

thyssenkrupp Materials (UK) Limited

Annual report and financial statements

Registered number 645702

Year ended 30 September 2017

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Strategic report

The directors present their Strategic report on the company for the year ended 30 September 2017.

Review of the business

The Company's principal activities are the stockholding, distribution and first stage processing of aluminium, stainless steel, plastics and carbon steel. This is co-ordinated through three separate operating divisions stockholding, Aerospace and Trading.

The current year has seen a strong improvement in EBIT for all three divisions driven by increasing commodity prices and increased volumes. The FY2017 result has also been helped by not having the one off effects of IPR and pension transfer seen in the previous year.

The company has made a profit on ordinary activities before interest and tax of £3,842K (2016: Loss of £4,327K).

The Company is still disputing the previous year IPR (Inward Processing Relief) charge with HMRC but has agreed the process for ongoing presentation so do not expect a similar charge in future years.

The balance sheet shows the company's financial position at the year end, the increase in metal prices over the year is seen in the increase in stock and debtors.

KPI's

The main key performance indicator by which the company manages its return on capital employed, which was 5.3% (2016:1.3%) for the year calculated using internal management statistics and an average of capital employed for the previous five quarters. Other secondary factors are tonnes sold, EBIT Margin, cost per tonne, business cash flow and gross profit per order.

Environment

thyssenkrupp Materials (UK) Ltd recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. Initiatives aimed at minimising the company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption. The company has attained the environmental standard BS EN ISO 14001:2004 as part of these responsibilities.

By order of the board



P Scarr
Company Secretary
28 June 2018

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 30 September 2017.

Future developments

In line with the strategic aims of the thyssenkrupp Materials services business area of thyssenkrupp AG, the company is developing the business to take advantage of added value opportunities whilst looking for areas of consolidation to maximise operational efficiencies and leverage the volumes placed by thyssenkrupp Materials (UK) Limited globally in order to obtain the best possible terms and conditions. Following the restructuring projects in the Materials and Aerospace divisions during the year ending 30th September 2017 we will be using the operational efficiencies to move the business forward.

The company is continuing with its investment in plant and equipment and replacing commercial vehicles in accordance with long term investment plans. In this area the Aerospace Division is developing by installing new saw capability to develop into new markets and the Vetchberry site has invested in a new cut to length line for Aluminium and Stainless Steel during the year.

Dividends

For the year ended 30th September 2017 no dividends will be paid. (2016: none).

Political donations and political expenditure

The company has not made any donations to a registered political party, other political organisation in the EU (including the UK) or any independent election candidate.

Principal risks and uncertainties

Competitive pressure in the UK is a continuing risk for the company, which could result in it losing sales to its key competitors, or from its customers moving abroad or purchasing from low cost economies. To manage this risk, the company strives to provide added-value products and services to its customers; prompt response times in the supply of products and services and in the handling of customer queries; and through the maintenance of strong relationships with customers.

Financial risk management

Price Risk

The company's businesses may be affected by fluctuations in the price and supply of key raw materials, although purchasing policies and practices seek to mitigate, where practical, such risk. The company manages some of these risks with hedging in aluminium and nickel (a compound of stainless steel), as well as currency, and further mitigates these risks by keeping stock levels low and by ensuring customer special stocks have back to back orders with our customers.

Credit Risk

In line with Group policies, the company's main debtor balances are covered by credit insurance policies with major insurance companies significantly reducing the potential exposure.

Foreign Currency Risk

The company buys and sells products from and into international markets and it is therefore exposed to currency movements on such transactions. Where appropriate, this risk is managed with forward foreign exchange contracts in line with thyssenkrupp AG's treasury policies. With the fair value revaluation of open currency contracts this can lead to large currency movements with market movements such as following the Brexit vote.

Funding risk

The company is financed by its share capital, a capital contribution and a variable rate loan from its parent company.

Liquidity risk

The business exposure to liquidity risk is managed by the ultimate parent business thyssenkrupp AG, details of which are discussed in the annual report of the parent company and do not form part of this report.

