

UK Mandatory Climate Disclosures for Celsa (UK) Holdings Limited and its UK Subsidiaries

Introduction

CELSA was founded in Barcelona in 1967 with its first rolling mill. A decade later, an electric arc furnace started producing steel at the Barcelona plant. The CELSA GROUP™ grew through reinvestment and successive acquisitions to become a well-recognised brand in steel manufacturing.

Celsa UK is the largest recycler and manufacturer of steel reinforcement in the UK, and one of the largest producers of other long steel products. The Celsa UK group produces steel from scrap metal using an electric arc furnace (EAF) process. Our recycling based EAF process already allows us to produce steel with 86% lower carbon intensity compared with traditional blast furnace steelmaking, who use mined iron ore. Celsa UK is already a low carbon steel recycling company and sees the pathway towards Net Zero by 2030 and true circularity as being integral to each other.

CELSA's commitment to sustainability is the force that motivates us to keep growing and to keep caring for the world around us. We believe that all forms of progress, whether environmental, social and/or economic, should go hand in hand with achieving the global objectives proposed by international organisations.

The UK Mandatory Climate Disclosures required under '*The Companies (Strategic Report) (climate Financial disclosures) Regulation 2022*' consist of eight disclosure requirements that fall under thematic four thematic pillars: Governance, Risk Management, Strategy, and Metrics & Targets.

This document sets out the UK Mandatory Climate Disclosures (MCD) for Celsa (UK) Holdings Limited ("Celsa UK") and encompasses all of its subsidiary undertakings (the "Group").

Governance

The management of climate-related risks and opportunities is embedded at the highest level of Celsa UK (the Company) and all its subsidiaries, through the Company's Board of Directors, who have oversight of all climate-related issues, and are responsible for managing Celsa UK's progress towards climate-related goals and targets.

The Celsa UK Board of Directors is the firm's highest decision-making body. Its main functions are to elaborate the Company's strategy and general policies, oversee their execution and exercise such other powers as are attributed to it by law and the Company's Bylaws. The Board comprises a total of six members: three of whom are executive directors, i.e., they perform management functions in the

Company; two of whom are independent directors and appointed on the basis of their personal and professional qualifications, in accordance with Celsa UK's policy for the selection, appointment and re-election of directors; and the Head of Finance. The Group Chief Sustainability & Strategy Officer also attends the Celsa UK board meeting. All board members, regardless of their qualifications, must perform their duties with the CELSA Vision, Mission and Values in mind and, have a legal responsibility and duty of care to all stakeholders including the environment.

The Board of Directors meet once per month and during meetings the directors consider stakeholder issues by reviewing key performance indicators including those related to climate and sustainability (in addition to those covering Health & Safety, employee training, production and sales volumes and financial indicators). Sustainability and climate related risks and opportunities are a standing item on the Board agenda. Detailed below are examples where the Board and the Celsa UK Executive Committee have considered climate and sustainability topics:

- In 2021, the Executive Committee held a number of sessions to review and advice on Celsa UK's Net Zero Strategy before its implementation.
- In 2022, the Board monitored progress of the UK's Net Zero Strategy and review of the internal organisational restructure and appointment of Head of Sustainability & Strategy at CELSA Group level.
- In 2023, climate related topics were discussed as part of the preparatory works for Celsa UK's UK MCD.
- In 2023, the Celsa Group Chief Sustainability and Strategy Officer started to discuss and present environmental impacts on CELSA.

Climate and sustainability matters are the responsibility of the Board and ultimately Celsa UK's CEO, who receives input from the Sustainability Executive Committee (SEC) in the UK. The UK SEC is responsible for identifying and managing climate related risks and opportunities, and meets bi-monthly to review the Company's climate and sustainability framework, related strategies, policies, and practices. The UK SEC is led by the Head of Sustainability & Strategy, and attended by representatives from the Environmental and Sustainability functions.

CELSA Group's SEC, who ensure the UK's alignment with the Group's climate and sustainability initiatives, supports the UK SEC. Celsa UK SEC reports every month to the Celsa UK executive committee, providing an update on environmental strategies, climate related risks and opportunities and encourages discussion from all functions within the Company. Any required escalation of climate change issues to the Celsa UK Board of Directors are done through the Celsa UK CEO.

