Caparo Merchant Bar Plc

Report and Financial Statements

Year Ended

31 December 2010

Company Number 1860172

Caparo Merchant Bar Plc

Report and financial statements for the year ended 31 December 2010

Contents

Directors

The Honourable Akash Paul
The Honourable Angad Paul
N R K Clarke
A L Jarvis
R Morley
J C Pay
G W Prentice
M D Simmons
S Unwin
A H J Vollebergh

Secretary and registered office

G W Prentice, Caparo House, 103 Baker Street, London, W1U 6LN

Company number

1860172

Auditors

BDO LLP, 125 Colmore Row, Birmingham, B3 3SD

The directors present their annual report together with the audited financial statements for the year ended 31 December 2010

Principal activities

The principal activity of the company is the operation of merchant bar rolling mills for the production and sale of steel flats, light sections and bars There have been no changes in the company's activities in the year under review

Review of the business and future developments

The company's profit and loss account is set out on page 9 and shows turnover for the year of £93 3m (2009 £79 0m) Turnover has increased by 18%, largely driven by the impact on selling prices of increased raw material prices Further details of turnover by geographical area are given in note 2 to the financial statements

The market for merchant bar remains extremely competitive The company's strategy for a number of years has been to reduce its dependence on 'mild steel standard length products' by increasing the specials side of its business The company remains the only major player which rolls to customer orders and not to stock These distinguishing features, combined with a commitment to customer care and long term trading relationships, are major contributors to the company's success

2010 proved to be a difficult year for Caparo Merchant Bar with only a marginal increase in volume over 2009, and no opportunity to improve margins The company's response was to continue to reduce its cost base and manage its working capital downwards The market uncertainty continued through all of 2010, although there were some signs of recovery during the second half of the year

The company makes a substantial proportion of its sales in foreign currencies, mainly Euros, and has for many years adopted a policy of covering against currency losses, not only on its foreign currency denominated debtors, but also on its confirmed order book relating to sales in foreign currency This cover is effected mainly by maintaining a Euro overdraft

As a result of the sharp decline in the value of Sterling against the Euro during 2008, a loss of £1 4m on conversion into Sterling of the Euro overdraft under UK GAAP was taken In 2009, this resulted in a benefit of £1 4m as the position was unwound

The company made an operating profit of £1 3m in 2010 compared to £2 5m in 2009 2009, however, benefitted from a £1 4m currency gain as described above

No interim dividend was paid during the year (2009 £nil) and the directors do not recommend a final dividend for the year (2009 £nil)

The balance sheet as at 31 December 2010 shows 'total assets less current liabilities' of £31 0m (2009 £25 2m) and shareholders' funds of £25 8m (2009 £25 1m)

The outlook for 2011 is cautiously positive with some stability and slight recovery in volumes and prices evident The management expectation for 2011 is that Caparo Merchant Bar will improve on its 2010 profitable result

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have an impact on the company's financial performance

Global, political and economic conditions

The company has either sales or sourcing arrangements with various other countries throughout the world Whilst the company benefits from the growth opportunities in these countries, it is similarly exposed to the economic, political and business risks associated with such international operations Throughout its operations the company encounters different legal and regulatory requirements, including those for taxation, exchange control, environmental, operational and competitive matters

Management monitor such risks and conditions, maintaining insurance cover and amending business procedures as appropriate to attempt to mitigate any exposure whilst remaining in compliance with local and group requirements

Foreign exchange

The company makes sales to many countries, with a substantial proportion of the company's operating profit earned outside the UK As such the company is exposed to movements in exchange rates between Sterling and other world currencies, particularly the Euro, which could adversely or positively impact results

Raw material and energy prices

The company's products and services utilise a range of raw materials, most notably steel The company also requires substantial quantities of electricity and gas The pricing for these raw material inputs is largely determined by international or national factors beyond the company's control or influence Short term volatility in the pricing of such inputs and any decrease in availability can significantly impact the company's financial performance

