Orb Electrical Steels Limited

Annual report for the year ended 29 December 2001

Registered no: 2640894

Orb Electrical Steels Limited

Annual report for the year ended 29 December 2001

Orb Electrical Steels Limited

Directors and advisers

Directors

S H Best
I A Gilbert
W Ford

Secretary and registered office

J W Suter
Orb Works
Corporation Road
Newport
NP19 0XT

Auditors

PricewaterhouseCoopers
One Kingsway
Cardiff
CF10 3PW

Solicitors

Corus Group plc
30 Millbank
London
SW1P 4WY

Bankers

Lloyds TSB Bank plc
City Office
Gillingham Business Park
Gillingham
Kent
ME8 0LS

Orb Electrical Steels Limited

Directors' report for the year ended 29 December 2001

The directors present their report and the audited financial statements for the year ended 29 December 2001.

Principal activities

The principal activity of the company is the processing of steel coil to apply properties appropriate for use in transformers, generators and other electrical equipment.

Review of business

The profit and loss account is set out on page 7.

Trading conditions improved somewhat during the period despite the continued strength of Sterling against other major currencies adversely impacting on the company's exports.

The level of profitability in the next financial period will depend on the development of market conditions and movements in exchange rates. The company will continue to take steps to maintain and improve its cost competitiveness.

Dividends

An interim dividend of £2,900,000 was proposed and paid on 13 November 2001 (15 months ended 30 December 2000: £Nil).

Directors

The directors of the company at 29 December 2001 are listed on page 1. F D Morgan resigned as a director on 30 April 2001. W Ford was appointed as a director on 18 June 2001.

Directors' interests

Interests in shares of the company

No director of the company at 29 December 2001 had any interest in the shares of the company, according to the register required to be kept by section 325 Companies Act 1985.

Orb Electrical Steels Limited

Directors' interests

Interests in shares of the ultimate parent company

The interests of the directors in the shares of the ultimate parent company, Corus Group plc, are noted below:

	29 December 2001 Number	30 December 2000 Number
S H Best	**2,511**	2,244
I A Gilbert	**740**	473
W Ford	**267**	-

Details of share options:

	30 December 2000/ date of appointment Number	**Movements in the year** Granted Number	**Exercised Number**	**Lapsed Number**	**29 December 2001/date of resignation Number**
S H Best	301,749	141,000	-	**(10,328)**	**432,421**
I A Gilbert	117,821	87,800	-	-	**205,621**
F D Morgan	117,534	-	-	-	**117,534**
W Ford	118,889	87,800	-	-	**206,689**

The exercise prices and dates of exercise in respect of the options held at 29 December 2001 are as follows:

	Number of shares	**Price per share**	**Date of Exercise**
Sharesave scheme	25,454	51.5p – 88.47p	2003 – 2004
Executive scheme	819,277	55.3p – 137.9p	1997 to 2011

Employees

The company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

The company recognises its responsibilities towards disabled people and employs them where suitable work can be found. Every effort is made to find appropriate alternative jobs for those who become disabled while working for the company.

Research and development activities

The company commissions research and development programmes appropriate to its business.

Payment to creditors

The company's average creditor payment period at 29 December 2001 was 91 days (30 December 2000: 66 days).

It is the policy of the company to establish terms of payment with suppliers when agreeing the terms of business transactions. The aim is to despatch cheques on the due date or, where other means of payment are adopted, to deliver funds to suppliers as if payment had been made by cheque.

Auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the annual general meeting.