The Company’s corporate governance structure is continually evolving in recognition of the urgency that climate change demands and in response to our increasing understanding of the impact of climate change on our business. We understand the importance of wider management functions through the organisation and the need to embed climate-related roles and responsibilities throughout our functions and operations.

Diagram 1: Celsa UK Climate Change Governance - organisational structure

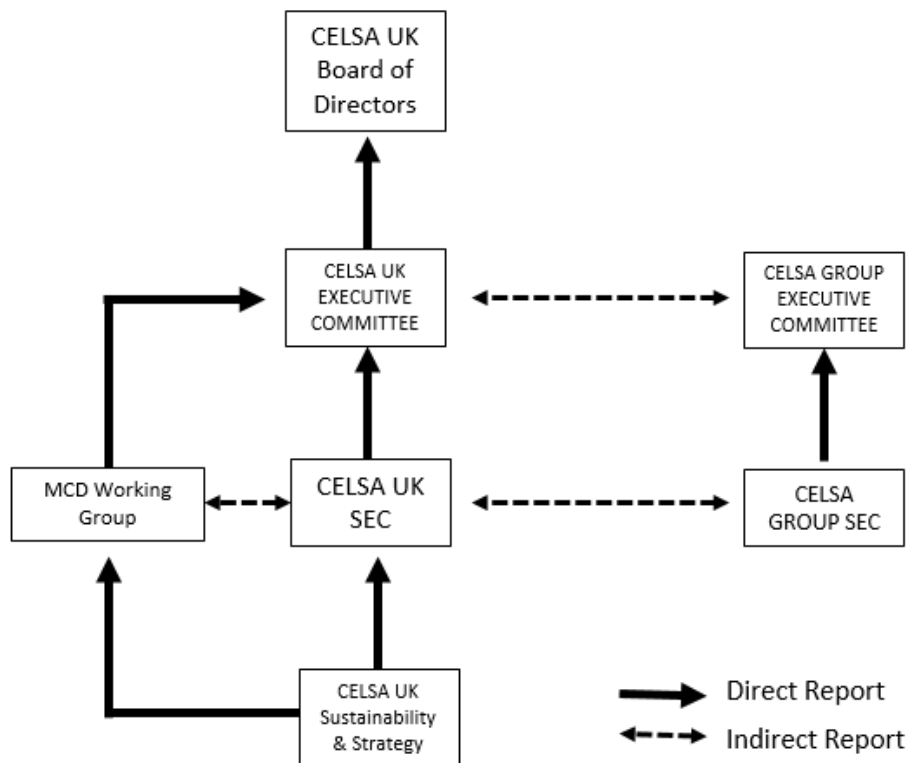


Diagram 2: Celsa UK Climate Change Governance - roles and responsibilities

Governance Body	Chair	Climate R&O Agenda Frequency	Roles & Responsibilities related to Climate R&O
Celsa UK Board	Chairman	Monthly update through the CEO of Celsa UK	Oversight of climate risks and opportunities and input into Celsa UK’s strategies.
Celsa UK Executive Committee *	Celsa UK CEO	Monthly	Review of the UK’s environmental strategy including climate related risks and opportunities.
Celsa UK SEC *	Celsa UK Head of Sustainability & Strategy	Every two months	Ensure UK alignment with CELSA Group activities and corporate sustainability strategy and report climate risks and opportunities to executive committee.
MCD Working Group	Head of Finance	Weekly to start and then moving to monthly during H2 2023.	Review of MCD disclosure programme. Engaged external advisers to support MCD disclosure for June 2023.
Sustainability & Strategy Team	Environmental Manager	Monthly	Review of climate risks & opportunities. Track and monitor business progress towards Net Zero plans.

* These committees are replicated at CELSA Group level and provide support and guidance to Celsa UK.

Risk Management

During 2023, the Sustainability and Strategy team led an exercise to identify a number of climate-related risks and opportunities in collaboration with a number of functional teams from across the business. The MCD working group reviewed the results of the exercise prior to a qualitative assessment of the risks and opportunities to help understand their impacts and assess their relative materiality to Celsa UK.

