsecured loan notes with a value of €150m to ABJA (a wholly owned subsidiary of TSL) redeemable in 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 £8m in the year.

*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 £7m being payable for 2015 (2014: £6m).

*TSE*
During 2014/15, TSUKH entered into a number of new 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 2015 £295m (2014: £317m) was owed to TSE under these arrangements collectively, with total financing costs in the period of £15m (£13m).

During 2013/14, TSUK received an payment of £42m for the sale of billets to TSE for onward sale to Caparo Merchant Bar Plc. During the year ended 31 March 2015 £36m was released from the prepayment and recognised as sales to TSE in the year.

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

| | **2015**<br>**£m** | 2014<br>£m |
|---|---|---|
| Short term employee benefits | **5** | 4 |
| Other long term benefits | **-** | 1 |
| | **5** | 5 |

## 36. Ultimate and immediate parent company

Tulip UK Holdings (No.3) Limited is the company's immediate parent company, which is incorporated and registered in England and Wales. TSE is the intermediate holding company, which is incorporated and registered in England and Wales, and is the smallest group to consolidate these financial statements.

Tata Steel Limited, a company incorporated in India, is the ultimate parent company and controlling party and the 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.

## 37. Main subsidiaries and investments

The main subsidiary undertakings, joint ventures and associates of the Group at 31 March 2015 are set out below. Country names are countries of incorporation. Undertakings operate principally in their country of incorporation except where otherwise stated.

### Subsidiary undertakings

*Steel producing, further processing or related activities:*

***England and Wales***
Corus Group Limited
Tata Steel UK Limited

***Belgium***
Tata Steel Belgium Services NV
Tata Steel Belgium Packaging Steels NV

***Brazil***
Tata Steel International (South America) Representações LTDA

***Bulgaria***
Corus Building Systems Bulgaria AD (65% owned)

***Canada***
Cogent Power Inc

***China***
Kalzip (Guangzhou) Limited

***Czech Republic***
Tata Steel International (Czech Republic) sro

***Denmark***
Tata Steel Denmark Byggesystemer AS

***Finland***
Tata Steel International (Finland) Oy
Naantali Steel Service Centre OY

***France***
Tata Steel France Bâtiments et Systèmes SAS
Tata Steel International (France) SAS
Tata Steel Maubeuge SAS
Tata Steel France Rail SAS
Unitol SAS
Tata Steel France Holdings SAS

***Germany***
Blume Stahlservice GmbH
Service Centre Gelsenkirchen GmbH
S.A.B. Profil GmbH
Kalzip GmbH
Tata Steel Germany GmbH
Hille & Muller GmbH

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

*Isle of Man*
Crucible Insurance Company Limited

***India***
Tata Steel International (India) Ltd

***Ireland (Republic of)***
The Steel Company of Ireland Limited

***Italy***
Tata Steel International (Italia) Srl

***Netherlands***
Tata Steel Nederland BV
Tata Steel Nederland Services BV
Tata Steel IJmuiden BV
British Steel Nederland International BV
Tata Steel Netherlands Holdings BV
S.A.B. Profiel BV

***Norway***
Tata Steel Norway Byggsystemer AS
Norsk Stål Tynnplater AS

***Poland***
Tata Steel International (Poland) Sp. zoo

***Singapore***
Kalzip Asia Pte. Limited

***Spain***
Layde Steel SL

***Sweden***
Surahammar Bruks AB
Tata Steel Sweden Byggsystem AB
Halmstad Steel Service Centre

***Switzerland***
Montana-Bausysteme AG

***Turkey***
Tata Steel Istanbul Metal Sanayi ve Ticaret AS

***United Arab Emirates***
Tata Steel International (Middle East) FZE

***United States of America***
Tata Steel International (Americas) Inc
Hoogovens USA Inc

***Other undertakings:***

*England and Wales*
UK Steel Enterprise Limited

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

## Joint ventures, Joint operations and associates

| | Classification | Nature of business | Annual sales £m | | Issued capital Number of shares | % held |
|---|---|---|---|---|---|---|
| *England and Wales* | | | | | | |
| Caparo Merchant Bar plc | Joint Venture | Light sections | 78 | ordinary shares of £1 | 2,466,667 | 25 |
| Afon Tinplate Company Ltd | Joint Venture | Supply of goods to the packaging industry | 17 | ordinary shares of £1 | 1,000,000 | 64 |
| BSR Pipeline Service Ltd | Joint Operation | Pipe coating services | 8 | ordinary shares of £1 | 100,000 | 50 |
| Air Products Llanwern Ltd | Joint Operation | Supply of industrial gases | 4 | ordinary shares of £1 | 100,000 | 50 |
| Texturing Technology Ltd | Joint Operation | Supply of steel roll refurbishment services to the metal rolling sector | 5 | ordinary shares of £1 | 2,000,000 | 50 |
| Redcar Bulk Terminal Ltd | Joint Venture | Cargo handling at deep sea bulk terminal | 28 | ordinary shares of £1 | 26,502,718 | 50 |
| *Greece* | | | | | | |
| Corus Kalpinis Simos Cladding Industry SA | Joint Venture | Importing, processing and trading of steel and panels/profiles manufacture | 9 | shares of €29 | 233,500 | 50 |
| Tata Elastron Steel Service Center SA | Joint Venture | Processing and sale of steel products | 10 | shares of €10 | 1,000,000 | 50 |
| *Netherlands* | | | | | | |
| Laura Metaal Holding BV | Joint Venture | Trading and processing of non-prime metal | 88 | shares of €454 | 5,600 | 49 |
| Danieli Corus Technical Services BV | Joint Venture | Supply of engineering, proprietary equipment contracting in the metals industry | 52 | shares of €355 | 41,750 | 50 |
| Hoogovens Court Roll Surface Technologies VOF | Joint Operation | Processing chrome deposit on rolls | 3 | - | - | 50 |
| *Norway* | | | | | | |
| Norsk Stål AS | Joint Venture | Stockholders and processing of strip and long products | 127 | shares of NOK1,000 | 63,500 | 50 |

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