By order of the board

I.A. [signature]

Director
21 June 2002

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 29 December 2001. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

Director
21 June 2002

Independent auditors' report to the members of Orb Electrical Steels Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remunerations and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 29 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Cardiff
Date: 21 June 2002

Orb Electrical Steels Limited

Profit and loss account
for the year ended 29 December 2001

	Notes	12 months ended 29 December 2001 £'000	Restated 15 months ended 30 December 2000 £'000
Turnover	2	**87,509**	116,205
Cost of sales		**(75,572)**	(101,234)
Gross profit		**11,937**	14,971
Net operating expenses	3	**(8,914)**	(14,259)
Operating profit		**3,023**	712
Interest receivable and similar income		**359**	135
		3,382	847
Interest payable and similar charges	6	**(26)**	(275)
Profit on ordinary activities before taxation	7	**3,356**	572
Tax on profit on ordinary activities	8	**(1,128)**	(807)
Profit/(loss) on ordinary activities after taxation		**2,228**	(235)
Dividends	9	**(2,900)**	-
Retained loss for the financial period	19	**(672)**	(235)

Continuing operations

All items dealt with in arriving at operating profit for the year ended 29 December 2001 and the period ended 30 December 2000, respectively, relate to continuing operations.

Shareholders' funds

A statement of the movement on reserves is given in Note 19 to the financial statements and a reconciliation of movements in shareholders' funds is given in Note 20.

Statement of total recognised gains and losses

The company has no recognised gains and losses other than those included in the loss above, and therefore no separate statement of total recognised gains and losses has been presented.

Historical cost profits and losses

There is no difference between the profit on ordinary activities before taxation, and the retained loss for the year stated above, and their historical cost equivalents.

Orb Electrical Steels Limited

Balance sheet
at 29 December 2001

	Notes	2001	Restated 2000
		£'000	£'000
Fixed assets			
Intangible assets	10	**128**	145
Tangible assets	11	**23,642**	26,787
		23,770	26,932
Current assets			
Stocks	12	**8,119**	7,895
Debtors	13	**18,604**	26,304
Cash at bank and in hand		**13,037**	4,492
		39,760	38,691
Creditors: amounts falling due within one year	14	**(19,002)**	(20,588)
Net current assets		**20,758**	18,103
Total assets less current liabilities		**44,528**	45,035
Accruals and deferred income	15	**(2)**	(54)
Provision for liabilities and charges	16	**(2,923)**	(2,706)
Net assets		**41,603**	42,275
Capital and reserves			
Called-up share capital	18	**32,000**	32,000
Profit and loss account	19	**9,603**	10,275
Total equity shareholders' funds	20	**41,603**	42,275

The financial statements on pages 7 to 20 were approved by the board of directors on 21 June 2002 and were signed on its behalf by:

I.A

Director

Orb Electrical Steels Limited

Notes to the financial statements for the year ended 29 December 2001

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Change in accounting policy and presentation

Changes in accounting policy and presentation have been made in order to comply with the following Financial Reporting Standards (FRS) issued by the Accounting Standards Board (ASB) in the financial year.

(i) FRS 17 "Retirement Benefits" requires the assets of a defined benefit pension scheme to be measured at market value at each balance sheet date and the liabilities to be measured using a specified actuarial valuation method and to be discounted using a corporate bond rate.

It also requires the resulting pension scheme surplus or deficit to be recognised immediately on the balance sheet and any resulting actuarial gains and losses to be recognised immediately in the statement of total recognised gains and losses rather than being recognised gradually in the profit and loss account.

Full compliance with the standard is not required until the year ended December 2002, however, transitional disclosure has been made in the accounts of Corus Group plc.

(ii) FRS 18 "Accounting Policies" has been complied with in the preparation of these accounts but has not led to any changes in accounting policy.

(iii) FRS 19 "Deferred Tax" has been adopted in the preparation of these accounts. The Standard requires deferred taxation to be provided in full on all material timing differences between the recognition of gains and losses in the accounts and their recognition for tax purposes where future payment or receipt is more likely than not to occur. Previously, provision was made for deferred taxation on all material timing differences to the extent that it was probable that a liability or asset would crystallise. In adopting FRS 19, the company has chosen to discount deferred tax assets and liabilities. The comparative figures for the fifteen month accounting period have been restated to reflect the impact of FRS 19.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Cash flow statement

The company is a wholly owned subsidiary of Cogent Power Limited and the cash flows of the company are included in the consolidated cash flow statement of Cogent Power Limited. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Deferred taxation

Deferred taxation is provided in full on all material timing differences the recognition of gains and losses in the accounts and their recognition for tax purposes where future payment or receipt is more likely than not to occur. Deferred tax assets and liabilities have been discounted.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the quoted rates of exchange ruling at each balance sheet date except where forward cover has been obtained, when the covered rate is used. Non monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction or the covered rate.