The results of our 2023 assessment, and their subsequent integration into our climate change strategy, are summarised in the Strategy and Metrics & Targets section of this report. The methodology used required that the identified risks and their impacts were scored based on:

- i) severity
- ii) likelihood
- iii) time horizon
- iv) financial impact

The comparative consideration of these four factors in relation to the risks (and opportunities) identified enabled Celsa UK to prioritise and implement appropriate mitigation and management strategies.

While the climate risk and opportunities identification and assessment exercise was conducted as a standalone activity, Celsa UK recognise the increasing importance of considering climate-related risks and opportunities within the context of our wider business and its strategy. Consequently, our intent is to continue to integrate the management of climate-related risks and opportunities across our business. During the remainder of 2023, this process will be informed by Celsa UK undertaking a materiality assessment. The assessment will be supported by a series of workshops with key functional areas.

The materiality assessment will help us to refine and mature our understanding of the impact of climate-related risks and opportunities on our operations and business functions. Celsa UK's materiality assessment, will follow a similar methodology to that utilised by CELSA Group. For each issue, the assessment rates the degree of stakeholder concern along with potential business impact. The methodology will be adjusted where appropriate to ensure a more representative analysis is conducted given the specific focus on Celsa UK's business and operations.

Celsa UK, in conjunction with CELSA Group is looking to embed the management of climate-related risks and opportunities, and the subsequent decisions around mitigation and controlling of risks, into a consolidated risk management process in the near term.

Furthermore, Celsa UK will continue to strengthen the methodology and tools to help improve identification, assessment and management of climate risks and opportunities and will reflect the outputs of this ongoing work in future iterations of our UK MCD. The climate risk identification, assessment and impact evaluation will be performed on an annual basis, and will be performed at Celsa UK level, covering all UK subsidiaries. The governance process for monitoring the effectiveness of Celsa UK's approach to mitigating climate risks is as per Diagram 1: Celsa UK Climate Change Governance - organisational structure.

Strategy and Metrics & Targets

The Company has identified the climate-related risks and opportunities arising in connection with the company's operations. The grid in diagram 4 shows the material physical and transition risks and opportunities, including impact and mitigating actions under a 2°C and 4°C warming scenario.

Time horizons have been determined based on Celsa UK’s business and climate strategy and cycles:

	Years	Rationale
Short Term	1 – 5	Aligned with internal business plan and financial facility agreement period
Medium Term	5 – 10	Aligned with the Celsa UK Net Zero Pathway timeline
Long Term	10+	Aligned with the fixed asset lifetime cycle (3-30 years) and UK Governments Net Zero Plan 2050

The Company has considered two climate scenarios when evaluating the climate risks and opportunities.

2°C Warming Scenario

The 2°C warming scenario is aligned with the IPCC RCP (Representative Concentration Pathway) 2.6 and SSPs (Shared Socioeconomic Pathways) SSP 1 -1.9, in which there is a high likelihood that average global temperatures will not exceed more than 2°C over pre-industrial levels by 2100.

Under this warming scenario, it is assumed that proactive and sustained action is undertaken to reduce carbon emissions over the next 30 years to build a low-carbon economy (in support of 2040 or 2050 Net Zero targets). For this scenario to be possible, global efforts to mitigate climate change will need to intensify immediately, led and supported by strong policy, regulatory and legal actions.

This scenario results in significant focus on transition risks in the short term, to 2030, with a high demand placed on businesses to transition rapidly with resultant impact on markets and consumers. Businesses operating in high-emitting sectors will be increasingly challenged by policy, regulatory and legal actions which collectively will have a significant impact on their business models and strategies.

Under a 2°C scenario, changes to the climate are predicted resulting in increased average summer and winter temperatures, less precipitation in the summer but more intense storm events during the winter. The physical climate risks will be more acute with increased flooding and heatwaves, if warming is limited to a maximum of 2°C. It is probable that chronic physical risks related to longer-term shifts in climate patterns may be reduced in severity.

