

The logo for KloECKNER metals, featuring the company name in white lowercase letters on a red rectangular background.

UK

KloECKNER Metals UK

Valley Farm Road
Stourton
Leeds
LS10 1SD

t: +44 (0)113 254 0711
f: +44 (0)113 272 1689
e: enquiries@kloECKNER.com

w: www.kloECKNERmetalsuk.com

KLOECKNER METALS UK GROUP TAX STRATEGY FOR FY ending 31/12/2019

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Introduction

KloECKNER Metals UK is the largest mill independent multi-metal stockholder and distributor in the UK, forming part of an international group operating across 13 countries in Europe and America and parented by German listed entity, KlöCKNER & Co SE.

KloECKNER Metals UK derives corporate responsibility from recognition that its business activities impact a large number and a variety of both internal and external stakeholders, ensuring particular attention is paid to sustainable management activities and contributing to environmental protection.

As KloECKNER Metals UK is part of a wider listed group, it has a strong policy of tax compliance, arising from the Group's strong compliance focus. Each territory has a National Compliance Officer, who works with the Group's Corporate Compliance Officer and the rest of the Group Compliance Team to identify and assess the impact of new legislation expected to come into force and be diligent in any changes relevant to a specific territory within the Group.

KloECKNER Metals UK's Finance Director and National Compliance Officer is responsible for the management of tax affairs in the UK Group. The Finance Director is also the UK Group's Senior Accounting Officer, a measure introduced by the UK Government to improve businesses' tax compliance governance and systems by assigning responsibility to a director to report on the Group's compliance under the Senior Accounting Officer scope.

KloECKNER Metals UK adopts an approach to tax which is aligned to the wider Group's business strategy and corporate culture, bearing in mind the impact on both internal and external stakeholders. The strategy impacts all taxation areas affecting the UK Group and is driven by the UK Finance Director and National Compliance Officer.

Overall UK tax strategy

Our tax strategy is detailed below, and outlines the Group's attitude towards tax risk and tax planning. This strategy is in compliance with Schedule 19 paragraph 16(2) of the Finance Act 2016

and applies to the current financial year ending 31 December 2019.

The key principles of the tax strategy are:

- The Group has a strong policy of compliance and is committed to paying the correct amount of tax due under UK legislation, whilst utilising available reliefs, as intended by the legislation.
- The tax strategy is aligned with the Group's business strategy and corporate culture, such that all tax matters are managed effectively by having a clear corporate governance framework and robust business processes and controls. The UK Group's attitude to tax planning is conservative and in line with the Group's approach to maintain low risk status with HM Revenue & Customs ("HMRC").
- The Group is highly aware of its impact on both internal and external stakeholders and its decision-making process in respect of all tax related matters is aligned to this wider corporate responsibility.
- The Group is proactive in its management of tax risk and thereby mitigating the opportunity for issues to arise.
- The Group is committed to preventing the facilitation of tax evasion as required by the Criminal Finances Act 2017
- The Group seeks external advice from reputable professional firms in respect of all UK tax matters.
- The Group has a low appetite for tax risk and is prescriptive in the level of risk that is considered acceptable.
- The Group is committed to becoming compliant (within the required timeframe) with the requirements of the VAT Notice 700/22: Making Tax Digital for VAT

Governance and Risk management

The Group's corporate culture demonstrates an underlying commitment to compliance with all applicable laws and regulations. It has a strong corporate governance policy, which is consistent with the German Corporate Governance Code and internationally accepted standards of good and responsible corporate governance. The Group's Risk Management policy is designed to conform with all relevant laws and regulations, and the managers of the companies within the Group are responsible for ensuring that risks and the overall risk situation are reported and recorded in the Company's Risk Management System (RMS).

The Chairman of Klöckner & Co's Management Board signed the "Compact for Responsive and Responsible Leadership" in January 2017 which commits the Management Board to the following:

- Encouraging the periodic review of corporate governance, long-term objectives and strategies at the board level as well as clear communication between corporations, investors and other stakeholders about the outcomes;
- Promoting a meaningful engagement between the board, investors and other stakeholders which builds mutual trust and effective stewardship as well as promoting the highest possible standards of corporate conduct; and

- Publicly supporting the adoption of the Compact for Responsive and Responsible Leadership and implement policies and practices within the Group which drives transformation towards the adherence to long-term strategies and sustainable growth for the benefit of all stakeholders.

This leadership document commits the Management Board to corporate governance that extends to governance regarding tax throughout the Group.