Tangible and intangible fixed assets

Tangible fixed assets are recorded at original cost less accumulated depreciation. In the case of assets constructed by the company, related works and administrative overheads are included at cost. Commissioning costs and interest attributable to expenditure on assets in the course of construction are not capitalised but written off to revenue as incurred.

Included in tangible fixed assets 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 also spares against which provisions are made where necessary to cover slow moving and obsolete items.

Repairs and renewals are charged to the profit and loss account as incurred.

Depreciation of tangible and intangible fixed assets

Depreciation is provided so as to write off the net book value of tangible fixed assets. They are depreciated from the dates they are brought into use over their estimated useful lives. The estimated useful lives of assets are reviewed regularly and, when necessary, revised. Accelerated depreciation is provided where an asset is expected to become obsolete before the end of its normal useful life. No further depreciation is provided in respect of assets which are fully written down but are still in use.

The estimated useful lives for the main categories of fixed assets are:

Freehold buildings	25 – 50 years
Plant and machinery	maximum 15 years
Office equipment and furniture	10 years
Motor vehicles	4 years

Licences are depreciated over the term of the individual licence.

Research and development expenditure

Revenue expenditure on research and development is charged to the profit and loss account as it is incurred.

Stocks

Stocks of raw materials are valued at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis. Stocks of partly processed materials, finished products and stores are individually valued at the lower of cost and net realisable value. Cost of partly processed and finished products comprises cost of production including works overheads. Net realisable value is the price at which the stocks 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 cost of disposal. Provisions are made to cover slow moving and obsolete items.

Pension costs

The expected cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the expected average remaining service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. Further details are given in Note 17.

Government grants

Grants related to expenditure on tangible fixed assets are credited to the profit and loss account over a period approximating to the lives of qualifying assets. Total grants receivable less the amounts credited to the profit and loss account at the balance sheet date are included in the balance sheet as deferred income.

2 Turnover

The company's turnover and profit on ordinary activities before taxation all arose from one class of business. An analysis of turnover by geographical segment is shown below:

	12 months ended 29 December 2001 £'000	15 months ended 30 December 2000 £'000
UK	**32,371**	39,103
Rest of Europe	**39,809**	51,802
Rest of World	**17,329**	25,300
	87,509	116,205

Orb Electrical Steels Limited

3 Net operating expenses

	12 months ended 29 December 2001 £'000	15 months ended 30 December 2000 £'000
Distribution costs	**3,231**	5,809
Administrative expenses	**5,683**	8,450
	8,914	14,259

4 Directors' emoluments

Emoluments paid to directors of the company are paid by the parent company, Cogent Power Limited, and recharged to the company as part of a management charge. This management charge, which for the year ended 29 December 2001 amounted to £655,616 (fifteen month period ended 30 December 2000 amounted to £868,545) also includes a charge for administrative costs paid by the parent company and it is not possible to identify separately the amount of the individual directors' emoluments.

5 Employee information

The average monthly number of persons employed during the year was:

	12 months ended 29 December 2001 Number	15 months ended 30 December 2000 Number
Production	**313**	329
Administration	**136**	122
	449	451

	12 months ended 29 December 2001 £'000	15 months ended 30 December 2000 £'000
Staff costs (for the above persons):		
Wages and salaries	**10,672**	13,293
Social security costs	**769**	1,020
Other pension costs (See Note 17)	**183**	228
	11,624	14,541

6 Interest payable and similar charges

	12 months ended 29 December 2001 £'000	15 months ended 30 December 2000 £'000
Bank loans and overdrafts	-	23
Group company loans	26	252
	26	275

7 Profit on ordinary activities before taxation

	12 months ended 29 December 2001 £'000	15 months ended 30 December 2000 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Amortisation of government grants	52	71
And after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	2,946	3,891
Amortisation of intangible fixed assets	17	22
Auditors' remuneration for audit services	34	35
Research and development expenditure	861	889

There were no other fees payable to the auditors in respect of non-audit services for the year (15 months ended 30 December 2000: £Nil).