Directors' report *(continued)*

Financial Risk Management *(continued)*

Interest rate cash flow risk

As with liquidity risk, this is managed by the parent company, thyssenkrupp AG.

The Group risks to which thyssenkrupp Materials (UK) Limited are exposed are discussed in thyssenkrupp AG's Annual Report which does not form part of this report, and which is available on the thyssenkrupp AG's website.

Directors

The directors who held office during the year and up to the date of signing these financial statements are as follows:

T R Sargeant
G Degenhart
P J Scarr
L A Holmes

Employees

Employees and related costs can be found in note 7 to the financial statements.

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The company participates in thyssenkrupp AG's policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and bulletins.

Employees are consulted regularly through the companywide appraisal system and group wide company survey which take place every 3 years. Feedback from the company survey is benchmarked against peers and formal follow up processes take place. The last group wide survey was conducted during September 2016.

All employees are annually invited to join in the thyssenkrupp AG group share savings scheme.

Statement of directors' responsibilities

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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) comprising FRS101 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 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;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements and make judgements and accounting estimates that are reasonable and prudent;
- 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. The Directors 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.

Disclosure of information to auditors

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

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the board



P Scarr
Company secretary
28 June 2018

Independent auditors' report to the members of thyssenkrupp Materials (UK) Limited

Report on the audit of the financial statements

• Opinion

In our opinion, thyssenkrupp Materials (UK) Limited's financial statements:

give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its profit for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and

have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 30 September 2017; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

• Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

• Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

• Conclusions relating to going concern

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

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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

• Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of thyssenkrupp Materials (UK) Limited (continued)

- ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

- ***Responsibilities of the directors for the financial statements***

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

- ***Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

- ***Use of this report***

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

- **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

we have not received all the information and explanations we require for our audit; or

adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or


certain disclosures of directors' remuneration specified by law are not made; or

the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Sarah O'Donnell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

 June 2018

Income Statement

for the year ended 30 September 2017

	Note	2017 £000	2016 £000
Revenue	5	321,225	271,434
Cost of sales		(285,245)	(235,030)
Exceptional Cost of Sales - Provision IPR Claim	17	(27)	(2,146)
Total cost of sales		(285,272)	(237,176)
Gross profit		35,953	34,258
Distribution costs		(22,802)	(21,110)
Administrative expenses		(8,921)	(9,316)
Other expenses		(388)	(4,803)
Profit/(Loss) on ordinary activities before interest, taxation and exceptional item	6	3,842	(971)
Settlement of pension transfer to thyssenkrupp UK Plc	21	-	(3,356)
Profit/(Loss) on ordinary activities before interest and taxation		3,842	(4,327)
Finance income	8	366	160
Finance costs	8	(2,902)	(2,583)
Finance – net	8	(2,536)	(2,423)
Profit/(Loss) on ordinary activities before taxation		1,306	(6,750)
Income tax income /(expense)	9	212	(92)
Profit /(Loss) for the financial year		1,518	(6,842)

Statement of comprehensive income
for the year ended 30 September 2017

	<i>Note</i>	2017 £000	2016 £000
Profit / Loss for the financial year		1,518	(6,842)
Other comprehensive income/ (expense): Items that will not be reclassified to profit or loss			
Actuarial gains on pensions scheme	21	-	1,037
Movement on deferred tax relating to pension deficit	9	-	(214)
Other comprehensive income for the year, net of tax		-	823
Total comprehensive income / (expense) for the year		1,518	(6,019)