The German Management Board has input and oversight over all significant taxation matters. However, UK taxation is the responsibility of the UK Finance Director and National Compliance Officer. The UK Finance Director reports on the Group's UK tax position to the Head of Group Tax, based in Germany. All UK taxation matters which may impact the wider Group are fed back to the German parent on a timely basis.

The UK Finance Director is responsible for monitoring UK taxation processes and driving the UK Group's tax strategy, as well as managing the UK Finance team and overseeing all financial and tax affecting matters.

The UK Group outsources the preparation of its UK tax returns and preparation of statutory tax disclosures to a reputable external professional firm of advisors, though all deliverables are subject to an internal review process. The outsourcing of the tax compliance process assists Kloeckner Metals Group to make accurate disclosures to HMRC in a timely fashion, such that it consistently meets its fiscal obligations to HMRC. The UK Finance team includes individuals dedicated to and trained in employment taxes and VAT.

In 2018, the UK Group – along with several other Group companies – outsourced certain business processes to a shared service center, specifically the accounts payable, accounts receivable and general ledger activities. The service provider is Capgemini, a global leader in consulting, technology and outsourcing services. Although the processing of such activities is no longer performed in-house, the oversight for these functions continues to reside with the UK Finance Department, and the team works closely with Capgemini. These business process changes have limited impact on the tax function (including VAT), which is retained in-house.

The Group has robust internal business processes and controls which have been reviewed recently in respect of these various taxes to certify that the Group has appropriate tax accounting arrangements, under the Senior Accounting Officer rules. This certification will be considered annually in line with legislation to mitigate any potential risks around the Group's processes and controls which are relevant to UK taxation.

Attitude to tax planning

The Group has a code of conduct which is at the centre of its corporate culture; setting out ethical and social values, as well as fundamental principles and practices. This framework governs actions internally as well as impacting the way business is conducted when dealing with business partners and the public at large.

The Group has a strong policy of compliance and is committed to paying the correct amount of tax due under UK legislation, whilst assessing available claims and reliefs intended by the legislation.

Approach to UK tax risk

As noted above the corporate governance framework and tax processes and procedures are designed to mitigate UK tax risk from arising. An element of tax risk and uncertainty is inevitable in

the current international tax environment, particularly given the uncertain outcome of the ongoing Brexit negotiations; however, Kloeckner Metals UK reduces this by proactively seeking advice in respect of any potential tax risk areas from reputable professional firms and maintaining an open and honest relationship with HMRC.

Furthermore, the attitude of Kloeckner Metals UK towards tax planning (so far as affecting UK taxation) further mitigates risk by ensuring that the UK Group claim available reliefs permitted under legislation and supported, as appropriate, by advice from reputable third party professional advisors.

From time to time the UK Group will consider whether there are claims or reliefs which should be available, but which are not currently being claimed. In the event that a reputable professional advisor is able to confirm that entitlement to the relief is in line with the intention of legislation, such issues would be clearly considered by the UK Finance Director. Dependent on the size and complexity, such matters would be further discussed with the UK Board and the Head of Group Tax of the German parent company prior to proceeding with the work.

Working with HMRC

For Klöckner & Co, Investor Relations is about transparent and continuous communications with both private and institutional investors and the UK Group ensures it undertakes the same approach.

In particular, the UK Group reflects this approach with the UK tax authorities and in its communications with its allocated Customer Relationship Manager at HMRC, communicating in real time about relevant commercial matters.

The UK Finance Director and the Finance team are committed to collaborative working with HMRC, with continuous and transparent dialogue and maintaining the UK Group's low risk status. The interactions with HMRC, whether formal in respect of Business Risk Review meetings, or informal are designed to provide assurance to HMRC that the UK Group are taking account of new tax legislation or current issues relevant to them. The Group seeks to demonstrate ongoing compliance with applicable tax legislation and UK requirements.

Kloeckner Metals UK will continue to maintain a proactive working relationship with HMRC, engaging with its Customer Relationship Manager on a timely basis in order to gain insight on any areas of tax uncertainty or complexity, as and when they may arise. This is particularly relevant considering the ongoing Brexit negotiations and the potential tax implications of UK leaving the European Single Market, particularly in the case of a "hard" Brexit.



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Registered Office:
Valley Farm Road,
Stourton, Leeds,
LS10 1SD

Incorporated in England
Registered no: 1370600
A trading division of ASD Ltd

