

Company registered number: 12303256

British Steel Limited

Annual Report and Financial Statements
for the year from 1 January 2021 to 31 December 2021

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Company Information

Directors

X Cao
X F Han
D P Hargreaves
H Li
W Zhang

Company Secretary

D P Hargreaves

Registered Office

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Scunthorpe
DN16 1XA

Independent Auditor

Moore Kingston Smith LLP
Chartered Accountants & Statutory Auditor
9 Appold Street
London
EC2A 2AP

Principal Bankers

Santander UK plc
2 Triton Square
Regent's Place
London
NW1 3AN

Strategic Report

Introduction

The directors have the pleasure of presenting their Strategic Report together with the audited accounts of British Steel Limited ('BSL' or 'the Company') for the year ended 31 December 2021.

The Company has chosen to present the financial statements in accordance with FRS 101 Reduced Disclosure Framework, a framework for entities which apply the presentation, recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006.

Ownership

BSL is a wholly owned subsidiary of Jingye Steel (UK) Holding Limited ('JSUK' or 'the Parent'), and its activities are managed as an integral part of the parent's operations. The ultimate parent company is Jingye Group Co Ltd, an unlisted company incorporated in China.

Principal Activities

The principal activities of the Company are the manufacture and sale of steel long products. The Company produces its product via the process of basic oxygen steelmaking at its integrated steelworks in the UK at Scunthorpe, before rolling at one of its four rolling mills located in Scunthorpe, Teesside, Skinningrove, or at the group subsidiary in the Netherlands, FN Steel.

The Company organises its commercial activities by major product group with offerings in Sections, Rods, Rail and Special Profiles as well as cast billets and slabs. The Company owns two distribution centres for construction steels located in both Teesside and Lisburn (Northern Ireland), and a Special Profiles distribution facility in Darlington.

Strategic Activities

The Company continued its wide-ranging investment programme to improve the performance of the business, helping it to become more sustainable and enabling investments necessary to secure its long-term future. Continued implementation of the investment plan will improve the integrity of the asset base while controlling emissions.

Under the guidance of the Jingye Group, management have successfully navigated the Company through challenging market conditions following the coronavirus outbreak and Brexit uncertainty and continue to steer the Company through a period of volatile energy and commodity prices.

The Company continued to ensure robust measures were put in place to safeguard the health and wellbeing of employees from the effects of the COVID-19 pandemic, whilst maintaining safe operations in order to protect customers, suppliers and communities. Employees in office-based and technical roles adapted to working from home, whilst social distancing and other safety measures were put in place to ensure critical manufacturing operations could continue.

The United Kingdom's withdrawal from the European Union at 11pm GMT on 31 January 2020 has continued to have only limited impact on the strategic activities of the business as the Company benefits from an allocation of quotas which serves to support the current and future levels of export sales predicted in its forward business plan.

Business Review

The first quarter saw the continuation of strong raw material price rises that commenced in the final quarter of 2020. Rising steel prices combined with benefits from strategic contract insourcing moved the business back into profit in February 2021, but caused a significant drawdown of working capital to support the higher valuation of receivables and inventories. The business remained profitable throughout 2021 until October, when the sudden peak in energy prices had a significantly adverse impact on product margins.

Losses in the final quarter, linked to high energy and CO₂ prices, eroded the year-to-date profit position with limited market acceptance of rising energy cost in steel prices. Losses in the final quarter were exacerbated by a mark-to-market adjustment on the short UKA CO₂ position, with the sudden rise in carbon price attributed to increased natural gas costs.

BSL revenue was £1.5bn in the year (2020: £0.8bn) with a loss before tax of £49.5M (2020: £142.1M loss before tax and an exceptional gain on bargain purchase arising on business combination of £409.9M).

The Company's result for the year after taxation and exceptional items was a loss of £50.8M (2020: £295.0M profit).

Strategic Report (CONTINUED)**Financing**

In 2021, BSL benefitted from access to an external asset-backed receivable lending facility of £50M supplied by Secure Trust Bank. Jingye International (HK) Holdings Company Limited provided a further £220m committed lending facility to the JSUK Group, maturing in 2025. The associated loan notes are listed on the International Stock Exchange (TISE). The Company also has a sale and repurchase commodity finance arrangement with both Trafigura Pte Ltd and Power Rich Resources Limited, and support from the shareholder in the form of short-term lending facilities from the wider Jingye Group. The Company adopts a blend of short-term and long-term funding to maintain an optimum cost of capital. Structural or capital investment is funded through long-term financing arrangements, whereas bridging and trade finance is generally short-term to maintain flexibility and minimise the cost of debt.

Cash Flow

Net cash outflow in the period was £11M (2020: £22M). This comprised an underlying trading loss of £49.5M (2020: £142.1M) combined with £78M (2020: £143M) of shareholder funding in the year and movement on working capital.

The working capital turnover ratio (excluding the impact of arrangements with JSUK Group companies and related parties) for 2021 is 2.8 (2020 annualised: 3.5), with most of the working capital held in inventories and receivables.

Capital Expenditure

Following delays in 2020 as a result of COVID-19, a number of significant strategic projects were approved, commenced and progressed in 2021, including: a new billet caster, raw material unloading cranes, new steel plant charging crane, and new special profiles service centre at the Skinningrove site. This was combined with significant investment to support coke making and steel reliability.

Total capital expenditure in the year (not including capitalised leases) has been circa £81M (2020: £38M). Growth-capex is forecast at £102M in 2022.

Balance Sheet

BSL net assets as at 31 December 2021 were £244M (2020: £295M).

Net debt (excluding intercompany/related party arrangements) was £53M (2020: £26M) and intercompany/related party loans were £364M (2020: £143M). Cash and cash equivalents amounted to £11M (2020: £22M). Further details on borrowings can be found in note 18.

Raw Materials and Energy

Exposure to energy shortages and price increases are a present risk, due to disruption caused by the military conflict in Eastern Europe and sanctions on certain businesses and products. These risks are closely monitored, and the Company continues to target measures to reduce its energy requirements.

Principal Risks and Uncertainties

The other principal risks and uncertainties affecting the Company include health, safety, environmental and other compliance matters, employees, climate change, financing, cyber-attacks on information or operational technology, trading in the global steel market (including the impact of Brexit), long-term competitiveness, performance and operations, exchange rates and access to raw materials and energy. Further information and discussion on these principal risks and uncertainties are included in the JSUK 2020 Annual Report and Financial Statements.

Key Performance Indicators

The business monitors a wide range of indicators to assess performance. These include injury performance, production and sales volumes, margins by product group, inventory, and a wide variety of production statistics including yield and plant availability.

The key performance indicators (KPIs) monitored by the Board are as follows:

KPI	2021	2020
Loss before tax per tonne	-£19	-£69
Recordable injuries per million hours worked	5.91	4.74
Lost Time Injury Frequency Rate (LTIF) per million hours worked	1.53	2.11
Liquid steel production (<i>annualised</i>)	2.6mt	2.6mt
CO ₂ intensity per tonne of liquid steel on 1, 2 and 3 emissions	2.086tCO ₂ /t	2.047tCO ₂ /t

Strategic Report (CONTINUED)

Loss before tax per tonne is a key indicator of investor return. Recordable injuries and lost injury time are also monitored closely as a key indicator for employee wellbeing. Liquid steel production and CO₂ intensity are also measured as key indicators of plant productivity and environmental liabilities.

Employees

Health and safety

The safe operation of all our sites is a top priority for British Steel. We continue to work closely with the Competent Authorities to continually improve and mature our processes for both Occupational and Process Safety. To maintain safeguards and the health and wellbeing of our people, we conducted (and continue to conduct) audits and checks to ensure our systems and controls are followed. British Steel reviewed its Management of Change (MOC) process and developed and deployed a refreshed and improved system across all the Business. We continue to monitor, measure and control COVID-19 as appropriate, and in line with current UK Government Guidance.

We actively strive to continually improve our safety performance and we remain focused on five key subjects – Leadership and Accountability; Risk Assessment; Incident Process; Planned General Inspection; Management of Work. These key topics remain at the heart of our Health and Safety Management system.

Employee numbers

As at 31 December 2021, staff numbers were 4,552 (2020: 4,407). The average for the year (as per note 6 'Employee costs') was 4,321 (2020: 3,449). We continue to recruit in line with our strategic plan with a focus on British Steel employment rather than utilising external contractors.

Employment policies

Our people are our greatest asset, and our employment values and policies are built upon the way we approach our work - with pride, passion and performance. A key component of our approach is two-way conversation between the Company, and our people and trade unions. This ensures our colleagues, and their health, safety and wellbeing, are the central considerations in our decision-making processes.

We are an equal-opportunities employer, committed to ensuring fairness and equality for all our people, regardless of their background or role within our business. We believe in the value that every one of our team members brings and look to support them in their personal development journeys, whatever direction their career takes them.

The Company's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their 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 have become disabled while working for the business.