Statement of financial position
at 30 September 2017

	<i>Note</i>	2017 £000	2016 £000
Fixed assets			
Intangible assets	<i>10</i>	2,874	3,144
Property, plant and equipment	<i>11</i>	21,983	18,952
		<u>24,857</u>	<u>22,096</u>
Current assets			
Inventories	<i>13</i>	97,355	76,058
Trade and other receivables	<i>14</i>	61,606	43,530
Cash and cash equivalents		2,255	8,351
		<u>161,216</u>	<u>127,939</u>
Assets held for sale	<i>12</i>	857	-
Creditors: amounts falling due within one year	<i>15</i>	(132,757)	(94,967)
Net current assets		<u>29,316</u>	<u>32,972</u>
Total assets less current liabilities		<u>54,173</u>	<u>55,068</u>
Creditors: amounts falling due after more than one year	<i>16</i>	(177)	(208)
Provisions for liabilities	<i>17</i>	(327)	(2,709)
Net assets		<u>53,669</u>	<u>52,151</u>
Equity			
Called up share capital	<i>19</i>	12,033	12,033
Capital Contribution		46,074	46,074
Accumulated Losses		(4,438)	(5,956)
Total shareholders' funds		<u>53,669</u>	<u>52,151</u>

The notes on pages 13 to 31 are an integral part of these financial statements.

The financial statements on pages 9 to 31 were authorised for issue by the board of directors on June 2018 and were signed on its behalf.



P Scarr – Director

Registered number: 645702

Statement of changes in equity for the year ending 30 September 2017

	Called up share capital	Capital Contribution	Retained Earnings /(Accumulated losses)	Total Shareholders funds
	£000	£000	£000	£000
Balance as at 1 October 2015	12,033	46,074	63	58,170
Loss for the financial year	-	-	(6,842)	(6,842)
Other comprehensive income for the year:				
Actuarial gains on pensions scheme	-	-	1,037	1,037
Movement on deferred tax relating to pension	-	-	(214)	(214)
Balance as at 30 September 2016	12,033	46,074	(5,956)	52,151
Profit for the financial year	-	-	1,518	1,518
Balance as at 30 September 2017	12,033	46,074	(4,438)	53,669

Notes to the financial statements

1. General information

The company's principal activities are the warehousing distribution and first stage processing of aluminium, stainless steel, plastics and carbon steels to all areas of the UK, also including the provision of supply chain contracts, and sale of products to the aerospace and defence industries.

The company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is Cox's Lane, Cradley Heath, West Midlands, B64 5QU.

2 Summary of significant 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.

2.1 Basis of preparation

The financial statements of thyssenkrupp Materials (UK) Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's 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.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant and equipment;
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

2.1.1 Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The current economic conditions with Brexit continue to create uncertainty particularly over the level of demand for the company's products. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Notes to the financial statements *(continued)*

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£'000), which is also the company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. All other foreign exchange gains and losses are presented in the income statement within 'Other expenses'.

2.3 Property, plant and equipment

Land and buildings comprise mainly warehouses and offices. Land and buildings are shown at historic cost, less subsequent depreciation for buildings.

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items..

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Freehold property 25-40 years
- Short leasehold property – over the life of the lease
- Plant and Machinery 10-20 years
- Furniture, fittings and equipment 3-8 years
- Motor Vehicles 3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other expenses' in the income statement.

2.4 Goodwill.

Historic purchased goodwill is not amortised under FRS 101. Instead goodwill is reviewed for impairment at group level. Where specific contracts are purchased the associated goodwill is amortised over the life of those contracts.

2.5 Assets held for sale.

Fixed assets shall be reclassified as assets held for sale when the following criteria are met under the requirements of IFRS 15

- Sales plan is defined and approved by management
- Asset is available for immediate sale in its present condition
- Buyer is identified and steps for completing the sale have been identified
- Sale is probable within one year
- Purchase price is fixed
- Significant changes to the sales plan are unlikely

Notes to the financial statements *(continued)*

2.6 Intangible assets

Computer software

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

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

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

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

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

2.7 Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.8 Financial assets

2.8.1 Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise receivables, cash and commercial paper in the balance sheet.

2.9 Derivative financial instruments and hedging activities

The company has not applied hedge accounting and all derivatives are measured at fair value through profit and loss.

