Celsa Steel (UK) Limited

Annual Report and Financial Statements

Company number 04661575

31 December 2017

Directors
L Sanz Villares
F Mesegue
A Fort
M McKillop

Secretary
F Perez

Auditors
Ernst & Young LLP
The Paragon
Counterslip
Bristol BS1 6BX

Registered Office
Building 58
East Moors Road
Cardiff CF24 5NN

Strategic report

The directors present this strategic report for the year ended 31 December 2017.

Results and dividends

The profit for the year after taxation amounted to £114,000 (2016 – profit of £136,000). The directors do not recommend the payment of a dividend (2016 – £nil).

Principal activity and review of the business

The company's principal activity during the year was the sale of steel products.

The company's key financial indicator is turnover which for 2017 was £223,569,000 (2016 – £181,298,000).

Principal risks and uncertainties

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

Financial risk management objectives and policies

Foreign currency risk

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

Interest rate risk

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

Credit risk

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

Price risk

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

Liquidity risk

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

Future developments

The directors aim to maintain the policies of the company. They intend to keep on growing the company and their market share.

By order of the Board

F Perez
Secretary
Date: 13 April 2018

Directors' report

The directors present their report and financial statements for the year ended 31 December 2017.

Going concern

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the company and group can continue in operational existence for the foreseeable future. In July 2014, the Celsa UK Group (Celsa (UK) Holdings Limited) completed the extension of its term loan facilities. As a result, the existing long-term loan facilities were renewed and are committed until December 2018. Also, in the first quarter of 2015, the Celsa UK Group completed the refinancing of its asset-based working capital financing facilities and these are also committed until December 2018. During 2017, the Celsa UK Group has been able to automatically extend its current facilities and the Asset Based Lending (ABL) by 12 months to December 2018. This was based on the good stable performance of the Group and the fulfilment of the financial, information and general covenants in previous years and being able to achieve the 2017 business plan. The Group has firm committed options to extend the ABL debt by another five years and the term debt will either be rolled over by the existing lenders, and/or replaced by institutional Term Loans, or unitranche alternatives, supported by the robust debt market as per the market testing performed by independent financial advisors for the Group. In the unlikely event that a full five-year re-financing proves not to be possible in 2018, the directors are confident that an extension to the existing facilities to 2019 or 2020 would be achieved. The directors have assessed the future funding requirements of the Celsa UK Group and the Company. The assessment included a detailed review of financial forecasts and covenants for the 12 month period from the date of signing the accounts and a review of cash flow projections. Having undertaken this work, the directors are of the opinion that the Company and the Celsa UK Group have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report.

Directors

The directors who served the company during the year were as follows:

L Sanz Villares
F Mesegue
A Fort
M McKillop

No director had any declarable interest in the shares of the company or any other UK group company during the year. No director had a material interest in any contract or arrangement with the company during the year.

The directors are taking advantage of section 185/802 in not disclosing interests in shares of a company incorporated outside Great Britain.

Directors' qualifying third party indemnity provision

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

Directors' report (continued)

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the shareholders at the Annual General Meeting.

By order of the Board

F Perez

Secretary

Date: 13 April 2018

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report and the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (FRS 102).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

to the members of Celsa Steel (UK) Limited

Opinion

We have audited the financial statements of Celsa Steel (UK) Limited for the year ended 31 December 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Statement of changes in equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditors' report (continued)

to the members of Celsa Steel (UK) Limited

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Independent auditors' report (continued)

to the members of Celsa Steel (UK) Limited

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Ernst & Young LLP

Paul Mapleston (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Bristol

13 April 2018

Profit and loss account

for the year ended 31 December 2017

	Notes	*2017* *£000*	*2016* *£000*
Turnover	4	223,569	181,298
Cost of sales		(222,733)	(181,853)
Gross profit / (loss)		836	(555)
Administrative expenses		(278)	(262)
Other operating income		682	2,003
Operating profit	5	1,240	1,186
Interest receivable and similar income		14	7
Interest payable and similar charges	8	(1,117)	(1,025)
Profit on ordinary activities before taxation		137	168
Tax	9	(23)	(32)
Profit for the year		114	136

All items dealt with in arriving at the operating profit above relate to continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2017

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £114,000 in the year ended 31 December 2017 (2016 – profit of £136,000).