We continue to invest in our employees' careers by providing a range of training and development activities. We have also adopted a flexible approach to working which, again, has the safety and wellbeing of our people at its heart. We have invested in a proactive and strong framework that supports our people to help themselves and to help others from a mental wellness perspective.

BSL continues to transform as a business under Jingye Group and our employment policies will continue to evolve to meet the changing needs of the Company and our people.

Pension arrangements

Pension arrangements for employees in the UK are provided by way of a defined contribution scheme. The principal defined contribution pension scheme in the Company as at 31 December 2021 is the British Steel Limited Pension Plan. Further details on these schemes are provided in note 22.

Gender Pay

Government regulations require all large employers to publish information on their gender pay gap between the average earnings of men and women. The gender pay gap is not the same as equal pay. Equal pay ensures that men and women receive the same pay for carrying out the same or equivalent work. The gender pay gap is a simple average figure for all employees within the UK workforce, regardless of what job they do. Historically, the manufacturing industry primarily attracted male applicants. Around 90% of our current employees are male, which increases to approximately 99% in our production environments. We are actively encouraging the recruitment and development of more women into this industry and our business. The British Steel gender pay gap report is published online (see www.britishsteel.co.uk).

Strategic Report (CONTINUED)

Modern Slavery Act

In accordance with section 54 (Transparency in Supply Chains) of the Modern Slavery Act 2015, the Company is required to publish a statement setting out the steps it is taking to prevent modern slavery in business and supply chains. This statement is published on our website (www.britishsteel.co.uk).

Research and Development

The Company's research programme has two main aspects. Firstly, through a dedicated research hub at the British Steel R&D Centre in Sheffield's Advanced Manufacturing Park, and secondly, utilising distributed research across the business as a whole. Both research avenues work in concert and research various projects for product and process development. Research and development spend for 2021 was £358k (2020: £196k).

Financial Risk Management

BSL financial risk management is based upon sound economic objectives and good corporate practice. The Company's main financial risks are related to the availability of funds to meet its business needs, movement in exchange rates, and commodity costs. Derivative and other financial instruments are used to manage any exposures where it is considered appropriate. Further details of its financial risks and the way the Company mitigates them are contained in the Jingye Steel (UK) Holding Ltd group accounts.

Future and Subsequent Events

The military conflict in Eastern Europe started on 24 February 2022. Short-term disruption followed as the Company procured alternative suppliers for raw materials and energy price volatility was met with a Government price cap. Steel margins also underwent a period of significant volatility but have also stabilised.

Section 172, Companies Act 2006

This report sets out how the directors have had regard to the matter set out in section 172(1)(a) to (f) when performing their duties under section 172 of the Companies Act 2006. This requires directors to act in the way they consider in good faith would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing, so have regard (amongst other matters) to:

- the likely consequences of any decision in the long-term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with suppliers, customers and others,
- the impact of the Company's operations on the community and the environment,
- the desirability of the Company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the Company.

The BSL Board is responsible for control and oversight of the Company's affairs, for setting strategic priorities, supporting stakeholder engagement, including communication with JSUK's ultimate parent company in China, Jingye Steel. As is usual in large companies, the Board delegates authority for day-to-day management of BSL to an executive committee led by the Chief Executive Officer, which sets, approves and manages the execution of business strategy.

The BSL Board promotes high standards of corporate governance throughout the organisation and holds board meetings as required to consider matters relevant to the JSUK Group. Board meetings were held during the year ended 31 December 2021, with additional executive committee meetings held regularly. Due to COVID-19, these meetings were held both electronically via Microsoft Teams and physically in person, and decisions were also made by circulation where appropriate. New directors inducted into the Company are made aware of their directorship duties, including section 172(1) of the Companies Act 2006. The Board is conscious of the impact its business decisions have on stakeholders as well as the wider impact on society. The Board recognises that, given the complexity of the Company, not all decisions taken will align with all stakeholder interests. Accordingly, the BSL Board has taken decisions in the year that it believes best support the Company's strategic objectives.

The likely consequences of any decision in the long term

Each year, the BSL Board approves an annual plan for the Company and monitors its implementation throughout the year through detailed review of operational and financial performance. The Board also observes external factors, including the steel industry outlook and global and economic market conditions.

Strategic Report (CONTINUED)

As set out in the delegated authority framework, the Board reviews proposals for the allocation of capital expenditure to support the annual plan and future sustainability of the Company. The Board takes into consideration guidance received from its parent company, JSUK, and has sought to align capital allocation within the cash flows generated, while ensuring capital expenditure for safety compliance and essential maintenance received the highest priority. The Board also reviews proposals for contracts greater than five years and other material items. As set out in the Statement of Corporate Governance Arrangements on page 9 of this annual report, any Board proposal is required to include detailed criteria to inform directors in their decision making.

The Board is mindful of the Company's decarbonisation objectives and considers it in strategic decisions where relevant.

The interests of the Company's employees

Disclosures in relation to BSL employees are set out in this report and in the Statement of Corporate Governance Arrangements on pages 9-10 of this annual report.

The Board has regard to the interests of employees in its decision making and engages with employees and employee representatives as appropriate. The Board recognises the importance of attracting, retaining and motivating employees to deliver strategic objectives, and prioritises the health, safety and wellbeing of its workforce.

In the current reporting period, the COVID-19 pandemic resulted in continued remote-working for many employees. Engagement with employees has increased to ensure that, even though employees may be isolated, they do not feel alone or excluded and there has been enhanced communication throughout the organisation including videos, emails and bringing teams together online.

The need to foster the Company's business relationships with suppliers, customers and others

The Board has oversight over all stakeholder relationships and has regard to these relationships in its decision making.

Through the Chief Executive Officer, and the commercial and procurement functions, the Company develops strong processes to manage and enhance relationships with suppliers, customers and others. This includes understanding their evolving needs and new trends in order that BSL can adapt to meet those needs.

Further information can be found in this Strategic Report and in the Statement of Corporate Governance Arrangements under 'Stakeholder relationships and engagement' on page 10 of this annual report.

The impact of the Company's operations on the community and the environment

The Board is aware of the impact of steel manufacturing on the environment and the communities in which the Company operates and reviews environmental performance against BSL goals. A key ambition is that the Company should be carbon-neutral by 2050. More details on the BSL decarbonisation objective can be found in the Strategic Report of the JSUK Annual Report and Financial Statements.

As a major employer, BSL acts as a cornerstone for local businesses. The Company also supports several community initiatives. Further details can be found in the JSUK Strategic Report.

The desirability of the Company making a reputation for high standards of business conduct

The Board is committed to maintaining BSL's reputation and a high standard of business conduct in all its business dealings.

The Company expects honesty, integrity and transparency in all aspects of its business dealings from employees, contractors and other partners. The Board reviews and approves control measures and frameworks to uphold ethical principles and high standards of corporate and personal conduct. BSL has in place a number of compliance policies including competition, anti-bribery and corruption, gifts and hospitality, responsible procurement, anti-slavery and human trafficking, and data privacy. The Company also requires senior management and relevant employees to undertake mandatory compliance training and assessments.

The need to act fairly between members of the Company

The Board aims to act with fairness and integrity in all of its dealings and considers all shareholders when making decisions for the overall good of the Company.

Strategic Report (CONTINUED)

Approval of Strategic Report

The Strategic Report for the Company has been prepared in accordance with, and in reliance upon, applicable English and Welsh 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.

Approved by the Board on 22 November 2023 and signed on its behalf by:

DocuSigned by:

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X F Han
Director

Directors' Report

The Board

The directors of the Company are listed on page 1.

X Cao, X F Han, D P Hargreaves, H Li and W Zhang held office as directors of the Company throughout the financial period and up to the date of signing these financial statements.

A W M J Deelen and R Holcroft resigned as a director of the Company on 31 March 2021 and 9 December 2022, respectively.

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 Company (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' and officers' liability insurance.

Dividends

The directors do not recommend that a dividend be paid, and no dividends were paid or proposed during the year (2020: £nil).

Political Donations

The Company does not make any political or charitable donations and none were made during the year (2020: £nil).

Statement as to disclosure of information to the Company's auditors

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 auditors 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 auditors are aware of that information.

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

Going Concern

The financial statements have been prepared on a going concern basis which the directors consider appropriate for the following reasons.

The Company has made a loss before tax in the year ended 31 December 2021 of £49.5M (2020: Loss of £142.1M excluding the exceptional gain on bargain purchase). The Company has made significant losses for the year end 31 December 2022. The Company is funded mainly through debt facilities provided by entities under the control of the ultimate parent company, Jingye Group Co Ltd and had a total amount of outstanding of £364M (see note 18) at the year ended 31 December 2021 which has increased significantly post year end.