The Caparo Group, of which the company is a subsidiary, has developed strong relationships with its suppliers and uses contractual means where possible to minimise the risk

Pensions

The Caparo 1988 Pension Scheme ('the Caparo Scheme'), a UK defined benefit plan of which the company is a participating employer, is accounted for as a multi-employer scheme Under the methodology of Financial Reporting Standard 17 'Retirement Benefits', the Caparo Scheme had a surplus, net of deferred tax and the application of a surplus cap, of £3 5m at 31 December 2010 (2009 £0 1m), with the Caparo Scheme's assets totalling £107.6m and its liabilities totalling £100 5m (2009 assets of £96 2m and liabilities of £96 0m)

The financial position of the Caparo Scheme is exposed to a number of financial and demographic risks The major risks are adverse changes in interest rates, the market value of investments, inflation and changes in the expected longevity of its members The Caparo Scheme and the company are also exposed to changes in UK laws and regulations with regard to pension plans

The Caparo Scheme remains significant in relation to the net assets of the Caparo Group

The Caparo Group and the Trustee of the Caparo Scheme are advised by experts in the field and pursue an investment strategy which aims to align the investments held with the liabilities in the long term

Principal risks and uncertainties *(Continued)*

Litigation

As with any business, the company is subject to the risk of litigation from third parties. The company seeks to address such claims proactively In accordance with accounting requirements, a provision is made where required to address such litigation and the consequent costs of defence

Environmental liabilities

The company conducts its operations in such a manner as to ensure compliance with environmental laws and regulations If events occur where actions are necessary to maintain compliance, the company will devote suitable resources to the issue in order to remedy the situation

Employees

The company has a reliance on the management teams employed The company recognises the importance of this resource and as such reviews its remuneration policy together with its recruitment policy on a regular basis in order to ensure the company continues to retain and attract the best possible management teams

Key performance indicators

Key performance indicators within the Caparo Group are specific to the nature of the operations of each business This data is reported to divisional and Caparo Group senior management on a monthly basis

The financial key performance indicators of the company include

- Gross profit percentage at 10 3% (2009 12 2%)
- Operating profit percentage at 1 4% (2009 3 2%)
- Working capital of £9 4m (2009 £12 9m)
- Return on capital employed of 6 5% (2009 10 2%)

In addition to the above key performance indicators the company monitors other financial performance indicators on a monthly basis against forecasts and budgets including, but not limited to, material and contribution margins, working capital days and cash flows

With regard to health and safety, the company employs Lost Time and Reportable Accident metrics This data is reported to divisional and group senior management on a monthly basis, together with commentary regarding remedial, corrective and continuous improvement actions As at 31 December 2010, there were no items to report

In terms of environmental compliance, the company employs key performance indicators capturing performance against pre-defined benchmarks or targets for items including waste product tonnes per tonne of finalised product, energy use per tonne and overall compliance measures The company adopts alternate uses to recycle its waste streams where possible Again at the year end there were no significant variations from forecast for these key performance indicators

Charitable and political contributions

Durıng the year the company made charıtable contrıbutıons of £200,000 (2009 £100,000) The company made no polıtıcal contrıbutıons durıng the year (2009 £nıl)

Directors

The dırectors of the company durıng the year were

The Honourable Akash Paul	
The Honourable Ambar Paul	(resıgned 30 September 2010)
The Honourable Angad Paul	
N R K Clarke	(appoınted 1 December 2010)
C D Gardner	(resıgned 1 December 2010)
A L Jarvıs	
M D Maley	(resıgned 11 March 2011)
R Morley	
J C Pay	
G W Prentıce	
M D Sımmons	
S Unwın	
A H J Vollebergh	(appoınted 11 March 2011)
J A H Wraıth	(resıgned 31 May 2010)