Balance Sheet

at 31 December 2017

	Notes	2017 £000	2016 £000
Current assets			
Stocks	10	28,394	24,446
Debtors	11	79,491	62,848
Cash at bank and in hand		2,435	297
		110,320	87,591
Creditors: amounts falling due within one year	12	(70,637)	(62,267)
Net current assets		39,683	25,324
Total assets less current liabilities		39,683	25,324
Creditors: amounts falling due in more than one year	13	(38,173)	(23,928)
Net assets		1,510	1,396
Capital and reserves			
Called up share capital	14	1,000	1,000
Profit and loss account		510	396
Shareholders' funds		1,510	1,396

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

L Sanz Villares	**F Mesegue**	**A Fort**	**M Mckillop**
Director	Director	Director	Director
Date: 13 April 2018	Date: 13 April 2018	Date: 13 April 2018	Date: 13 April 2018

Statement of changes in equity

For the year ended 31 December 2017

	Share capital	*Profit and loss account*	*Total*
	£'000	*£'000*	*£'000*
At 1 January 2016	1,000	260	1,260
Profit for the year	-	136	136
At 1 January 2017	1,000	396	1,396
Profit for the year	-	114	114
At 31 December 2017	1,000	510	1,510

Notes to the financial statements

at 31 December 2017

1. General Information

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

2. Statement of compliance

The individual financial statements of Celsa Steel (UK) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the company and group can continue in operational existence for the foreseeable future. In July 2014, the Celsa UK Group (Celsa (UK) Holdings Limited) completed the extension of its term loan facilities. As a result, the existing long-term loan facilities were renewed and are committed until December 2018. Also, in the first quarter of 2015, the Celsa UK Group completed the refinancing of its asset-based working capital financing facilities and these are also committed until December 2018. During 2017, the Celsa UK Group has been able to automatically extend its current facilities and the Asset Based Lending (ABL) by 12 months to December 2018. This was based on the good stable performance of the Group and the fulfilment of the financial, information and general covenants in previous years and being able to achieve the 2017 business plan. The Group has firm committed options to extend the ABL debt by another five years and the term debt will either be rolled over by the existing lenders, and/or replaced by institutional Term Loans, or unitranche alternatives, supported by the robust debt market as per the market testing performed by independent financial advisors for the Group. In the unlikely event that a full five-year re-financing proves not to be possible in 2018, the directors are confident that an extension to the existing facilities to 2019 or 2020 would be achieved. The directors have assessed the future funding requirements of the Celsa UK Group and the Company. The assessment included a detailed review of financial forecasts and covenants for the 12 month period from the date of signing the accounts and a review of cash flow projections. Having undertaken this work, the directors are of the opinion that the Company and the Celsa UK Group have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report.

Notes to the financial statements

at 31 December 2017

3. Accounting policies (continued)

Exemptions for qualifying entities under FRS 102

The company has taken advantage of the following exemptions:

(i) preparing a statement of cash flows under FRS 102 paragraph 1.12(b)

(ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29

Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to the sale of steel products.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition. Stocks are measured on a weighted average cost basis.

Deferred taxation

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

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

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Complex Financial Instruments

The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives as it does not have any of these instruments in either the current or prior period.

Notes to the financial statements

at 31 December 2017

3. Accounting policies (continued)

Basic financial instruments

(i) Financial assets

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

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

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

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

(ii) Financial liabilities

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

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

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

4. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to the sale of steel products.

An analysis of turnover by geographical market is given below:

	2017	*2016*
	£000	*£000*
United Kingdom	135,407	101,177
Continental Europe, Eire and others	88,162	80,121
	223,569	181,298

5. Operating profit

This is stated after crediting:

	2017	*2016*
	£000	*£000*
Foreign exchange gains	(722)	(2,038)

Audit fees are borne by another group company, Celsa Manufacturing (UK) Limited.