The directors have considered a range of trading scenarios including further deteriorations in market conditions and increases in energy prices combined with reductions to production volumes. In the event of continued losses, the Company would require further funding support from the wider Jingye Group. The directors have received a confirmation from Jingye Group Co Ltd confirming their ability to provide, and that they will provide financial support, should it be required, for at least twelve months from the date these financial statements were signed, as is necessary to enable British Steel Limited to meet its financial liabilities as they fall due and continue to trade, and that this support will be available regardless of the outcome of any current on-going negotiations in regards to government support. They have also confirmed that they will not seek repayment of the amounts owed by the Company to the Jingye Group until such time as the Company is able to repay these amounts without compromising its ability to continue to trade and to meet its liabilities as they fall due.

The directors consider that Jingye Group Co Ltd are able to provide this support based on their understanding of the Company's financial position and performance.

Directors' Report (CONTINUED)

Going Concern (*continued*)

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis. However, as at the date of approval of these financial statements there are no legally binding agreements in place in relation to the remittance of further funds and therefore no guarantee that the funds will be available in the timescale required. This indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Statement of Corporate Governance Arrangements

As a member of the Jingye Group, the Company runs its business in a manner consistent with a set of core values covering how we deliver value to our shareholder and the wider community and how we interact with our stakeholders, including our shareholder, employees, customers and suppliers. We have not applied a specific corporate governance code during this financial period. The Board is currently reviewing its corporate governance arrangements before deciding, in conjunction with its shareholder, whether it would be beneficial to formally adopt a specific corporate governance code such as the Wates Principles. Our corporate governance arrangements are as follows:

Purpose and leadership

The British Steel Board is responsible for oversight functions and, in consultation with the shareholder, sets the overall strategy of the Company and monitors performance. The Board delegates authority for day-to-day management of the British Steel Group's affairs to the British Steel Executive Committee.

The Board, in collaboration with the employees of the business, are engaged in a consultation process to establish the Company's vision and mission statement. Our values will guide and inform everything we do and reflect our principles as a business.

Board members hold regular meetings with senior management to monitor Company performance and the effectiveness of the Company's overall strategy.

Board composition

The Board comprises five directors with an appropriate balance of skills, experience and knowledge for the sector in which the Company operates. Each director has clear responsibility for separate parts of the business. The size and structure of the Board is appropriate for the Company.

The Board are supported by an Executive Committee, which through the financial period comprised the Chief Executive Officer, Chief Financial Officer, Chief Commercial and Procurement Director, Chief Operations Officer, HR Director, Legal and Compliance Director, Chief Marketing Officer, Finance Director, SHEQ Director and IT Director.

The directors hold regular operational meetings with their respective leadership teams and attend the Executive Committee meetings on a weekly basis to monitor business performance and agree required actions.

Directors' responsibilities

The Board seeks to ensure that the necessary financial, operational and human resources are in place for the Company to meet its objectives, review management performance and ensure obligations to shareholders and other stakeholders are understood and met. All directors have a clear understanding of their roles and have access to the Legal Director for advice on their responsibilities and regulatory matters. During the financial year, all directors have received up-to-date training from the Legal Director on their directors' duties and responsibilities.

The Board and Executive Committee receive regular and timely information on all key aspects of the business, including health and safety statistics, operational and financial performance, strategic matters, compliance and risk matters, stakeholder engagement, commercial and technical updates and market conditions. Authority to Commit (ATC) papers setting out proposals for approval are required to include background, rationale and business case, options, financial analysis, risk assessment and timelines to help inform directors with their decision making.

Health, Safety and Environment (HSE) matters are reviewed by a HSE Committee, chaired by the HSE Director and attended by the Chief Operating Officer (who is also a director). The Chief Operating Officer reports to the Board and Executive Committee on health and safety performance at each of its scheduled meetings and on the actions being taken to improve performance.

The Company is currently undertaking a review of its delegated authority framework following changes in senior management roles. Once this review is complete, the delegated authority framework should ensure that decision-making is taken at appropriate levels of the organisation, including Board-reserved matters.

Directors' Report (CONTINUED)

Opportunity and risk

The Board is responsible for generating long-term sustainable success for the Company by setting its strategic direction in consultation with the shareholder. Following the acquisition of the British Steel business by the Jingye Group in March 2020, the Company commenced a transformation programme focusing on long-term financial stability and sustainable value growth. The directors and Executive Committee monitor the progress and implementation of the transformation programme.

In connection with this transformation programme, the directors have consulted with the Company's shareholder to formulate a detailed 10-year business plan. This long-term business plan focusses on four key areas (production growth; asset investment and environmental commitments; cost reduction; decarbonisation strategy) to promote the long-term success of the Company.

The principal risks and uncertainties affecting the Company and mitigating actions taken in respect of them will be set out in the Strategic Report of the Jingye Steel (UK) Holding Ltd 2021 Annual Report and Consolidated Financial Statements. The Company operates risk management processes across its departments, with each business unit maintaining and updating a detailed risk register for its area, to assist the directors' understanding of the key risks for the Company and help ensure that systems and controls are operating effectively. The Company is currently reviewing its risk management processes with a plan to adopt an enterprise risk management (ERM) framework.

Remuneration

The Company seeks to provide competitive remuneration packages that will attract and retain executives of the calibre required to take forward the Company's strategy. Remuneration comprises a base salary, competitive benefits package and bonus structure based on individual performance targets and overall Company performance. External benchmarking of remuneration is undertaken periodically to ensure alignment with good practice and the market.

Stakeholder relationships and engagement

The Board recognises the importance of effective communication with its stakeholders in order to deliver its purpose, values, vision, mission and strategy and ensure protection of relationships, reputation and brand. Stakeholders include its shareholder, customers, suppliers, employees and employee-representatives, pensioners, banks, Government bodies, and the local communities in which the Company operates.

Information disclosed in the parent company Strategic Report

In accordance with section 414C of the Companies Act 2006, the directors have chosen to disclose the following information in the JSUK Group Strategic Report:

- Principal risks and uncertainties
- Business review
- Factors likely to affect the JSUK Group's future development, performance and position
- Policies on employment of disabled persons, employee involvement, communication, consultation, recruitment and training
- Details on how the JSUK Group engages with its employees
- Streamlined energy & carbon reporting emissions information
- Research & development activities
- An indication of exposure to price, credit, liquidity and cash flow risk

Approved by the Board on 22 November 2023 and signed on its behalf by:

DocuSigned by:

CD151F5BB0A94C3...
X F Han
Director

Directors' Responsibilities Statement

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

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 FRS 101 'Reduced Disclosure Framework', and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgments and accounting estimates that are reasonable and prudent; 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 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 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 responsible for the maintenance and integrity of the Company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 22 November 2023 and signed on its behalf by:

DocuSigned by:

CD151F5BB0A94C3
X F Han
Director

Independent Auditor's Report to the Members of British Steel Limited

Qualified opinion

We have audited the financial statements of British Steel Limited for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its loss 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 qualified opinion on financial statements

We were not able to observe the counting of physical inventories of £45.8million of the closing inventories balance of £533.6million included within the Statement of Financial Position at 31 December 2021 as we were not appointed as auditor until 3 August 2022. Because of the length of time from between our appointment and the stock count undertaken at 31 December 2021 we were unable to satisfy ourselves in respect of the inventory quantity of £45.8million referred to above by adopting alternative means. Consequently we were unable to determine whether any adjustment to this amount was necessary. In addition, were any adjustment to stock to be required, the Strategic Report would also need to be amended.

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. 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 qualified opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the accounting policies, concerning the Company's ability to continue as a going concern. The matters explained in Note 1 indicate that the Company needs further funding from its ultimate parent company as at the date of approval of these financial statements. There are no legally binding agreements in place in relation to the remittance of further funds and therefore no guarantee that the funds will be available in the timescale required. These events or conditions along with the matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

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 course of 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 themselves. 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.

As described in the basis for qualified opinion section of our report, our audit opinion is qualified because we were unable to attend the annual stock count for inventory of £45.8m. We have concluded that where the other information refers to inventories or to related balances such as cost of sales, it may also be materially misstated for the same reason.

Independent Auditor's Report to the Members of British Steel Limited (CONTINUED)

Opinions on other matters prescribed by the Companies Act 2006

Except for the possible effects of the matter referred to in the basis for qualified opinion section of our report, in our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

Except for the matter referred to in the basis for qualified opinion section of our report, 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 the Directors' Report.

In respect solely of the limitation on our work relating to inventories, described above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records had been kept.

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:

- 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK) we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report to the Members of British Steel Limited (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (*continued*)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

The objectives of our audit in respect of fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those assessed risks; and to respond appropriately to instances of fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the Company.

Based on our understanding of the Company and industry we identified the principal risks of non-compliance with laws and regulations related to health and safety, employment legislation and climate related regulations such as Environmental Protection Act 1990 and Pollution Prevention and Control Act 1990 and we considered the extent to which non-compliance may have a significant impact on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as tax legislation and the Companies Act 2006. We considered the opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined the principal were related to posting of inappropriate journal entries and potential management bias in accounting estimates in order to manipulate financial performance.