4°C Warming Scenario

Given the current global emissions trajectory, we have also considered a 4°C warming scenario aligned with the IPCC RCP 8.5, SSP 5 - 8.5, where average global temperatures will increase by up to 4°C by 2100 over pre-industrial levels.

The most significant implications of a 4°C warming would be focussed around the physical risks of climate change. In the near-term there are likely to be an increased number of acute physical risks, including heat

waves, flooding and storm events including extreme localised weather events progressively becoming worse.

Chronic physical risks will also play a larger part in the medium to long-term as the longer-term climate patterns shift. This is likely to result in the average temperature increasing causing droughts and rising sea levels to intensify. Other physical tipping points will most likely be breached leading to further physical risks and accompanying economic and social challenges.

A 4°C warming scenario is likely to arise due to a lack of regulatory and policy action in the near to medium term resulting in the limited development of a low carbon economy. A 4°C scenario would likely result in an abrupt set of regulatory and policy changes nearer to 2050 as governments and policymakers belatedly seek to address the challenge of reducing GHG emissions in order to avoid the adverse effects of global warming. Mitigation and adaptation efforts will be limited in the short term due to lack of policy guidance and regulations, resulting in a significant increase in pace and scale in the medium to long-term of adaptation measures required to manage rising levels of physical climate risk. Adaptation is likely to entail rising costs and tough choices that may include whether to invest in additional physical infrastructure or relocate people and assets (McKinsey Global Institute, 2023).

Identified Risks & Opportunities

Basing the assessment on a 2°C and 4°C warming scenario, Celsa UK have initially identified two climate-related risks and one climate-related opportunity. The two risks are summarised as acute physical risks and secondly, the impact of a rapid transition, resulting in more regulation and tax for carbon consumption. Our analysis has identified one significant opportunity namely, the production of low-carbon steel that is a fully recycled product. Promoting these credentials may allow an increase in price for lower carbon products, and more sales volume as customers look at their own supply chain to reduce Scope 3 emissions. A 2°C warming scenario was selected to assess the material risks and opportunities due to alignment with the IPCC RCP (Representative Concentration Pathway) 2.6 and SSPs (Shared Socioeconomic Pathways) SSP 1 -1.9, in which there is a high likelihood that average global temperatures will not exceed more than 2°C over pre-industrial levels by 2100. A 4°C scenario was also selected and is aligned with RCP 8.5, and represents the continuation of limited policy and regulatory action to reduce emissions, with the resultant increase in physical risks.

Risk 1 – acute physical climate risk

Under a 2°C warming scenario the physical risks of climate change, specifically flooding and heatwaves present a risk to Celsa UK's main manufacturing site, with the increased risk of flash flooding directly affecting the operations, and heat waves, particularly in the hot metal areas, requiring increased rest periods for employees, with subsequent increases to costs linked to cooling the facilities. To address the

risk of heat waves, the Company plans to look at the working environment in the hot metal areas, and ensure welfare facilities include cool rooms where required ensuring the rate of production remains optimal and ensuring the welfare of all employees. The assessment has shown that this may affect insurance premiums, production capabilities, and operating costs (energy).

Celsa UK's assessment of increased precipitation, in particular flash flooding, and the required mitigation actions will necessitate an assessment of each site's risk to flooding potential. This will support the implementation of additional drainage management and preventative maintenance to ensure effective operability of our current systems.

The Celsa UK SEC will monitor the progress of the mitigating actions identified (improvements in working and welfare facilities and flood risk assessments) through regular action plan reviews. To monitor the effectiveness of these mitigating actions, we will measure tonnages of final product lost due to climate related events per year. This will be calculated by the number of production stoppages for natural events such as high wind or flooding which can be assigned to the stoppage event.

Under a 4°C scenario acute physical risks would likely become chronic and widespread in nature affecting Celsa UK's operations and supply chains. This would necessitate additional significant investment and changes to working practices and physical infrastructure to enable Celsa UK to maintain required levels of outputs.

Risk 2 – policy & legal

The second risk identified relates to a rapid transition, which is likely to result in an increased carbon tax and additional reporting for intensive energy consumers such as Celsa UK under a 2°C scenario. To mitigate this risk, we have introduced an internal carbon calculator. The carbon calculator has been developed to determine the implications of proposed projects that could increase the company's carbon emissions. These projects are then evaluated based on their alignment to the Company's strategic plans and Celsa UK's goal to reach Net Zero Carbon by 2030.