Employment policies

The company ıs an equal opportunıty employer and makes every effort to ensure dısabled people are not dıscrımınated agaınst on the grounds of theır dısabılıty In the event of staff becomıng dısabled, every effort ıs made to ensure that theır employment contınues and approprıate traınıng ıs arranged

The company operates a harmonısed employment package based on maxımum flexıbılıty and reward for excellence The harmonısed package enables each and every employee to enjoy the same holıday and sıckness benefit and the benefits of a profit related pay scheme

Personnel

The ımportance of health and safety matters ıs recognısed by the company, whıch contınues to provıde and maıntaın safe and healthy workıng condıtıons All employees are covered by a non-contrıbutory prıvate medıcal care scheme The company contınues to achıeve actıve consultatıon wıth employees at all levels and holds regular employee conferences and regular consultatıons wıth employee representatıves

The company actıvely encourages personnel traınıng and development and has a number of employees pursuıng NVQ studıes

Policy on payment of creditors

It ıs the company's polıcy to settle all trade credıtors wıthın normal commercıal terms of trade agreed wıth each supplıer At 31 December 2010 the company's trade credıtors represented 76 days (2009 56 days)

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Indemnity cover

Third party indemnity cover for the directors was in force during the financial year and at the year end

Financial instruments

Details of the financial risk management objectives and policies and details of the use of financial instruments by the company are provided in note 25 to the financial statements

Caparo Merchant Bar Plc

Report of the directors for the year ended 31 December 2010 ***(Continued)***

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of the information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information The directors are not aware of any relevant audit information of which the auditors are unaware

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the annual general meeting

By order of the Board

J C Pay
Director

Date 28 March 2011

TO THE MEMBERS OF CAPARO MERCHANT BAR PLC

We have audited the financial statements of Caparo Merchant Bar Plc for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

BDO LLP

Thomas Lawton, (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom

Date 29 MARCH 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Caparo Merchant Bar Plc

Profit and loss account for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Turnover	2	**93,253**	79,003
Cost of sales		**(83,625)**	(69,369)
Gross profit		**9,628**	9,634
Distribution costs		**(4,111)**	(3,029)
Administrative expenses		**(4,250)**	(4,084)
Operating profit	5	**1,267**	2,521
Interest receivable and similar income	6	**993**	692
Interest payable and similar charges	7	**(561)**	(692)
Profit on ordinary activities before taxation		**1,699**	2,521
Taxation on profit on ordinary activities	8	**(1,049)**	(1,254)
Profit for the financial year	18	**650**	1,267

All amounts relate to continuing activities
All recognised gains and losses are included in the profit and loss account for the current and prior year

The notes on pages 12 to 27 form part of these financial statements

Caparo Merchant Bar Plc

Balance sheet at 31 December 2010

Company number 1860172	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Fixed assets					
Tangible assets	9		**10,149**		11,964
Current assets					
Stocks	10	**10,012**		8,481	
Debtors	11	**31,446**		23,720	
Cash at bank and in hand		**1,290**		140	
		42,748		32,341	
Creditors: amounts falling due within one year	12	**(21,852)**		(19,125)	
Net current assets			**20,896**		13,216
Total assets less current liabilities			**31,045**		25,180
Creditors: amounts falling due after more than one year	13		**(5,269)**		(54)
Net assets			**25,776**		25,126
Capital and reserves					
Called up share capital	17		**2,467**		2,467
Share premium account	18		**1,553**		1,553
Revaluation reserve	18		**3,578**		3,677
Profit and loss account	18		**18,178**		17,429
Shareholders' funds	18		**25,776**		25,126

The financial statements were approved by the Board of Directors and authorised for issue on 28 March 2011