Our approach was as follows:

- We obtained an understanding of how the Company complies with these requirements by discussions with management and internal legal representatives;
- We held discussions with management and internal legal representatives, including consideration of known or suspected non-compliance with laws and regulations and fraud, agreed to supporting correspondence from regulators and confirming such matters with external legal counsel where applicable;
- We reviewed board minutes and reports that indicate the Board's compliance and monitoring of legal and internal control matters;
- We assessed the risk of material misstatement of the financial statements, including the risk of material misstatement due to fraud and how it might occur, by holding discussions with management and those charged with governance;
- We challenged assumptions and judgements made by management in relation to the estimates made in respect of inventory valuation and impairment; and
- We identified and tested journals entries in particular any journals with unusual account combination and unusual users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by example, forgery or intentional misrepresentations or through collusion.

Independent Auditor's Report to the Members of British Steel Limited (CONTINUED)

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 for no purpose other than to draw to the attention of the Company's members those matters which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the Company and Company's members as a body, for our work, for this report, or for the opinions we have formed.

Moore Kingston Smith LLP

22 November 2023

Colin Turnbull (Senior Statutory Auditor)
for and on behalf of Moore Kingston Smith LLP, Statutory Auditor
9 Appold Street,
London, EC2A 2AP

Statement of Comprehensive Income
for the year from 1 January 2021 to 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue	2	1,463,601	843,864
Other operating income	3	14,522	1,662
Operating costs	4	(1,507,016)	(575,444)
Operating (loss)/profit		(28,893)	270,082
EBITDA before gain on bargain purchase		(3,653)	(123,741)
Gain on bargain purchase arising on business combination	4, 8	-	409,945
EBITDA		(3,653)	286,204
Depreciation	4	(25,240)	(16,122)
Operating (loss)/profit	5	(28,893)	270,082
Finance income	9	-	1
Finance costs	10	(20,624)	(2,235)
(Loss)/profit before taxation		(49,517)	267,848
Tax (charge)/credit	11	(1,278)	27,137
(Loss)/profit for the financial year/period	8	(50,795)	294,985
Other comprehensive income:			
<i>Items that are or may be reclassified subsequently to profit or loss</i>		-	-
Total comprehensive (loss)/income for the year/period		(50,795)	294,985
Profit and total comprehensive income attributable to:			
Equity holders of the Company		(50,795)	294,985
Total comprehensive (loss)/income for the year/period		(50,795)	294,985

All references to 2021 in these financial statements, the accounting policies, and the related notes 2 to 27 refer to the accounting period from 1 January 2021 to 31 December 2021, or as at 31 December 2021, as appropriate.

All references to inaugural period 2020 in these financial statements, the accounting policies, and the related notes 2 to 27 refer to the accounting period from 7 November 2019 (trading commenced 9 March 2020) to 31 December 2020, or as at 31 December 2020, as appropriate.

All results derive from continuing operations.

The notes on pages 19 to 37 form an integral part of the financial statements.

Statement of Financial Position
as at 31 December 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	12	1,704	1,704
Property, plant and equipment	13	240,285	179,657
Right-of-use assets	14	48,080	48,699
Trade and other receivables	16	3,410	3,352
		293,479	233,412
Current assets			
Inventories	15	533,579	281,557
Trade and other receivables	16	262,804	200,848
Cash and cash equivalents		10,855	21,857
		807,238	504,262
Liabilities			
Current liabilities			
Trade and other payables	17	(284,765)	(142,436)
Borrowings	18	(158,467)	(65)
Lease liabilities	19	(5,726)	(7,660)
Current tax liabilities		(23,506)	(40,150)
Provisions for liabilities and charges	21	-	(200)
		(472,464)	(190,511)
Net current assets			
		334,774	313,751
Non-current liabilities			
Borrowings	18	(221,139)	(142,945)
Lease liabilities	19	(42,380)	(39,706)
Deferred tax liabilities	20	(36,878)	(28,956)
Provisions for liabilities and charges	21	(83,666)	(40,571)
		(384,063)	(252,178)
Net assets			
		244,190	294,985
Equity			
Called up share capital	24	-	-
Retained earnings	25	244,190	294,985
Equity attributable to owners of the Company			
		244,190	294,985
Total equity			
		244,190	294,985

The notes on pages 19 to 37 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 22 November 2023 and signed on its behalf by:

DocuSigned by:

CD151F5B80A94C3

X F Han
Director

British Steel Limited
Company registration no. 12303256

Statement of Changes in Equity
for the year from 1 January 2021 to 31 December 2021

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
At 7 November 2019	-	-	-
Profit for the period	-	294,985	294,985
Other comprehensive income	-	-	-
Total comprehensive income	-	294,985	294,985
At 1 January 2021	-	294,985	294,985
Loss for the year	-	(50,795)	(50,795)
Other comprehensive income	-	-	-
Total comprehensive loss	-	(50,795)	(50,795)
At 31 December 2021	-	244,190	244,190

Total equity is wholly attributable to the owners of the Company

The notes on pages 19 to 37 form an integral part of the financial statements.

Notes to the Financial Statements for the year from 1 January 2021 to 31 December 2021

1 Accounting policies

Basis of preparation

British Steel Limited ("the Company") is a private company, limited by shares, incorporated and domiciled in the United Kingdom. The registered number is 12303256 and the registered address is Administration Building, Brigg Road, Scunthorpe, DN16 1XA, United Kingdom.

The functional and presentational currency of the Company is pounds sterling ("sterling"), since this is the currency in which most of the Company's transactions are denominated.

These financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

- i. IFRS 7 Financial Instruments: Disclosures;
- ii. Paragraphs 91 to 99 of IFRS 13 Fair Value Measurement, in relation to the disclosure of valuation techniques and inputs used for fair value measurements of assets and liabilities;
- iii. Paragraph 38 of IAS 1 Presentation of Financial Statements' comparative information requirements in respect of certain assets (including intangible assets and property, plant and equipment);
- iv. IAS 7 Statement of Cash Flows;
- v. IAS 24 Related Party Disclosures' requirements to disclose related party transactions with Jingye UK group companies and key management personnel.

The Company's financial statements will be included in the near future in the consolidated financial statements of Jingye Steel (UK) Holding Ltd, which are filed with Companies House.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments measured at fair value through profit and loss in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis which the directors consider appropriate for the following reasons.

The Company has made a loss before tax in the year ended 31 December 2021 of £49.5M (2020: Loss of £142.1M excluding the exceptional gain on bargain purchase). The Company has made significant losses for the year end 31 December 2022. The Company is funded mainly through debt facilities provided by entities under the control of the ultimate parent company, Jingye Group Co Ltd and had a total amount of outstanding of £364M (see note 18) at the year ended 31 December 2021 which has increased significantly post year end.

The directors have considered a range of trading scenarios including further deteriorations in market conditions and increases in energy prices combined with reductions to production volumes. In the event of continued losses, the Company would require further funding support from the wider Jingye Group. The directors have received a confirmation from Jingye Group Co Ltd confirming their ability to provide, and that they will provide financial support, should it be required, for at least twelve months from the date these financial statements were signed, as is necessary to enable British Steel Limited to meet its financial liabilities as they fall due and continue to trade, and that this support will be available regardless of the outcome of any current on-going negotiations in regards to government support. They have also confirmed that they will not seek repayment of the amounts owed by the Company to the Jingye Group until such time as the Company is able to repay these amounts without compromising its ability to continue to trade and to meet its liabilities as they fall due.

The directors consider that Jingye Group Co Ltd are able to provide this support based on their understanding of the Company's financial position and performance.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis. However, as at the date of approval of these financial statements there are no legally binding agreements in place in relation to the remittance of further funds and therefore no guarantee that the funds will be available in the timescale required. This indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Notes to the Financial Statements (CONTINUED)**New standards and interpretations applied**

The following new international accounting standards ('IAS') and new IFRSs have been adopted in the current year:

	<i>Effective Date*</i>
IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16 (Amendments)	Interest rate benchmark reform – Phase 2 1 January 2021
IFRS 4 (Amendments)	Amendments to IFRS 4 Insurance contracts – deferral of IFRS 9 1 January 2020

* *periods commencing on or after*

The amendments to the above Standards did not have a material impact on the Company's financial statements.