8 Taxation

(a) Analysis of charge in the year

	12 months ended 29 December 2001 £'000	Restated 15 months ended 30 December 2000 £'000
Current tax:		
UK tax charge at 30%	**822**	2
Prior year charge	**89**	596
Current tax charge (Note 8(b))	**911**	598
Deferred tax:		
Origination and reversal of timing differences	**178**	201
Increase in discount	**39**	8
Deferred tax charge	**217**	209
Tax on profit on ordinary activities	**1,128**	807

(b) Factors affecting the tax charge for the year

The current tax charge reconciles with the standard rate of UK corporation tax as follows:

	12 months ended 29 December 2001 £'000	Restated 15 months ended 30 December 2000 £'000
Tax on result at standard rate of 30% (2000 : 30%)	**1,007**	171
Temporary differences between taxable and accounting profits:		
Accelerated capital allowances	**219**	19
Other	**(407)**	(194)
Prior year charge	**89**	596
Permanent differences	**3**	6
Current tax charge (Note 8(a))	**911**	598

9 Dividends

	12 months ended 29 December 2001 £'000	15 months ended 30 December 2000 £'000
Interim dividend paid of £0.090625 per £1 share	**2,900**	-

10 Intangible fixed assets

	Licences £'000
Cost	
At 31 December 2000 and 29 December 2001	**176**
Depreciation	
At 31 December 2000	31
Charge for the year	17
At 29 December 2001	**48**
Net book value	
At 29 December 2001	**128**
At 30 December 2000	145

11 Tangible fixed assets

Cost	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
At 31 December 2000	2,198	59,604	61,802
Additions	-	36	36
At 29 December 2001	**2,198**	**59,640**	**61,838**
Depreciation			
At 31 December 2000	1,881	36,869	38,750
Charge for the period	40	2,906	2,946
At 29 December 2001	**1,921**	**39,775**	**41,696**
Net book value at 29 December 2001	**277**	**19,865**	**20,142**
Spares, loose plant and tools			**3,500**
Net book value of tangible fixed assets at 29 December 2001			**23,642**
Net book value at 30 December 2000	317	22,735	23,052
Spares, loose plant and tools			3,735
Net book value of tangible fixed assets at 30 December 2000			26,787

12 Stocks

	2001 £'000	2000 £'000
Raw materials and consumables	**1,996**	987
Work in progress	**3,149**	4,668
Finished goods and goods for resale	**2,974**	2,240
	8,119	7,895

13 Debtors

	2001 £'000	2000 £'000
Amounts falling due within one year		
Trade debtors	**10,446**	15,782
Amounts owed by group undertakings	**7,554**	9,985
Other debtors	**604**	517
Group relief receivable	**-**	20
	18,604	26,304

14 Creditors: amounts falling due within one year

	2001 £'000	2000 £'000
Trade creditors	**12,506**	8,946
Amounts owed to group undertakings	**3,469**	9,374
Group relief payable	**890**	-
Other taxation and social security payable	**557**	396
Other creditors	**1,580**	1,872
	19,002	20,588

15 Accruals and deferred income

	£'000
Government grants	
At 31 December 2000	54
Amortised in the year	(52)
At 29 December 2001	**2**

16 Deferred taxation

	2001 £'000	2000 £'000
At the beginning of the year as restated / previously reported	**2,706**	-
Prior year adjustment in respect of FRS 19	**-**	2,497
At the beginning of the year as restated	**2,706**	2,497
Profit and loss account	**217**	209
At the end of the year	**2,923**	2,706

16 Deferred taxation (continued)

The deferred tax provided in the financial statements is made up as follows:

	2001	Restated 2000
	£'000	£'000
Accelerated capital allowances	**3,705**	3,932
Other timing differences	**(141)**	(546)
Undiscounted provision for deferred tax	**3,564**	3,386
Discount	**(641)**	(680)
Discounted provision for deferred tax	**2,923**	2,706

17 Pension and similar obligations

The company participates in the British Steel Pension Scheme operated by the parent. The pension scheme is a defined benefit scheme and its assets are held in a separate trustee administered fund. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening periods the actuary reviews the continuing appropriateness of the rates. The latest actuarial assessment of the scheme was at 31 March 1999. The next formal valuation will be carried out on 31 March 2002. Particulars of the valuation and FRS 17 disclosures are contained in the accounts of Corus Group plc. The pension cost to the company for the year amounted to £183,000 (15 months ended 30 December 2000: £228,000).

18 Called-up share capital

	2001	2000
	£'000	£'000
Authorised		
35,000,000 ordinary shares of £1 each	**35,000**	35,000
Allotted, called up and fully paid		
32,000,000 ordinary shares of £1 each	**32,000**	32,000

19 Profit and loss account

	£'000
At 31 December 2000 as previously stated	12,981
Prior year adjustment in respect of FRS 19	(2,706)
At 31 December 2000 as restated	10,275
Loss for the financial year	(672)
At 29 December 2001	**9,603**

The company's policy for deferred taxation was changed during the year ended 29 December 2001 to comply with Financial Reporting Standard No 19 "Deferred Tax". The comparative figures in the balance sheet and related notes have been restated to reflect this new policy.

20 Reconciliation of movements in equity shareholders' funds

	2001 £'000	2000 £'000
Opening equity shareholders' funds as restated/ previously reported	**42,275**	45,007
Prior year adjustment	-	(2,497)
Opening equity shareholder's funds as restated	**42,275**	42,510
Profit/(loss) for the financial year	**2,228**	(235)
Dividends	**(2,900)**	-
Closing equity shareholders' funds	**41,603**	42,275

21 Contingent liabilities

The company has guaranteed bank overdraft and borrowings of Cogent Power Limited. The total bank borrowing facilities available to Cogent Power Limited and Orb Electrical Steels Limited as at 29 December 2001 is £10,000,000 (2000: £10,000,000).

22 Capital commitments

	2001 £'000	2000 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	-	29

23 Related party transactions

The company has identified the following transactions which fall to be disclosed under the terms of Financial Reporting Standard Number 8, "Related Party Transactions".

Corus Group plc and subsidiaries

At 29 December 2001, Corus UK Limited, a subsidiary of Corus Group plc, held 75% of the equity share capital of the company's immediate parent company, Cogent Power Limited.

In the course of normal trading, the company enters into transactions with Corus Group plc and its subsidiaries for the purchase and sale of steel products. The total of such purchases in the year amounted to £20,743,000 (15 months ended 30 December 2000: £34,398,000) and the total sales amounted to £10,508,000 (15 months ended 30 December 2000: £5,666,000). In addition, the company purchases certain management and administrative services from subsidiaries of Corus Group plc, which amounted to £1,317,000 (15 months ended 30 December 2000: £1,592,000) during the year ended 29 December 2001.

The total amounts owed to Corus Group plc and its subsidiaries at the year end in respect of such transactions was £3,459,000 (30 December 2000: £7,832,000) and the total amounts due from Corus Group plc and its subsidiaries was £2,560,000 (30 December 2000: £5,409,000). No amounts were written off in the period in respect of debts due to or from Corus Group subsidiaries.

All of the above transactions were carried out on an arm's length basis.

24 Ultimate and immediate parent companies

Cogent Power Limited is the company's controlling related party by nature of its 100% interest in the share capital of the company. The ultimate parent undertaking and controlling party is Corus Group plc, a company registered in England and Wales.

Copies of the consolidated financial statements of both Cogent Power Limited and Corus Group plc may be obtained from the Secretary at the address shown on page 1 of these accounts.