A L Jarvis
Director

J C Pay
Director

The notes on pages 12 to 27 form part of these financial statements

Caparo Merchant Bar Plc

Cash flow statement for the year ended 31 December 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Net cash inflow from operating activities	22		7,179		15,205
Returns on investments and servicing of finance					
Interest paid		(499)		(682)	
Interest received		868		692	
Interest element of finance lease rental payments		(10)		(10)	
Net cash inflow from returns on investments and servicing of finance			359		-
Taxation					
Corporation tax (including group relief) (paid)/received			(1,642)		761
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(12)		(520)	
Receipts from sale of tangible fixed assets		17		-	
Payments to group undertakings		(18,500)		(12,338)	
Receipts from group undertakings		12,338		-	
Net cash outflow from capital expenditure and financial investment			(6,157)		(12,858)
Cash (outflow)/inflow before financing			(261)		3,108
Financing					
Increase in bank loans	24	7,000		-	
Repayment of bank loans	24	(2,850)		(4,500)	
Increase/(decrease) in loans		4,150		(4,500)	
Capital element of finance lease rental payments	24	(44)		(26)	
Net cash inflow/(outflow) from financing			4,106		(4,526)
Increase/(decrease) in cash	23		3,845		(1,418)

The notes on pages 12 to 27 form part of these financial statements

1 Accounting policies

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets and are in accordance with applicable law and United Kingdom Accounting Standards

The following principal accounting policies have been applied

Basis of preparation

Following the refinancing of the company's term loans during the year and the renewal of its working capital facilities, the company is trading and is expected to continue to trade within its facilities based on cash flow forecasts prepared by the directors The directors have therefore prepared the accounts on the going concern basis

Turnover

Turnover, stated net of value added tax, represents amounts invoiced to third parties Turnover is recognised when the risks and rewards of owning the goods has passed to the customer which is generally on delivery

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief or capital losses, and
- the recognition of deferred tax assets is limited to the extent that the company expects to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

Dividends

Dividends are recognised when they become legally payable In the case of interim dividends to shareholders this is when paid by the company In the case of final dividends this is when approved by the shareholders

1 Accounting policies *(Continued)*

Fixed assets and depreciation

Tangible fixed assets are held at cost or historic valuation, less accumulated depreciation The company adopted the transitional arrangements in FRS 15 'Tangible Fixed Assets', to retain the book amounts of valuations of fixed assets that had taken place prior to the adoption of FRS 15 in 2000

Depreciation is provided to write off the cost or valuation, less the estimated residual value, of tangible fixed assets by equal instalments over their expected useful economic lives as follows

Freehold buildings	-	2% per annum
Plant and machinery	-	5 - 20% per annum
Computer equipment	-	20 - 33% per annum
Computer software	-	33% per annum
Vehicles and mobile plant	-	15 - 25% per annum

Freehold land is not depreciated All other assets are depreciated from the date of commissioning

Leasing

Assets acquired under finance leases are capitalised in the balance sheet and depreciated over their expected useful lives The interest element is charged to the profit and loss account over the term of the agreement

Rentals in respect of operating leases are charged to the profit and loss account over the term of the agreement

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value For finished goods manufactured by the company, cost is taken as direct material, direct labour and an appropriate proportion of manufacturing overheads

Net realisable value is based on estimated selling price less further costs to completion and sale

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date except where they are covered by forward contracts when the forward rate is used Any gains or losses on translation are included in the profit and loss account

Pension costs

The pension costs for defined contribution schemes are the contributions payable in the year

As the company is a member of a group defined benefit scheme, and is unable to identify its share of the underlying assets and liabilities of the scheme, the pension costs for the defined benefit scheme are taken as the contributions payable in the year

1 Accounting policies *(Continued)*

Financial risk management

Exposure to movements in rates of foreign exchange in relation to trading transactions between the date that a contractual obligation is entered into and the date of completion of the contract is hedged through the use of currency asset and liability matching exchange contracts and other financial instruments

Exposure to movements in interest rates is reviewed regularly by the directors The company utilises financial instruments to limit the company's exposure to movements in interest rates where in the opinion of the directors the expected benefits of such arrangements exceed the expected costs or at the request of the company's lenders