New standards and interpretations not applied

The International Accounting Standards Board (IASB) has issued the following new standards, which are relevant to the Company's reporting but have either not been applied as they have not been adopted for use under UK-adopted International Accounting Standards in the year ended 31 December 2021, or have an effective date after the date of these financial statements:

	<i>Effective Date*</i>
IFRS 17	Insurance Contracts 1 January 2023
IAS 12 (Amendments)	Deferred tax related to assets and liabilities arising from a single transaction 1 January 2023
IAS 1 (Amendments)	Disclosure of accounting policies 1 January 2023
IAS 1 (Amendments)	Classification of liabilities as current or non-current 1 January 2023
IAS 8 (Amendments)	Definition of accounting estimates 1 January 2023
IAS 37 (Amendments)	Onerous contracts – cost of fulfilling a contract 1 January 2022
IAS 16 (Amendments)	Proceeds before intended use 1 January 2022
IFRS 3 (Amendments)	Reference to the conceptual framework 1 January 2022
IFRS 1, IFRS 9, Illustrative example 13 IFRS 16 and IAS 41 (Amendments)	Annual improvements to IFRS standards 2018-2020 1 January 2022**

* *periods commencing on or after*

** *except for the amendment to IFRS 16 for which no effective date is stated as it regards only an illustrative example*

Management have performed a review of the expected impact from the other standards and interpretations not applied as shown above. Management do not expect a material impact as a result of other new standards and interpretations not applied.

Use of estimates and critical accounting judgements

The preparation of accounts in accordance with 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.

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

Critical accounting judgements are the key sources of estimation or uncertainty in applying the Company's accounting policies. They arise in relation to provisions created for rationalisation and related costs, environmental remediation and legal claims, recoverability of loan receivables, classification of exceptional items, the discount rate used to calculate lease liabilities in respect of right-of-use assets, and impairment of property, plant and equipment and intangible assets. 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.

Provisions

Estimates in calculating provisions for inventories, rationalisation and related costs, environmental remediation and legal claims are based on previous experience and third-party advice and are reassessed on a regular basis. Judgment is required in assessing the likely costs and timing of these costs. Please see note 15 'Inventories' and note 21 'Provisions for liabilities and charges'.

Notes to the Financial Statements (CONTINUED)

Use of estimates and critical accounting judgements (continued)

Amounts owed by/to Group undertakings

The Company has a number of loan balances, both receivables and payables, with other entities within the JSUK Group. Judgment is required in determining whether loan balances are recoverable. In line with Company policy on receivables in general, where indications exist that loan receivables may not be recoverable, including an assessment of events occurring after the balance sheet date, then appropriate provisions are charged to the Statement of Comprehensive Income to write down the receivables to the recoverable amount in line with the requirements of IFRS 9. Please see notes 16 'Trade and other receivables', 17 'Trade and other payables', 18 'Borrowings'.

Exceptional items

Judgment has been exercised by the Company when interpreting the requirement to present separately exceptional items, that is items of income and expense which, because of the nature and expected frequency of the events giving rise to them, merit separate presentation to allow users of the accounts to better understand the elements of financial performance in the period, to facilitate future comparison with prior periods and to assess better trends in financial performance. Care is taken by the directors to ensure that judgement is applied consistently on an annual basis. Please see note 8 'Gain on bargain purchase arising on business combination'.

Discount rates

The Company has applied judgement in determining the discount rate used to calculate the present value of lease liabilities. A judgement has been made that the rate implicit in the lease is not readily determinable and as such, the incremental borrowing rate has been used. The incremental borrowing rate has been calculated using the existing borrowings of the Company, with adjustments made to reflect the terms of leases including duration, economic environment, type of asset and security. The weighted average incremental borrowing rate applied in the period was 4.41%. Please see note 19 'Lease liabilities'.

Assessment of impairment of non-current assets

A significant part of the Company's capital is invested in property, plant and equipment and intangible assets. An impairment review is required under IAS 36 when an indicator of impairment exists. At 31 December 2021, management have assessed that an indicator of impairment exists and have performed an impairment review. Further details are included in note 13.

The detailed accounting policies for each of these areas are outlined here below.

1.1 Government grants

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

1.2 Insurance

Insurance premiums in respect of insurance placed with third parties are charged to the Statement of Comprehensive Income in the period to which they relate.

1.3 Interest

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

Interest expense 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.

Notes to the Financial Statements (CONTINUED)

1.4 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. Statement of Comprehensive Income items and cash flows are translated into sterling at the average rates for the reporting period. In order to hedge its exposure to certain foreign exchange transactions risks, the Company enters into forward contracts. In preparing the financial statements, transactions in currencies other than the Company's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. The impact of revaluations of foreign currency receivables and payables is included within operating costs.

1.5 Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. The detailed accounting treatment for such items can differ, as described in the following sections.

(i) Financial assets

All regular-way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular-way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured at amortised cost. Where the Company transfers substantially all the risks and rewards of ownership of a financial asset, the financial asset is derecognised, and any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities.

(ii) Impairment of financial assets

The Company recognises a loss allowance for expected credit losses (ECL) on trade receivables. The amount of the expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The measurement of expected credit losses is a function of the probability of default, the loss given default (i.e., the magnitude of the loss in the event of a default), and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

(iii) Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at fair value through profit and loss (FVTPL).

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or is (iii) designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss.

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

(iv) Derivative financial instruments

In the ordinary course of business, the Company uses certain derivative financial instruments to protect itself from business risk which arises from its exposure to foreign exchange fluctuations.

Derivatives are initially accounted for and measured at fair value from the date the derivative contract is taken out. Following this, at each subsequent reporting period-end the derivative is remeasured at its current fair value.

1.6 Property, plant and equipment

Property, plant and equipment is recorded at cost on acquisition less accumulated depreciation and any recognised impairment loss. Cost includes professional fees and, for assets constructed by the Company, any related works to the extent that these are directly attributable to the acquisition or construction of the asset. This includes borrowing costs capitalised in respect of qualifying assets in accordance with the Company'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 Company refers to as 'commissioning costs' and which includes 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 the Statement of Comprehensive Income as incurred. Assets under construction are depreciated from the date on which they are ready for their intended use.

Notes to the Financial Statements (CONTINUED)**1.6 Property, plant and equipment (continued)**

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

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 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 Company and the cost of the item can be measured reliably. All other repairs and renewals are charged to the Statement of Comprehensive Income as incurred.

1.7 Depreciation, amortisation and impairment of property, plant and equipment

Depreciation or amortisation is provided to write off, on a straight-line basis, the cost of property, plant and equipment, including those held under leases as defined by IFRS 16, to their residual value. These charges commence 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 right-of-use 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 changes 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 are:

	<i>Life (years)</i>
Land and buildings	25-50
Plant and equipment	4-25

Land and spares are not depreciated.

As stated in note 1.6, assets under construction are not depreciated until the assets are available for their intended use.

At each reporting period-end, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that the carrying amount of assets may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset is reviewed 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 Company 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 on the Company's long-term weighted average cost of capital (WACC). 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 immediately as an expense in the Statement of Comprehensive Income.

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 immediately as income in the Statement of Comprehensive Income.

1.8 Intangible assets

Environmental licences (i.e. emission rights) are included in the balance sheet as intangible assets where they are clearly linked to long-term economic benefits for the Company. In this case, they are measured initially at fair value on acquisition or purchase cost. Environmental licences are not amortised, as they retain their nominal value. All other costs on environmental licences are expensed in the Statement of Comprehensive Income as incurred.

Notes to the Financial Statements (CONTINUED)

1.8 *Intangible assets (continued)*

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

- i. completion of the development is technically feasible;
- ii. it is the intention of the Company to complete the intangible asset and either use or sell it;
- iii. it is evident that the intangible asset will generate probable future economic benefits'
- iv. adequate technical, financial, and other resources to complete the development and to either 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 1.8 above. Where development activities do not meet the conditions for recognition as an asset, any associated expenditure is treated as an expense in the Statement of Comprehensive Income in the period in which it is incurred. Where the Company purchases emission rights from an emission trading scheme, it recognises these as an intangible asset, and values the asset at cost. No amortisation is recognised, provided that the Company intends to utilise the asset to settle emission rights liabilities.

1.9 *Inventories*

Inventories of raw materials are valued at the lower of cost and net realisable value. Cost is generally determined using the "first in, first out" (FIFO) method. Inventories of partly processed materials, finished products, and consumables 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.

1.10 *Retirement benefit costs*

A defined contribution pension plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Payments in settlement of obligations for contributions to defined contribution retirement benefit schemes are charged as an expense in the Statement of Comprehensive Income in the periods during which services are rendered by employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company does not participate in a defined benefit pension scheme.

1.11 *Provisions*

Provisions for environmental remediation and legal claims are recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. This involves a series of management judgements and estimates that are based on experience of similar events and third-party advice where applicable. Where appropriate and relevant, provisions are discounted to take into consideration the time-value of money.

1.12 *Revenue*

The Company's revenue is derived from the single performance obligation to transfer steel products under arrangements in which the transfer of control of the products and the fulfilment of the Company's performance obligation occur at the same time.

Revenue from the sale of goods is recognised at the point in time when the Company has transferred control of the goods to the buyer and the buyer obtains the benefits from the goods, the potential cash flows and the amount of revenue (the transaction price) can be measured reliably, and it is probable that the Company will collect the consideration to which it is entitled to in exchange for the goods.