(<https://www.celsauk.com/CorporateResponsibility.mvc/NetZero>).

To monitor this risk a metric has been set of Scope 1 and Scope 2 carbon emissions in absolute tonnes of CO₂e. The Company has recently entered into a sustainability-linked loan, with one of the metrics being tonnes of CO₂e produced.

The transition risk, represented by the impact of sudden and significant changes to policy and legal requirements on Celsa UK, would be significantly reduced under a 4°C scenario as a 'business as usual' approach endures by governments and policy makers. It would also be less likely under this scenario that a carbon tax would be imposed, which would reduce the financial risks to Celsa UK over the long term.

Opportunity 1 - market

As Celsa UK is already a low carbon steel manufacturer, the company has the opportunity to promote its low carbon credentials to the changing market and public preferences under a 2°C scenario. By doing this, more downstream users will be purchasing steel with less associated carbon emissions. Celsa UK has a significant advantage in the short to medium term to lead the market. To monitor this opportunity a metric has been set on Celsa UK’s Environmental Product Declaration (EPD) figures, demonstrating the number of kilograms of carbon dioxide produced per tonne of finished product.

Under a 4°C scenario, the market will continue to represent an opportunity and allow Celsa UK to exploit its low carbon credentials. Despite inaction by governments and policymakers, consumers and markets may continue to increase their demand for low carbon steel in response to societal concerns, a demand that Celsa UK would be well placed to respond to.

The below matrix shows the likelihood and severity of each risk and opportunity described above.