2.10 Inventories

Inventories which consist wholly of goods held for resale, are valued at the lower of cost and net realisable value. In determining the cost of goods held for resale, the weighted average purchase price is used. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the financial statements *(continued)*

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 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. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee benefits

thyssenkrupp Materials (UK) Limited offer a defined contribution pension scheme to all employees, along with life assurance, private medical insurance, child care vouchers and car salary sacrifice scheme. The defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Notes to the financial statements *(continued)*

2.16 Employee benefits (continued)

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age, years of service and compensation. During the year ending 30th September 2016 the defined benefit scheme of thyssenkrupp Materials (UK) Ltd was transferred to thyssenkrupp UK Plc. See note 21

Past service costs are recognised immediately in the income statement.

2.17 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Revenue recognition

(a) Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company's activities, as described below. The company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Sales of goods

The company is a distributor of material providing warehouse, distribution and first stage processing. Sale of goods are recognised when the company has delivered products to the customer or the customer has collected the material. Delivery does not occur until the products have been shipped to the specified location and the risks of obsolescence and loss have been transferred to the customer. The materials sold are sometimes sold with volume discounts, and customers have a right to return faulty products within specific time frame. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made.

(c) Internet revenue

Revenue from the provision of the sale of goods on the internet is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by credit or payment card.

Provisions are made for internet credit notes based on the expected level of returns, which in turn is based upon the historical rate of returns.

2.19 Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The company only has operating leases in the period.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful economic lives of property, plant and equipment and intangible assets

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the property plant and equipment, note 10 for the carrying amount of intangible assets, note 2.3 for useful economic lives for each class of assets of property plant and equipment and note 2.4 for software.

(b) Inventory provisioning

The Company's principal activities are the stockholding, distribution and first stage processing of aluminium, stainless steel, plastics and carbon steel. As the stock turn of items held varies it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required.

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated demand, contract requirement and scrap value.

(c) Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See note 14 for the net carrying amount of the receivables and associated impairment provision.

(d) Defined benefit pension scheme

The company had an obligation to pay pension benefits to certain employees until March 2016 when the pension scheme was transferred to thyssenkrupp UK Plc. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 21 for the disclosures of the defined benefit pension scheme.

4 Derivative financial instruments

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables. At 30 September 2017, the outstanding contracts all mature within 12 months (2016: 9 months) of the year end. The company is committed to purchase US\$ 52,612K and Eur 9,710K for a fixed sterling amount and sell US\$576K and Euro 12,099k and receive a fixed sterling amount.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the exchange rates for GBP: USD and GBP: EUR.

Notes to the financial statements (continued)

5 Revenue

Analysis of revenue by geography

	2017	2016
	£000	£000
United Kingdom	267,735	225,193
Other EU Countries	32,234	28,755
Other countries	21,256	17,486
	<u>321,225</u>	<u>271,434</u>

6 Operating profit

Operating profit is stated after charging / (crediting):

	2017	2016
	£000	£000
Wages and salaries	20,454	20,311
Social security costs	2,011	1,986
Other pension costs (note 21)	1,668	1,677
	<u>24,133</u>	<u>23,974</u>
Staff costs	24,133	23,974
Profit on disposal of property, plant and equipment	(37)	(14)
(Reversal) of trade receivables provisions	(377)	(100)
Amortisation of intangible assets (included in 'administrative expenses')	270	343
Inventory recognised as an expense	268,889	225,885
Impairment of inventory (included in 'cost of sales')	1,378	2,163
Operating lease charges	1,636	1,787
Depreciation of Property, Plant and Equipment	2,137	2,068
Foreign exchange (gains)/losses	(349)	4,817
Audit fees payable to the company's auditor	134	125
	<u>268,889</u>	<u>225,885</u>

Wages and salaries include compensation payments and redundancy costs totalling £750K (2016: £311K)

7 Employees and Directors

The average monthly number of persons (including executive directors) employed by the company during the year was:

	Number of employees	
By activity	2017	2016
Production	278	269
Selling and distribution	268	297
Administration	138	138
	<u>684</u>	<u>704</u>

Notes to the financial statements *(continued)*

7 Employees and directors *(continued)*

Directors

The directors' emoluments were as follows:

	2017	2016
	£000	£000
Aggregate emoluments	401	417
Aggregate amounts (excluding shares) receivable under long-term incentive schemes	70	80
	<u>471</u>	<u>497</u>

Highest paid director

The highest paid director's emoluments were as follows:

	2017	2016
	£000	£000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	361	330
Pension contributions	-	4
	<u>361</u>	<u>334</u>

8 Finance income and costs

Finance income

	2017	2016
	£000	£000
Interest received from group companies	366	123
Interest income from pensions	-	37
	<u>366</u>	<u>160</u>

Finance costs

	2017	2016
	£000	£000
Interest payable to group companies	1,205	1,451
Other loans	1,697	1,132
	<u>2,902</u>	<u>2,583</u>
Total interest expense on financial liabilities not measured at fair value through profit and loss	2,902	2,583
	<u>2,902</u>	<u>2,583</u>

Notes to the financial statements *(continued)*

8 Finance income and costs *(continued)*

Net finance cost

	2017	2016
	£000	£000
Interest income	366	160
Interest expense	(2,902)	(2,583)
	<u>(2,536)</u>	<u>(2,423)</u>

9 Income tax expense

Tax expenses included in profit or loss

	2017	2016
	£000	£000
Current tax:		
– UK Corporation tax on profits for the year	-	-
– Adjustment in respect of prior periods	-	-
	<u>-</u>	<u>-</u>
Total current tax	-	-
	<u>-</u>	<u>-</u>
Deferred tax:		
Origination and reversal of timing differences	540	122
Impact of change in tax rate	-	-
Adjustment in respect of prior periods	-	-
	<u>(752)</u>	<u>(30)</u>
Total deferred tax	(212)	92
	<u>(212)</u>	<u>92</u>
Tax on profit\ (loss)	<u>(212)</u>	<u>92</u>

Tax (income) \ expense included in other comprehensive income

	2017	2016
	£000	£000
Current tax	-	-
Deferred tax:		
– Origination and reversal of temporary differences	-	214
– Impact of change in tax rate	-	-
	<u>-</u>	<u>214</u>
Total tax (income)/expense included in other comprehensive income	-	214

Notes to the financial statements *(continued)*

9 Income tax expense *(continued)*

Tax expense for the period is lower (2016: higher) than the standard rate of corporation tax in the UK for the year ended 30 September 2017 of 19.5% (2016:20%). The differences are explained below:

	2017	2016
	£000	£000
Profit/(Loss) on ordinary activities before taxation	1306	(6,750)
Tax on profit/(loss) on ordinary activities at standard rate of tax in the UK of 19.5% (2016: 20%)	254	(1,350)
Effects of:		
– Fixed Asset Differences	60	68
– Expenses not deductible for tax purposes	75	154
– Group relief surrendered	231	815
– Adjustments to tax charge in respect of prior years	(752)	(30)
– Adjust closing deferred tax to average rate of 19.5%	402	435
– Adjust opening deferred tax to average rate of 19.5%	(482)	-
Tax (Income)\Charge	(212)	92

The tax rate for the current period is lower than the prior period due to changes in the UK Corporation tax rate which decreased from 20% to 19% from 1 April 2017.

Further reductions to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2016 on 2 July 2016. These reduce the main rate to 17% from 1 April 2020. The deferred tax assets and liabilities have been updated to reflect the reduction in the rates.

Notes to the financial statements *(continued)*

10 Intangible assets

	Goodwill £000	Software £000	Total £000
<i>Cost</i>			
At beginning of year	6,698	983	7,681
Disposals	-	(8)	(8)
	<hr/>	<hr/>	<hr/>
At end of year	6,698	975	7,673
	<hr/>	<hr/>	<hr/>
<i>Accumulated amortisation</i>			
At beginning of year	3,570	967	4,537
Charge for the year	263	7	270
Disposals	-	(8)	(8)
	<hr/>	<hr/>	<hr/>
At end of year	3,833	966	4,799
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
As at 30 September 2017	2,865	9	2,874
	<hr/>	<hr/>	<hr/>
As at 30 September 2016	3,128	16	3,144
	<hr/>	<hr/>	<hr/>

The software intangible assets include the company's inventory management system which was created by an external development firm for the company's specific requirements. The asset is amortised. There are no other individually material intangible assets.