The Company manufactures and sells a range of steel products. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred, and either the customer has accepted the products in accordance with the sales contract, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Notes to the Financial Statements (CONTINUED)**1.12 Revenue (continued)**

The steel is often sold with volume discounts based on aggregate sales over a certain period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are normally made with a credit term of 60 days, which is consistent with market practice. Any obligation to provide a refund is recognised as a provision.

A receivable is recognised when the goods are delivered, as this is the point in time that the consideration is unconditional as only the passage of time is required before the payment is due.

The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time-value of money.

1.13 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 accounting period. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income 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 amount 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 Company 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 substantively enacted by the end of the reporting period. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

1.14 Leases

At inception, the Company assesses whether a contract is, or contains, a lease within the scope of IFRS 16. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Where a tangible asset is acquired through a lease, the Company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are presented as a separate line on the face of the statement of financial position.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs and an estimate of the cost of obligations to dismantle, remove, refurbish or restore the underlying asset and the site on which it is located, less any lease incentives received.

Right-of-use assets acquired as part of business combinations are initially measured at cost adjusted for favourable or unfavourable lease terms when compared with market terms.

The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the lease term or the useful economic life of the underlying asset. The estimated useful lives of the right-of-use assets are determined on the same basis as those of other tangible fixed assets. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments which depend on an index or a rate, amounts expected to be payable under residual value guarantees, and the cost of any options that the Company is reasonably certain to exercise, such as the lease payments in an optional renewal period or penalties for early termination of a lease.

Notes to the Financial Statements (CONTINUED)**1.14 Leases (continued)**

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a modification to or a reassessment of the lease, including when there is a change in: lease payments arising from a change in an index or rate; the Company's estimate of the amount expected to be payable under a residual value guarantee; and the Company's assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the Statement of Comprehensive Income if the carrying amount of the right-of-use asset has been reduced to nil.

The Company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to the Statement of Comprehensive Income as incurred.

Lease payments are allocated between principal and finance costs. Finance costs are charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

1.15 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and receivables financing. Receivables financing is shown within borrowings in current liabilities on the balance sheet.

2 Revenue

The directors consider the manufacture and sale of steel throughout the world to be the Company's only material line of business.

	2021	2020
	£'000	£'000
Sale of goods	1,463,601	843,864

An analysis of revenue by destination is shown below:

	2021	2020
	£'000	£'000
United Kingdom	874,344	484,239
Europe	372,286	248,769
Rest of the world	216,971	110,856
	1,463,601	843,864

3 Other operating income

	2021	2020
	£'000	£'000
Rental income	1,142	1,662
Sale of carbon credits	13,380	-
	14,522	1,662

4 Operating costs

	2021	2020
	£'000	£'000
Costs by type:		
Raw materials and consumables	775,560	529,609
Maintenance costs	129,432	92,915
Other external charges (including fuel, utilities, hire charges and carriage costs)	375,090	220,974
Employment costs (note 6)	186,843	126,455
Depreciation	25,240	16,122
Gain on bargain purchase	-	(409,945)
Net exchange rate loss/(gain)	11,069	(817)
Other operating items	3,782	131
	1,507,016	575,444

Notes to the Financial Statements (CONTINUED)

5 Expenses and auditor's remuneration

Operating profit has been arrived at after charging/(crediting):

	2021 £'000	2020 £'000
Depreciation of property, plant and equipment (note 13)	18,152	11,597
Depreciation of right-of-use assets (note 14)	7,088	4,525
(Decrease)/increase in inventory provision (note 15)	(27,686)	58,725
Impairment losses recognised on trade receivables (note 16)	559	230
Loss on scrapping of property, plant and equipment	1,993	693
Net exchange rate loss/(gain)	11,069	(817)
Mark-to-market adjustment on UKA CO ₂ position	48,974	-
Research and development expensed as incurred	358	196

The remuneration paid to Moore Kingston Smith LLP (2020: Mazars LLP), the Company's external auditors, was as follows:

	2021 £'000	2020 £'000
Fees payable for the audit of the Company's financial statements	475	323
Total fees	475	323

6 Employee costs

	2021 £'000	2020 £'000
Wages and salaries	157,813	107,413
Social security costs	16,756	10,871
Defined contribution pension costs	12,274	8,171
	186,843	126,455

The average monthly number of employees during the period, including executive directors, was:

	2021 No.	2020 No.
Sales	102	82
Operations	3,931	3,118
Administration	288	249
	4,321	3,449

Notes to the Financial Statements (CONTINUED)**7 Emoluments of directors**

The remuneration of the directors, who are the key management personnel of the Company, was as follows:

	2021	2020
	£'000	£'000
Short-term employee benefits	760	612
Post-employment benefits	10	15
	770	627

Short-term employee benefits include employers' national insurance contributions paid by the Company of £67,373 (2020: £97,315).

In 2020, four out of seven directors received no remuneration from BSL during the financial period for their services to this Company. One director was remunerated by Hebei Jingye High-Quality Steel Technology Co. Ltd, and three directors were remunerated by Jingye Iron and Steel Co. Ltd for their services. The 2020 remuneration for these four directors is not repayable by BSL. In 2021, the amount received from BSL by these four directors in respect of qualifying services to this Company is £272,996 (2020: £nil).

The number of directors for whom retirement benefits are accruing under the defined contribution pension scheme is two (2020: 3).

The management remuneration of the highest-paid director was £251,800 (2020: £324,385).

Subsequent to the year end, a director received £161k as compensation on loss of office.

8 Gain on bargain purchase arising on business combination

On 9 March 2020, Jingye Steel (UK) Ltd, a wholly owned subsidiary of JSUK, acquired the assets of SLB2020 Limited (formerly known as British Steel Limited), a wholly owned subsidiary of British Steel Holdings Limited for a cash consideration of £24.1M.

The Company received independent third-party advice in respect of the fair value of a number of net asset items acquired, as set out below:

	2021	2020
	£'000	£'000
Environmental licences	-	1,704
Property, plant and equipment	-	149,646
Right-of-use assets	-	19,789
Inventories	-	271,333
Receivables	-	174,086
Cash	-	10,296
Payables	-	(1,011)
Borrowings	-	(36,094)
Lease liabilities	-	(19,589)
Deferred tax liabilities	-	(96,243)
Provisions	-	(39,878)
Fair value of net assets acquired	-	434,039
Consideration	-	24,094
Gain on bargain purchase	-	409,945

The gain on bargain purchase has been wholly-and immediately recognised in comprehensive income, in accordance with IFRS 3 Business Combinations.

9 Finance income

	2021	2020
	£'000	£'000
Interest receivable on bank deposits	-	1

Notes to the Financial Statements (CONTINUED)**10 Finance costs**

	2021 £'000	2020 £'000
Interest payable on leases (note 19)	2,371	1,211
Interest payable on loans from Group undertakings (note 18)	13,275	1,021
Interest payable on loans from related parties (note 18)	4,208	-
Interest payable on other loans and payables (note 17, 18)	770	3
	20,624	2,235

11 Taxation*(a) Analysis of tax credit in year:*

	2021 £'000	2020 £'000
Current tax:		
UK corporation tax on profits for the year/period	(6,644)	40,150
Total current tax (credit)/charge	(6,644)	40,150
Deferred tax:		
Origination and reversal of temporary differences - prior period	720	-
Origination and reversal of temporary differences - current period	7,202	(67,287)
Total deferred tax charge/(credit) (note 20)	7,922	(67,287)
Total income tax charge/(credit)	1,278	(27,137)

Corporation tax is calculated at 19% (2020: 19%) of the estimated assessable profit for the year.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

(b) Factors affecting tax credit for year:

Income tax credit for the year/period can be reconciled to accounting profit as follows:

	2021 £000	2020 £000
(Loss)/profit before taxation	(49,517)	267,848
Corporation tax at 19%	(9,408)	50,891
<i>Effect of:</i>		
Expenses not deductible for tax purposes	-	847
Income not taxable	-	(77,890)
Research and development expenditure credit (RDEC)	1,116	(848)
Group relief (claimed)	-	(137)
Accelerated capital allowances	(4,122)	-
Other timing differences	5,770	-
Deferred tax prior year movement	720	-
Deferred tax rate adjustment	7,202	-
Total income tax charge/(credit)	1,278	(27,137)

Notes to the Financial Statements (CONTINUED)**12 Intangible assets**

	Environmental licences £000
Cost	
At 1 January 2021	1,704
Additions at cost	-
At 31 December 2021	1,704
Accumulated impairment losses and amortisation	
At 1 January 2021	-
Amortisation	-
At 31 December 2021	-
Carrying amount	
At 31 December 2021	1,704
At 1 January 2021	1,704

13 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Spares £000	Under construction £000	Total £000
Cost					
At 1 January 2021	52,774	124,008	7,291	2,244	186,317
Additions at cost	303	9,397	6,235	64,838	80,773
Transfer of assets under construction	-	12,796	-	(12,796)	-
Disposals (scrapped)	(666)	(7,127)	(1,226)	-	(9,019)
At 31 December 2021	52,411	139,074	12,300	54,286	258,071
Accumulated depreciation and impairment					
At 1 January 2021	201	6,459	-	-	6,660
Charge for period	1,525	16,627	-	-	18,152
Eliminated on disposals (scrapped)	(666)	(6,360)	-	-	(7,026)
At 31 December 2021	1,060	16,726	-	-	17,786
Carrying amount					
At 31 December 2021	51,351	122,348	12,300	54,286	240,285
At 1 January 2021	52,573	117,549	7,291	2,244	179,657

Impairment test for property, plant and equipment

A review was undertaken at the reporting date of the carrying amounts of property, plant and equipment to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review, impairment triggers were noted in relation to property, plant and equipment due to high energy prices in the last quarter of 2021.