Gains and losses arising on derivative instruments to hedge the company's exposure to transactions in foreign currencies are recognised in the profit and loss account when the hedged transaction is completed

Further information is provided in note 25 to the financial statements

2 Turnover

The company's turnover is derived in the UK from its principal activity An analysis of turnover by geographical market is as follows

	2010 £'000	2009 £'000
United Kingdom	**47,345**	37,754
Rest of Europe	**45,123**	40,488
Rest of the World	**785**	761
	93,253	79,003

3 Employees

	2010 £'000	2009 £'000
Staff costs, including directors, consist of		
Wages and salaries	**4,956**	4,718
Social security costs	**497**	482
Pension costs	**372**	343
	5,825	5,543

3 Employees *(Continued)*

The average number of employees, including directors, during the year were

	2010 Number	2009 Number
Production and sales	**171**	177
Administration	**18**	18
	189	195

4 Directors' remuneration

	2010 £'000	2009 £'000
Directors' remuneration consists of		
Emoluments	**383**	473
Amounts receivable under long-term incentive schemes	**3**	6
Company contributions to defined contribution pension schemes	**29**	30
Compensation for loss of office	**64**	-
	479	509

There were three directors in defined contribution schemes to which the company made contributions during the year (2009 three) There were two directors in the group's defined benefit pension schemes (2009 two)

The emoluments, excluding pension contributions, of the highest paid director were £111,000 (2009 £109,000), payments to the defined benefit scheme were £6,000 (2009 £14,000) The accrued pension of the highest paid director at the year end was £nil (2009 £37,000)

5 Operating profit

	2010 £'000	2009 £'000
This has been arrived at after charging/(crediting)		
Depreciation of owned assets	**1,783**	2,068
Depreciation of assets held under finance leases	**20**	25
Operating lease rentals		
- other	**254**	232
Auditor's remuneration for audit services	**12**	25
Loss on disposal of fixed assets	**7**	-
Exceptional exchange gains	**-**	(1,383)

6 Interest receivable and similar income

	2010 £'000	2009 £'000
Inter group interest	**993**	692

7 Interest payable and similar charges

	2010 £'000	2009 £'000
Bank loans and overdraft	**551**	682
Finance lease interest	**10**	10
	561	692

8 Taxation on profit on ordinary activities

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Current tax				
Corporation tax on profits of the year	**1,069**		1,107	
Adjustment in respect of previous years	**(20)**		147	
Total current tax charge		**1,049**		1,254
Deferred tax				
Movement in deferred tax provision		**-**		-
Taxation on profit on ordinary activities		**1,049**		1,254

8 Taxation on profit on ordinary activities *(Continued)*

The current tax on ordinary activities for the year is different from the standard rate of corporation tax in the UK The differences are explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	**1,699**	2,521
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2009 28%)	**476**	706
Effect of		
Permanent differences	**(49)**	18
Capital allowances for the year less than depreciation	**474**	455
Other timing differences	**168**	161
Utilisation of tax losses	**-**	(233)
Adjustment to current tax charge in respect of previous years	**(20)**	147
Current tax charge for year	**1,049**	1,254

Factors that may affect future tax charges

The company has unprovided UK deferred tax assets, excluding timing differences on revalued property, of £1,746,000 (2009 £1,155,000) (note 16)

Based on current capital investment plans, the company expects depreciation to exceed capital allowances in future years

No provision has been made for deferred tax on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets Such tax would become payable only if the property were sold without it being possible to claim rollover relief or to offset the gain against tax losses brought forward in the Caparo Group The total amount unprovided is disclosed in note 16 At present, it is not envisaged that any tax will become payable in the foreseeable future