Intangible assets amortisation is recorded in administrative expenses in the income statement.

Notes to the financial statements (continued)

11 Property, plant and equipment

	Freehold property	Short leasehold property	Plant, equipment, fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	9,565	1,846	23,339	1,186	35,936
Additions		43	5,567	533	6,143
Transfers to assets held for sale	(1,240)	-	(28)	-	(1,268)
Disposals	-	(156)	(1,823)	(90)	(2,069)
At end of year	8,325	1,733	27,055	1,629	38,742
Depreciation					
At beginning of year	3,289	1,503	11,544	648	16,984
Charge for year	227	80	1,734	96	2,137
Transfers to assets held for sale	(390)	-	(21)	-	(411)
Disposals	-	(153)	(1,711)	(87)	(1,951)
At end of year	3,126	1,430	11,546	657	16,759
Net book value					
As at 30 September 2017	5,199	303	15,509	972	21,983
As at 30 September 2016	6,276	343	11,795	538	18,952

Land and buildings are valued at cost value.

12 Assets Held for Sale

Assets of disposal group classified as held for sale

	2017 £000	2016 £000
Property Plant and Equipment	857	-

13 Inventories

	2017 £000	2016 £000
Finished goods and goods for resale	97,355	76,058

Inventories are stated after provisions for impairment of £6,374K (2016: £5,842K).

Notes to the financial statements *(continued)*

14 Trade and other receivables

	2017 £000	2016 £000
Due within one year:		
Trade receivables	24,447	15,610
Amounts owed by group undertakings	26,969	18,654
Other receivables including deferred tax	9,427	7,848
Prepayments and accrued income	763	1,418
	<u>61,606</u>	<u>43,530</u>

All Trade receivables fall due within one year.

Included within amounts owed by group undertakings £2,545K are unsecured, interest free, and are payable within 1 year. A loan facility of £24,424K is included within amounts owed by group undertakings with variable interest rates.

Trade receivables are stated after provisions for impairment of £2,072K (2016: £2,571K).

15 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Amounts falling due within one year		
Trade Creditors	57,003	47,044
Amounts owed to group undertakings	49,068	22,323
Taxation and social security	8,394	6,746
Other creditors	10,404	13,273
Derivative financial instruments	1,873	640
Accruals and deferred income	6,015	4,941
	<u>132,757</u>	<u>94,967</u>

Included within Amounts owed to group undertakings £4,197K are unsecured, interest free, and are repayable within one year. An overdraft facility of £42,049K is included within Amounts owed to group undertakings with variable interest rates.

16 Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Amounts falling due after more than one year		
Other creditors including deferred tax	177	208
	<u>177</u>	<u>208</u>

Notes to the financial statements *(continued)*

17 Provision for liabilities

The company had the following provisions during the year:

	Total £000
At 1 October 2016	2,709
Payments made	(2,409)
Additions to the income statement	27
	<hr/>
At 30 September 2017	327
	<hr/> <hr/>

Provision relates to an Inward Processing Relief (IPR) claim issued by HMRC relating to documentation issues from 2014 and 2015 following issue of a C18 tax demand issued in April 2017. The Company is still disputing this claim. The increase in provision in the year has gone through Cost of sales.