As there is no readily-available market for the Company's fixed assets, fair value is derived as the net present value of the estimated future cash flows arising from the assets, incorporating assumptions that a typical market participant would take into account.

As the fixed assets of British Steel Limited are not capable of generating independent cashflows, the assets as a whole are considered the CGU.

The discounted cash flow (DCF) was derived by estimating the EBITDA generated by the assets in their current use and condition.

The impairment tests compared the value in use of the CGU to the respective carrying values of the associated assets and were performed based on conditions as at the year end.

Notes to the Financial Statements (CONTINUED)**13 Property, plant and equipment (continued)***Key assumptions*

- Recent performance was reviewed and adopted as the best indication of future performance.
- The Company cost of capital of 7% remains constant.
- Sales volume was expected to remain constant at 2.3mt per annum.
- Spread, being the steel to raw materials price, was assumed to be constant based upon actual results achieved in 2021.
- Despite an increase in energy prices in the last quarter of 2021, energy prices were expected to return to their 8-month (Jan to Aug 2021) average price of £75MWhr for electricity and £60p/th for gas.
- The price of carbon was based on the price prevailing at 31 December 2021 of £70 per tonne.
- No contraction of the economy was expected.

Based on the key assumptions set out above, the value in use of the Company's fixed assets exceeds the carrying value of the assets by £150M and were not impaired.

Sensitivity analysis

Any impairment is dependent on judgement used in determining the most appropriate basis for the assumptions and estimates made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to potential changes in key assumptions has therefore been provided below and is prepared on the basis of other factors remaining equal.

		£M increase/(decrease) in headroom of £150M for CGU
Impact if discount rate	Increased by 1%	(55)
	Reduced by 1%	73
Impact if sales volume	Increased by 5%	29
	Decreased by 5%	(29)
Impact if spread	Increased by 5%	331
	Reduced by 5%	(331)
Impact if inflation (<i>applied to overheads and not recovered in increased pricing</i>)	Increased by 2%	(121)
	Decreased by 2%	121
Impact if energy prices	Increased by 20%	(321)
	Reduced by 20%	321
Impact if carbon prices	Increased by 20%	(125)
	Reduced by 20%	125

As noted in the Strategic Report, energy prices increased significantly in the final quarter of 2021. Management considered that this was caused by short-term fluctuations in the wholesale energy market and would not be a long-term or sustained increase. If the average energy prices in the final quarter were to be used, the headroom would be reduced to £nil.

Additionally, as highlighted in note 27, there has been a significant increase in energy prices post year end following the start of the military conflict in Eastern Europe. During this time, the Company has made operating losses and, therefore, using the energy prices experienced during this period of volatility would lead to an impairment of assets. The post year end energy prices have not been used in the impairment assessment at 31 December 2021 as management consider that the conditions which gave rise to the increases did not exist at the balance sheet date.

Notes to the Financial Statements (CONTINUED)**14 Right-of-use assets**

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 January 2021	35,169	18,055	53,224
Remeasurement	6,469	-	6,469
At 31 December 2021	41,638	18,055	59,693
Accumulated depreciation and impairment			
At 1 January 2021	1,274	3,251	4,525
Depreciation charge	3,246	3,842	7,088
At 31 December 2021	4,520	7,093	11,613
Carrying amount			
At 31 December 2021	37,118	10,962	48,080
At 1 January 2021	33,895	14,804	48,699

The Company leases land and buildings, plant, office equipment, machinery and vehicles for use within the business.

Land and buildings are leased for terms ranging from 3 to 15 years. A number of land and buildings leases contain options to extend the lease. Management has determined whether these options are reasonably certain to be exercised to determine the lease term at inception. A number of land and buildings leases also contain clauses whereby the rent is reviewed on certain dates to align the amount with open market rental rates.

Plant is leased for a term of 5 years, office equipment for an average of 2 years and machinery and vehicles for an average of 3 years. A number of vehicle leases contain options to terminate the lease, and management has determined whether they are reasonably certain to exercise these options when assessing the lease term. Office equipment leases contain options to purchase the assets at the end of the lease. Management have also assessed whether these options are reasonably certain to be exercised.

15 Inventories

	2021 £000	2020 £000
Raw materials and consumables	194,168	126,211
Work in progress	192,982	113,973
Finished goods	146,429	41,373
	533,579	281,557

Included within inventories is £nil (2020: £nil) expected to be recovered in more than 12 months.

Raw materials, consumables and changes in finished goods and work in progress included in operating costs in the period amounted to £775.6M (2020: £529.6M). The inventory net realisable value (NRV) provision as at 31 December 2021 is £31.0M (2020: £58.7M).

The value of stock in transit at the year-end was £29.6M (2020: £25.5M).

There is no material difference between the value of inventories included in the Statement of Financial Position and its replacement cost.

Notes to the Financial Statements (CONTINUED)**16 Trade and other receivables**

	2021	2020
	£000	£000
Trade receivables	182,252	134,289
Less: impairment provision	(559)	(230)
Net trade receivables	181,693	134,059
Prepayments	5,105	1,170
Government grants	3,634	2,935
Other receivables	40,921	32,438
Security deposits	8,012	9,194
Derivative financial instruments	44	-
Amounts owed by Group undertakings	26,805	24,404
	266,214	204,200
Due within one year	262,804	200,848
Due after more than one year	3,410	3,352
	266,214	204,200

Amounts due after more than one year consist of £3.4M (2020: £3.4M) of amounts owed by Group undertakings.

Amounts owed by Group undertakings are unsecured, interest-free, have no fixed date of repayment and are repayable on demand.

Movement in the trade receivables impairment provision

	2021	2020
	£000	£000
At 1 January 2021 / 7 November 2019	(230)	-
Impairment losses recognised	(329)	(230)
Amounts written off as uncollectable	-	-
At 31 December 2021 / 31 December 2020	(559)	(230)

The directors consider that the carrying amount of trade and other receivables of the Company approximates to fair value.

Credit risk

The Company's principal financial assets are bank balances and cash, and trade and other receivables, which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the Statement of Financial Position are net of impairment provision for doubtful receivables, estimated by the Company's management based on prior experience and forward-looking assessments of the economic environment in accordance with IFRS 9 'Financial Instruments'.

The Company has no significant concentration of credit risk, with exposure spread over many counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. In addition, the Company holds a credit insurance policy.

17 Trade and other payables

	2021	2020
	£000	£000
Trade payables	48,225	31,041
Social security and other taxes	3,952	3,878
Accrued expenses	160,063	99,628
Other creditors	8,069	7,555
Amounts owed to related parties	64,194	-
Amounts owed to Group undertakings	262	334
	284,765	142,436
Due within one year	284,765	142,436
Due after more than one year	-	-
	284,765	142,436

Amounts owed to Group undertakings are repayable on demand, unsecured and bear interest at 7%.

Amounts owed to related parties is balance due to Jingye International HK Co Ltd, headquartered in Hong Kong, in respect of the financing of raw material purchases.

Notes to the Financial Statements (CONTINUED)**18 Borrowings**

	2021 £000	2020 £000
Receivables financing	11,479	-
Secured loan	4,511	-
Loan from related party	142,412	-
Loan from parent company	221,139	142,945
Loan from subsidiary of ultimate parent company	65	65
	379,606	143,010
Due within one year	158,467	65
Due after more than one year	221,139	142,945
	379,606	143,010
<i>Contractual maturities of borrowings including future interest:</i>		
On demand or within one year	169,146	67
In the second year	-	-
In the third to fifth years inclusive	267,500	187,973
In more than five years	-	-
Total contractual cash flows	436,646	188,040
Future finance charges	(57,040)	(45,030)
Present value of contractual cash flows	379,606	143,010

Receivables financing | The Company has a receivables finance facility with Secure Trust Bank plc. The limit on this facility is £50M (2020:£50M). The bank holds a first ranking charge over the property, plant and equipment of the Company.

Secured loan | In July 2021, the Company signed a commodity sales and repurchase financing arrangement with Trafigura Pte Ltd, covering iron ore fines, coal and coke held at the Immingham port facility. The limit on this facility is USD \$57M.