9 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Vehicles and mobile plant £'000	Total £'000
Cost or valuation				
At 1 January 2010	5,650	38,688	140	44,478
Additions	-	12	-	12
Disposals	-	-	(34)	(34)
At 31 December 2010	**5,650**	**38,700**	**106**	**44,456**
Depreciation				
At 1 January 2010	1,845	30,609	60	32,514
Charge for year	103	1,679	21	1,803
Disposals	-	-	(10)	(10)
At 31 December 2010	**1,948**	**32,288**	**71**	**34,307**
Net book value				
At 31 December 2010	**3,702**	**6,412**	**35**	**10,149**
At 31 December 2009	3,805	8,079	80	11,964
Analysis of cost or valuation				
At cost	-	27,185	106	27,291
At valuation				
- 1988	5,650	-	-	5,650
- 1990	-	11,515	-	11,515
At 31 December 2010	**5,650**	**38,700**	**106**	**44,456**

9 Tangible fixed assets *(Continued)*

	Freehold land and buildings £'000	Plant and machinery £'000	Vehicles and mobile plant £'000	Total £'000
Historical cost at 31 December 2010	200	33,810	106	34,116
Accumulated depreciation based on historical cost	(76)	(27,398)	(71)	(27,545)
Historical cost net book value at 31 December 2010	**124**	**6,412**	**35**	**6,571**
Historical cost at 31 December 2009	200	33,798	140	34,138
Accumulated depreciation based on historical cost	(72)	(25,719)	(60)	(25,851)
Historical cost net book value at 31 December 2009	128	8,079	80	8,287

Included in the total net book value of vehicles and mobile plant are assets held under finance leases with a net book value of £36,000 (2009 £80,000)

10 Stocks

	2010 £'000	2009 £'000
Raw materials and consumables	**1,906**	1,091
Rolls	**239**	399
Stores and spares	**2,320**	2,283
Finished goods	**5,547**	4,708
	10,012	8,481

11 Debtors

	2010 £'000	2009 £'000
Trade debtors	**7,286**	6,669
Amounts owed by related undertaking	**1,473**	700
Amounts owed by group undertakings	**21,698**	15,692
Other debtors	**1**	1
Prepayments and accrued income	**518**	476
Other taxation and social security	**470**	182
	31,446	23,720

All amounts shown under debtors fall due for payment within one year

Included within amounts owed by group undertakings is a loan of £3,000,000 (2009 £3,000,000) due from the ultimate parent company which is repayable on demand In addition there is a loan of £18,500,000 (2009 £nil) due from Caparo Steel Products Limited which is repayable on demand A loan of £12,338,000 outstanding at the end of 2009, was repaid during 2010 owed by Caparo Industries Plc Interest on the loans is charged at commercial margins over bank base lending rates

12 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Bank loans, overdrafts and similar finance	**2,959**	6,754
Trade creditors – External suppliers	**7,791**	2,153
Trade creditors – Amounts owed to related undertaking	**9,618**	8,443
Amounts owed to group undertakings	**-**	7
Corporation tax	**357**	952
Other taxation and social security	**134**	120
Obligations under finance leases (note 15)	**17**	25
Accruals and deferred income	**400**	242
Other creditors	**576**	429
	21,852	19,125

The bank loan bears interest at a commercial rate above LIBOR

13 Creditors: amounts falling due after more than one year

	2010 £'000	2009 £'000
Bank loans, overdrafts and similar finance	**5,250**	-
Obligations under finance leases (note 15)	**19**	54
	5,269	54

14 Bank loans, overdrafts and similar finance

	2010 £'000	2009 £'000
Bank loans, overdrafts and similar finance are repayable as follows		
In one year or less	**2,959**	6,753
In one to two years	**1,400**	-
In two to five years	**3,850**	-
	8,209	6,753

The bank loans, overdrafts and similar finance are secured by a charge over certain assets of the company and of certain group companies, with interest being charged at commercial rates

The term loan bears interest at commercial margins over bank base lending rates

15 Leasing

The company was committed to the following net obligations under non-cancellable finance leases as follows