Diagram 3: Climate Risk Matrix

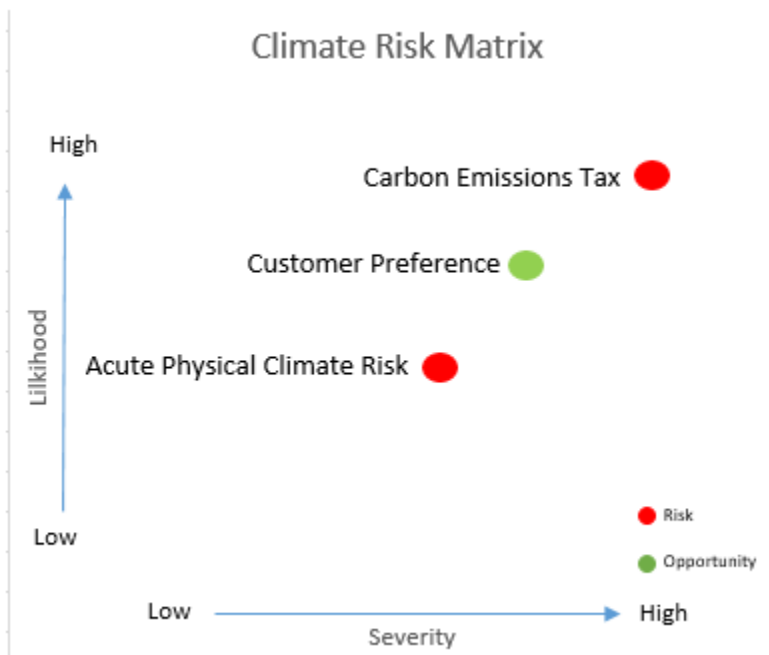


Diagram 4: Material risk and opportunity matrix

Climate Risk / Opportunity Title	TCFD Category	Description and potential impact to the business	Response / Mitigating Actions	2°C	4°C	Time Horizon	Metrics & Targets
Increased severity of extreme weather events such as flooding, drought, and heavy precipitation	Acute Physical Climate Risk	<p>Risk: Increased site surface water and flooding resulting in drainage systems and interceptors being overwhelmed.</p> <p>Risk: Weather events such as intense storms or floods, which would become increasingly common and intense, which could cause plant outages or disrupt our supply chains.</p> <p>Risk: Increased insurance premiums and potential for reduced availability of insurance on assets in “high-risk” locations.</p> <p>Risk: Increased warmer weather and more intense and longer heatwaves will result in extended periods of unfavourable working conditions resulting in productivity loss.</p> <p>Risk: Water consumption could be restricted in the event of prolonged heatwaves resulting in a potential loss of productivity.</p>	<p>Drainage management system in place for preventative maintenance and replacing of ageing drainage systems.</p> <p>Infrastructure improvements, such as implementing soakaways, increasing site drainage, raising internal railway lines.</p> <p>Preventative maintenance for building structures to withstand intense storm events.</p> <p>Installation of air conditioning units to regulate warmer working conditions.</p> <p>Water management in place to monitor consumption of water for processes.</p>			5-10 years	<p>Target: 0 tonnes of produced steel lost due to weather events per year</p> <p>Metric: Tonnages lost due to climate related events per year</p> <p><i>Note: In process of assessing the sites to determine which locations are more susceptible to physical risks e.g. proximity to rivers/sea.</i></p>

Climate Risk / Opportunity Title	TCFD Category	Description and potential impact to the business	Response / Mitigating Actions	2°C	4°C	Time Horizon	Metrics & Targets
Carbon Emissions Tax	Policy & Legal	<p>Risk: Increased pricing of GHG emissions resulting in direct and indirect costs linked to carbon emissions.</p> <p>Risk: Enhanced emissions-reporting obligations resulting in more personnel resource.</p>	<p>CELSA has included carbon pricing as an important tool into all business decisions to help us achieve our zero emissions goal.</p> <p>CELSA has developed a decarbonisation pathway that will bring its carbon emissions down and so reduce associated taxes.</p>			1-5 years	<p>Target: CELSAs Net Zero Pathway by 2030</p> <p>Metric: 2% reductions in absolute carbon annually (Scope 1&2) (ESG confirmed KPI)</p>
Changing customer preference to low carbon steel ("green steel") which CELSA already produce as standard product	Market	<p>Opportunity: To increase brand awareness and CELSA's low carbon product offering, resulting in increased tonnes sold and market share.</p>	<p>Marketing strategy to promote the circular lifecycle of CELSA's "Circular Steel" product and programme.</p> <p>Promoting CELSA's low carbon steel at number of trade shows, exhibitions and workshops.</p>			1-5 years	<p>Target: CELSAs Net Zero Pathway by 2030</p> <p>Metric: tCO2 per tonne of product Or Metric: Environmental Product Declaration kg CO2/t</p>

	Risk	Opportunity
	High impact	Low opportunity
	Moderate impact	Moderate opportunity
	Low impact	High opportunity

The company has used a likelihood and impact matrix scoring system to evaluate the risk score. A risk with low impact (1) and low likelihood (1) will give a risk score of 1 (1 x 1). On the opposite end, a scenario with high impact (5) and high likelihood (5) will provide a risk score of 25 (5 x 5).

The scenario analysis and results demonstrated in diagram 4 are those most relevant to the Company and are hypothetical outcomes and not forecasts.

Celsa UK will continue to develop and assess the risks and opportunities presented by climate change at its operating sites and will report on developments in line with our governance and reporting structure. The Company will use the scenario analysis as part of its strategic and financial planning, albeit this will be continually evolving as our understanding and knowledge increases.

Summary

Celsa UK is already a low carbon steel recycling company: our recycling based EAF process allows us to produce steel with 86% lower carbon intensity compared with traditional blast furnace steelmaking. Steel production is recognised as a hard-to-abate sector, producing up to 9% of global CO₂ emissions. The sector is also a key contributor to several upstream supply chains, further amplifying impact in the global transition. Celsa UK believes it is very well positioned, relative to those manufactures who produce via traditional blast furnaces, to support the global transition to a low carbon economy.

The evaluation and results of the scenario analysis have enabled us to better understand and put in place mitigating actions to manage the risks, and build strategies to maximise the opportunities, to ensure resilience in Celsa UK's business model and strategy against the potential impacts of climate change.

With the scenario analysis being renewed and reviewed at least annually, Celsa UK will continue to develop and enhance its climate-related analysis and reporting journey.