Loan from related party | In July 2021, the Company signed a commodity sales and repurchase financing arrangement with Power Rich Resources Limited, covering iron ore fines, coal and coke held at the Immingham port facility. The ultimate parent company of Power Rich Resources Limited is Jingye Group Co Ltd, a company incorporated in China (see note 26 for further details).

The loan from parent company bears interest at 7% per annum and is repayable in full in 2025.

Liquidity risk

The Company's objectives when managing liquidity are:

- to safeguard the Company's ability to meet expected and unexpected payment obligations at all times; and
- to maximise the Company's profitability

The fair value of the Company's borrowings is not considered to be materially different from the carrying amounts.

19 Lease liabilities

Lease liabilities are classified based on the amounts that are expected to settle within the next 12 months and after more than 12 months from the reporting date, as follows:

	2021 £000	2020 £000
Due within one year	5,726	7,660
<i>Due between one and five years</i>	<i>16,231</i>	<i>20,853</i>
<i>Due after more than five years</i>	<i>26,149</i>	<i>18,853</i>
Due after more than one year	42,380	39,706
Lease liabilities	48,106	47,366

Notes to the Financial Statements (CONTINUED)**19 Lease liabilities (continued)**

The movements in the lease liabilities during the period are as follows:

	2021	2020
	£000	£000
At 1 January 2021 / 7 November 2019	47,366	-
Acquired as part of a business combination	-	19,589
Additions	-	32,771
Additions on account of remeasurement	6,469	-
Interest	2,371	1,211
Repayments	(8,100)	(6,205)
At 31 December 2021 / 31 December 2020	48,106	47,366

The impact of leases on the financial performance of the Company in the period is summarised below:

	2021	2020
	£000	£000
Depreciation expense on right-of-use assets	7,088	4,525
Interest expense on lease liabilities	2,371	1,211
Lease expense for short-term leases	70	70
Total expense for the period	9,529	5,806

The cash outflows in respect of leases are equal to the repayments made in the period for lease liabilities plus the lease expense in relation to short-term leases, being a total of £8,100k (2020: £6,274k). The weighted average discount rate applied to lease liabilities is 4.41% (2020: 4.41%).

The Immingham Dock lease contains the option to extend by a period of 5-10 years, exercisable in the last 18 months of the existing lease term. Management have made the judgement that they are reasonably certain to extend this lease by 5 years, and as such this has been factored into the lease term.

20 Deferred tax liabilities

	Advanced Capital Allowance £000	Other timing differences £000	Inventories £000	Total £000
At 7 November 2019	-	-	-	-
Amounts arising from business combinations	(23,846)	(324)	(72,073)	(96,243)
Release related to the period	914	-	66,373	67,287
At 1 January 2021	(22,932)	(324)	(5,700)	(28,956)
Total net charge related to the current year	(14,265)	643	5,700	(7,922)
At 31 December 2021	(37,197)	319	-	(36,878)

The UK deferred tax liability as at 31 December 2021 was calculated at 25%, as this is the rate substantially enacted effective 1 April 2023 at which the deferred tax liability is expected to unwind. Deferred tax for the period ended 31 December 2020 was calculated at 19%.

Notes to the Financial Statements (CONTINUED)**21 Provisions for liabilities and charges**

	Environmental £000	Other £000	Total £000
At 7 November 2019	-	-	-
Amounts arising from business combinations	39,678	200	39,878
Provisions made	893	-	893
At 31 December 2020	40,571	200	40,771
Included in current liabilities	-	200	200
Included in non-current liabilities	40,571	-	40,571
At 31 December 2020	40,571	200	40,771
At 1 January 2021	40,571	200	40,771
Provisions utilised	-	(131)	(131)
Provisions made	43,095	-	43,095
Released to profit and loss	-	(69)	(69)
At 31 December 2021	83,666	-	83,666
Included in current liabilities	-	-	-
Included in non-current liabilities	83,666	-	83,666
At 31 December 2021	83,666	-	83,666

Environmental provision

£34.7M (2020: £40.6M) is cost inclusive of landfill tax of disposing waste by-products at the Scunthorpe site. Due to the nature of this provision, the timing of any settlement is uncertain.

CO₂ emissions provision of £49.0M (2020: £nil) represents the carbon shortfall position of the Company under the UK Emissions Trading Scheme at the balance sheet date. The provision is expected to be settled within the next five years.

Other provisions

At the time of the business combination on 9 March 2020, the Darlington property lease contained a clause whereby the Company had an obligation to carry out certain tenant's works. A restoration provision of £200k was recognised as at 31 December 2020, applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Subsequently, the directors entered into discussions with the lessor and negotiated a waiver of the requirement for these works to be carried out, in return for a one-off payment of £131k, which was paid during 2021.

22 Pensions and post-retirement benefits*Defined contribution pension plan*

The Company operates a defined contribution pension plan for all qualifying employees. The plan is administered by Legal & General. A minimum of 5% of salary is paid by the employee; Company contributions are capped at 3%.

The total cost charged to income of £12.3M (2020: £8.2M) represents contributions payable to the plan by the Company.

23 Commitments*Raw materials*

At the year-end, the Company had entered into spot value contractual agreements all maturing by early April 2022 with a number of suppliers to purchase circa 1.3M metric tonnes of various raw materials used in the steel production process.

Guarantees given under trade agreements

The Company has given a guarantee to Npower Limited for £16M (2020: £16M).

Foreign currency

As at the year-end, the Company held the following open foreign currency forward contracts:

- Purchase USD 3,984,000.00 on 14 February 2022 at USD/GBP exchange rate of 1.3280
- Purchase USD 5,627,000 on 10 March 2022 at USD/EUR exchange rate of 1.1254
- Purchase USD 6,675,000 on 29 March 2022 at USD/GBP exchange rate of 1.3350

Notes to the Financial Statements (CONTINUED)**24 Called up share capital**

	2021 £'000	2020 £'000
Allotted, issued and fully paid		
One £1 ordinary share	-	-

The sole shareholder of the Company is Jingye Steel (UK) Holding Ltd (see note 26).

25 Reserves*Retained earnings*

Retained earnings represent the accumulated profits and losses of the Company.

26 Ultimate and immediate parent company

Jingye Steel (UK) Holding Ltd is the Company's immediate parent company, which is incorporated in England Wales, and is the smallest group to consolidate these financial statements.

Jingye Group Co Ltd, a company incorporated in China (Nandian Town, Pingshan County, Shijiazhuang, Hebei, 050400 China), is the ultimate parent company and the largest group to consolidate these financial statements, the accounts of which are themselves not consolidated further nor legally required to be made publicly available.

The ultimate controlling party is Li GanPo.

27 Events after the balance sheet dateMilitary conflict in Eastern Europe

The significant post balance sheet event for the Company was the start of the military conflict in Eastern Europe on 24 February 2022. There were numerous implications which are outlined below:

- **Material Supply.** Raw materials purchased from the region needed to be re-sourced from elsewhere in the world. While this caused short term disruption from a technical perspective, alternative and comparable supplies of raw materials are now in place. This predominately related to injection coals for the blast furnace but also required an alternative source for one of our blast furnace pellets.
- **Energy prices.** Energy prices increased following the start of the conflict in February 2022. The increase in energy prices began from September 2021 and increased publicity of the energy price impact following the military action facilitated increases in steel prices and allowed recovery of early energy price rises before stabilising. Energy prices have remained volatile with large reductions in pricing in April and May 2022, followed by a sharp rally in July and August 2022 linked to the geopolitical uncertainty around Russian gas supplies to Europe. At the date these financial statements were signed, current energy prices remain below the UK Government price cap.
- **Commodity Prices.** Raw material prices particularly related to coal and coke rallied to all-time highs in March and April 2022 but have since fallen significantly albeit trading at levels above the long-term average.
- **Steel supply.** Loss of supply from the region allowed for an increase in semi market share.

The summary of market conditions following the start of the military conflict in Eastern Europe has been a period of significant volatility in both the levels of absolute price and cost but also the level of steel margins, which, together with the other factors mentioned above, have contributed to the Company making significant losses in 2022.

UK Government support

Jingye is committed to our long-term future but we also require the UK Government to provide the necessary support, policies and frameworks to back our drive to become a clean, green and sustainable company. In light of this, the Company is in ongoing formal funding talks with the Government regarding financial assistance with energy costs and decarbonisation projects. The Government understands the significant impact rising inflation and exceptionally high energy and carbon prices are having on businesses like BSL, particularly during such a key period in its transformation.

Share issue

On 13 November 2023, 100M shares with a nominal value of £1 each were allotted and paid up. The consideration for these shares comprised of £100M from the Parent Company, Jingye Steel (UK) Holding Ltd.

A further issue of £100M has been authorised by the Board of Directors.

There were no other significant events since the balance sheet date which may have a material effect on the financial position or performance of the Company.