Notes to the financial statements

at 31 December 2017

6. Directors' remuneration

The directors of this company have not received any payment from it directly. The holding company of the Group, (Celsa (UK) Holdings Ltd) have paid the remuneration to all the directors of the Group (Holdings and fellow subsidiaries). The amount apportioned for the directors giving service to this company add up to: £29,107 (2016 – £27,665).

7. Staff costs

No staff costs were incurred by the company during the year (2016 – nil).

8. Interest payable and similar charges

	2017	*2016*
	£000	*£000*
Bank loans and overdrafts	1,117	1,025

9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017	*2016*
	£000	*£000*
Current tax:		
Group relief payable	3	1
Adjustments in respect of previous years	-	2
Total current tax	3	3
Deferred tax:		
Deferred tax charge for the year	20	29
Tax on profit on ordinary activities	23	32

Notes to the financial statements

at 31 December 2017

9. Tax (continued)

(b) Factors affecting the total tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%). The differences are explained below:

	2017	*2016*
	£000	*£000*
Profit on ordinary activities before taxation	137	168
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 19.25% (2016 – 20.00%)	26	33
Changes in tax rates	(3)	(1)
Total tax expense (note 9(a))	23	32

(c) Deferred tax:

The movement in deferred taxation during the current year is as follows:

	2017	*2016*
	£000	*£000*
At 1 January	(28)	(57)
Deferred tax charge for the year	20	29
At 31 December	(8)	(28)

Deferred tax is represented by

	2017	*2016*
	£000	*£000*
Tax losses	(8)	(28)

(d) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and a further reduction to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

Notes to the financial statements

at 31 December 2017

10. Stocks

	2017 £000	2016 £000
Finished goods	28,394	24,446

11. Debtors

	2017 £000	2016 £000
Trade debtors	41,541	27,913
Prepayments and accrued income	6	6
Amounts owed from group companies	37,936	34,901
Deferred tax asset (note 9(c))	8	28
	79,491	62,848

Celsa Manufacturing (UK) Limited has a fixed charge upon the trade debtors above, ranked behind the Bank of America fixed charge (note 13).

12. Creditors: amounts falling due within one year

	2017 £000	2016 £000
Amounts due to group undertakings	70,626	62,250
Other creditors and accruals	11	17
	70,637	62,267

13. Creditors: amounts falling due in more than one year

	2017 £000	2016 £000
Bank loan due in more than one year	29,273	15,028
Amounts due to group undertakings	8,900	8,900
	38,173	23,928

The Bank of America loan is a £90m facility committed until December 2018 secured by a fixed charge on the trade debtors and a floating charge against all other assets of the company and interest is payable at a spread above LIBOR per annum.

Notes to the financial statements

at 31 December 2017

14. Issued share capital

		2017		2016
Allotted, called up and fully paid	*No.000's*	*£000*	*No.000's*	*£000*
Ordinary shares of £1 each	1,000	1,000	1,000	1,000
B Ordinary shares of £1 each	-	-	-	-

A single £1 Ordinary share was reallocated to a £1 B Ordinary share on 27 March 2013. The B Share shall not confer on the holder thereof any right to attend or speak or vote at a general meeting other than a general meeting at which any resolution relating to any restricted matter is proposed. There is no right to participate in any dividend. On a return of capital the assets available for distribution to the shareholders shall first be applied in paying to the holder of the B share a sum equal to the amount of its subscription price. The B share is not redeemable.

15. Related party transactions

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

16. Undertaking and controlling party

The immediate parent undertaking is Celsa (UK) Holdings Limited, a company incorporated in England & Wales. The ultimate parent undertaking and controlling party is Catalunya Steel SL, which is a company incorporated in Spain. The smallest and largest group in which the results of the company are consolidated is that headed by Celsa (UK) Holdings Limited, whose financial statements are available from Building 58, East Moors Road, Cardiff CF24 5NN.