	2010 £'000	2009 £'000
Finance leases are repayable as follows		
In one year or less	**17**	25
In one to two years	**17**	25
In two to five years	**2**	29
	36	79

Finance leases are secured on the assets to which they relate and are repayable within five years

16 Provision for liabilities

	Deferred taxation £'000
At 1 January and 31 December 2010	-

Deferred tax comprised the following liabilities/(assets)

	Provided 2010 £'000	Unprovided 2010 £'000	Provided 2009 £'000	Unprovided 2009 £'000
Accelerated capital allowances	-	(1,677)	-	(1,142)
Short term timing differences	-	(69)	-	(13)
On revaluation of assets	-	956	-	1,009
	-	(790)	-	(146)

17 Called up share capital

	Authorised			
	2010 Number	2010 £'000	2009 Number	2009 £'000
Ordinary shares of £1 each	2,500,000	2,500	2,500,000	2,500

	Allotted, called up and fully paid			
	2010 Number	2010 £'000	2009 Number	2009 £'000
Ordinary shares of £1 each	2,466,667	2,467	2,466,667	2,467

18 a) Reserves

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2010	1,553	3,677	17,429
Profit for the financial year	-	-	650
Release of revaluation reserve	-	(99)	99
At 31 December 2010	**1,553**	**3,578**	**18,178**

b) Note of historical cost profits and losses

	2010 £'000	2009 £'000
Reported profit on ordinary activities before taxation	**1,699**	2,521
Difference between actual and historical cost depreciation	**99**	99
Historical cost profit on ordinary activities before taxation	**1,798**	2,620
Retained historical cost profit for the year after taxation	**749**	1,366

c) Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Opening shareholders' funds	**25,126**	23,859
Profit for the financial year	**650**	1,267
Closing shareholders' funds	**25,776**	25,126

19 Commitments

(i) Capital commitments at 31 December are as follows

	2010 £'000	2009 £'000
Contracted but not provided	220	-

(ii) Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2010 £'000	2009 £'000
Operating leases which expire		
Over five years	254	254

20 Pension schemes

Caparo Industries Plc and its UK subsidiaries ('the CI Group') operate a defined benefit UK pension scheme providing benefits based on final pensionable pay, the Caparo 1988 Pension Scheme ('the Caparo Scheme'), of which the company is a participating member The assets of the Caparo Scheme are held by a Trustee separate from those of the CI Group

The Caparo Scheme is treated as a multi-employer scheme, as the company is unable to identify its share of the underlying assets and liabilities of the Caparo Scheme on a consistent and reasonable basis given the changes in the composition of the group members over the years Therefore contributions to the Caparo Scheme by the company are based upon pension costs across the participating companies as a whole and the Caparo Scheme is accounted for as if it were a defined contribution scheme in the accounts of the company, although the Caparo Scheme has been accounted for as a defined benefit scheme in the group accounts of Caparo Industries Plc

Contributions are agreed by the Scheme Trustee and the company sponsoring the Caparo Scheme, acting on the advice of the Scheme Actuary, on the basis of triennial valuations and formal updates using the projected unit method Following the completion of the triennial actuarial valuation as at 31 March 2009, the level of normal contributions payable by the CI Group in 2010 increased with effect from 31 July 2010 At the year end, the CI Group has agreed employer contribution rates of between 17 6% and 21 2% of salary for the accrual of future benefits These rates are subject to periodic review As the Caparo Scheme is closed to new entrants, the service cost will be expected to rise in future years as the membership ages

The full actuarial valuation carried out as at 31 March 2009 was updated to 31 December 2010 on a FRS17 basis by a qualified independent actuary The actuarial valuations of the Caparo Scheme at 31 December 2010 and 31 December 2009 on a FRS17 basis showed a net pension surplus of £3.5m and £0 1m respectively Further details of the valuation on a FRS17 basis are disclosed in the accounts of Caparo Group Limited and Caparo Industries Plc