18 Deferred tax

The provision for deferred tax consists of the following deferred tax (assets):

The movement in the deferred tax provision is as follows:

	2017 £000	2016 £000
Deferred tax assets due after more than 12 months	(2,737)	(2,525)
Deferred tax liabilities due after more than 12 months	-	-
	<hr/>	<hr/>
Total asset due after 12 months	(2,737)	(2,525)
	<hr/> <hr/>	<hr/> <hr/>
	2017 £000	2016 £000
	<hr/>	<hr/>
Total deferred tax asset	(2,737)	(2,525)
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements (continued)

18 Deferred tax (continued)

Deferred tax liabilities

	Fixed asset temporary differences £000	Pension and post retirement benefit £000	Other taxable temporary differences £000	Tax Losses £000	Total £000
At 1 October 2015	-	423	-	-	423
(credited) to the income statement	-	(637)	-	-	(637)
Charged directly to other comprehensive income	-	214	-	-	214
At 30 September 2016	-	-	-	-	-
(Credited)/charged to the income statement	-	-	-	-	-
(Credited)/charged directly to other comprehensive income	-	-	-	-	-
At 30 September 2017	-	-	-	-	-

Deferred tax assets

	Fixed asset temporary differences £000	Other taxable temporary differences £000	Tax Losses £000	Total £000
At 1 October 2015	(1,714)	(267)	(1,272)	(3,253)
Charged /(credited) to the income statement	754	(350)	324	728
Charged/(credited) directly to other comprehensive income	-	-	-	-
At 30 September 2016	(960)	(617)	(948)	(2,525)
Charged/(credited) to the income statement	(1,011)	443	356	(212)
Charged/(credited) directly to other comprehensive income	-	-	-	-
At 30 September 2017	(1,971)	(174)	(592)	(2,737)

19 Called up Share capital

Ordinary shares of £1 each

Allotted and fully paid	2017 £000	2016 £000
As at 1 st October 2016 and 30 th September 2017	<u>12,033</u>	<u>12,033</u>

Notes to the financial statements *(continued)*

20 Capital commitments

As at 30 September, the company had the following capital commitments

	2017 £000	2016 £000
Capital commitments		
Contracts for future capital expenditure not provided in the financial statements	-	229

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2017 Property £000	Motor vehicles £000	2016 Property £000	Motor vehicles £000
Not later than on year:	83	104	48	105
Later than one year and not later than five years	1,422	793	1,253	1639
Later than five years	948	0	1,112	-
	<u>2,453</u>	<u>897</u>	<u>2,413</u>	<u>1,744</u>

21 Pensions

The company operates a number of pension schemes for its employees.

Defined benefit scheme

On 1 January 2009, the defined benefit pension scheme was closed to new entrants. At the same time, the company established a defined contribution scheme to provide benefits to new employees.

thyssenkrupp Materials (UK) Limited no longer hold a defined benefit pension scheme. The pension scheme was de-sectionalised and transferred to thyssenkrupp UK Plc on 1 March 2017. As such the entity no longer has any rights or obligations with regards to the pension schemes previously owned by the entity.

Below are details of the income statement charge in both the current and prior year for each of the pension schemes that were previously held by thyssenkrupp Materials (UK) Limited. There were no assets or liabilities to these schemes recognised in the entity at either 30 September 2016 or 30 September 2017.

	2017 £000	2016 £000
Past service cost	-	-
Desectionalisation settlement cost	-	3,356
Interest cost	-	-
Administration costs	-	22
	<u>-</u>	<u>3,378</u>

The return on the plan assets was:

	2017 £000	2016 £000
Interest income	-	37
Remeasurements	-	-
Total return on plan assets	<u>-</u>	<u>37</u>

Notes to the financial statements *(continued)*

21 Pensions (continued)

Defined contribution Scheme

The company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

	2017	2016
	£000	£000
Current year contributions	1,668	1,655

22 Ultimate parent company and immediate parent undertaking

The company regarded by the directors as being the ultimate controlling company is thyssenkrupp AG which is incorporated in Germany. This is the largest and smallest group within which thyssenkrupp Materials (UK) Limited is consolidated. The consolidated financial statements of thyssenkrupp AG can be obtained from thyssenkrupp, Allee 1, Postfach 45063, 45143 Essen, Germany.

The company is a wholly owned subsidiary of thyssenkrupp UK PLC, registered in England, the financial statements of which can be obtained from the Registrar of Companies, Crown Way, Maindy, Cardiff, CF14 3UZ.