20 Pension schemes *(continued)*

The pension charge for the year in respect of the Caparo Scheme was £255,000 (2009 £234,000) At 31 December 2010 there were no employee contributions payable (2009 £nil) to the Caparo Scheme

The company also contributes to the Caparo Stakeholder Pension Plan, a UK defined contribution scheme invested through Investment Solutions Limited The pension charge for the year in respect of these arrangements was £117,000 (2009 £109,000) At 31 December 2010 there were no employee contributions payable (2009 £nil) to the Caparo Stakeholder Pension Plan

21 Related party transactions

During the year the company traded with fellow subsidiaries as follows

	Net goods and services sold/(bought)		Net debtor at 31 December	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Fellow members of Caparo Group Limited	**2,364**	(638)	**198**	347

The company traded with Tata Steel UK Limited, its minority shareholder, during the year as follows

	Net goods and services bought		Net creditor at 31 December	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Tata Steel UK Limited	**51,916**	44,169	**8,145**	7,743

All transactions took place under normal commercial terms

22 Reconciliation of operating profit to net cash inflow from operating activities

	2010	2009
	£'000	£'000
Operating profit	**1,267**	2,521
Loss on sale of fixed assets	**7**	-
Depreciation charge	**1,803**	2,093
(Increase)/decrease in stocks	**(1,531)**	7,265
(Increase)/decrease in debtors	**(1,439)**	2,187
Increase in creditors	**7,072**	1,139
Net cash inflow from operating activities	**7,179**	15,205

23 Reconciliation of net cash inflow/(outflow) to movement in net debt

	2010 £'000	2009 £'000
Increase/(decrease) in cash in the year	**3,845**	(1,418)
Cash (inflow)/outflow from (increase)/reduction in debt and lease financing	**(4,106)**	4,526
Movement in net debt in the year	**(261)**	3,108
Opening net debt	**(6,693)**	(9,801)
Closing net debt	**(6,954)**	(6,693)

24 Reconciliation of net debt

	At 1 January 2010 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 December 2010 £'000
Cash at bank and in hand	140	1,150	-	**1,290**
Overdraft	(4,254)	2,695	-	**(1,559)**
Change in cash	(4,114)	3,845	-	**(269)**
Bank loans due within one year	(2,500)	1,100	-	**(1,400)**
Bank loans due after one year	-	(5,250)	-	**(5,250)**
Finance leases	(79)	44	-	**(35)**
Net debt	(6,693)	(261)	-	**(6,954)**

25 Financial instruments

The company holds or issues financial instruments to finance its operations and enters into contracts to manage risks arising from those operations and its sources of finance in accordance with its accounting policies

Various financial instruments such as trade debtors and trade creditors arise directly from the company's operations

The company performs rigorous credit checks for all customers, and credit insurance is obtained, where available, to minimise bad debt risk Where credit insurance is not available, the company undertakes detailed credit evaluations of prospective customers, which are subject to group review and approval before supplies can be made

Operations are financed by a mixture of retained profits, short term bank borrowings and term loans Acquisitions, in general, and working capital requirements are funded principally out of short and longer term banking facilities and retained profits

26 Ultimate parent company and controlling parties

The company's immediate parent company is Caparo Steel Products Limited The ultimate parent company is Caparo Group Limited

The largest group in which the results of the company are consolidated is that headed by Caparo Group Limited The smallest group in which they are consolidated is that headed by Caparo Steel Products Limited Copies of the consolidated accounts of Caparo Group Limited and Caparo Steel Products Limited are available from Companies House, Cardiff

The Right Honourable The Lord Paul of Marylebone, The Honourable Ms Anjli Paul, The Honourable Ambar Paul, The Honourable Akash Paul and The Honourable Angad Paul, directors of Caparo Group Limited, are jointly and indirectly interested in the whole of the issued share capital of Caparo Group Limited through shareholdings registered in the name of Caparo International Corporation, a company registered in the British Virgin Islands