

Orb Electrical Steels Limited
Annual report for the
year ended 29 March 1997

Registered no: 2640894



Orb Electrical Steels Limited

Annual report for the year ended 29 March 1997

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Directors and advisers

Directors

S H Best
I A Gilbert
F D Morgan

Auditors

Coopers & Lybrand
Churchill House
Churchill Way
Cardiff
CF1 4XQ

Secretary and registered office

J W Suter
Orb Works
Corporation Road
Newport
Gwent
NP9 0XT

Solicitors

British Steel plc
9 Albert Embankment
London
SE1 7SN

Bankers

Lloyds Bank plc
Newport Branch
42 Commercial Street
Newport
Gwent
NP9 1WX

**Directors' report for the
year ended 29 March 1997**

The directors present their report and the audited financial statements for the year ended 29 March 1997.

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 were less favourable during the year and the company's results suffered accordingly. In particular, the strength of Sterling against other major currencies adversely impacted on the company's exports, whilst at the same time making imports into the UK more attractive to competitors.

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

Dividends

The directors have declared or now recommend the following dividends in respect of the year ended 29 March 1997:

	£'000
Ordinary dividends:	
Interim paid	3,378
Final proposed	3,150
	<hr/>
	6,528
	<hr/>

Fixed assets

The movements in fixed assets during the year are set out in note 10 to the financial statements. The company's interests in land are fully utilised for normal trading operations and it has not been considered necessary to establish the market value of the land.

Directors

The directors of the company at 29 March 1997, all of whom have been directors for the whole of the year ended on that date, are listed on page 1.

Directors' interests

Interests in shares in shares of the company

No director of the company at 29 March 1997 had any interest in the shares of the company, according to the register required to be kept by section 325 Companies Act 1985. There has been no change in this respect since the end of the year.

Interests in shares of the ultimate parent company

The interests of the directors in the shares of the ultimate parent company, British Steel plc, are noted below.

	Ordinary shares		Options	
	29 March 1997	30 March 1996	29 March 1997	30 March 1996
	Number	Number	Number	Number
S H Best	2,244	2,244	79,615	57,915
I A Gilbert	473	473	-	-
F D Morgan	5,468	5,468	18,104	18,104

Details of share options are as follows:-

Name	31 March 1996 Number	Movements in the year		29 March 1997 Number
		Granted Number	Exercised Number	
S H Best	57,915	21,700	-	79,615
I A Gilbert	-	-	-	-
F D Morgan	18,104	-	-	18,104

The exercise prices and dates of exercise in respect of the options held at 29 March 1997 are as follows:-

	Number of shares	Price per share	Date of exercise
British Steel Sharesave scheme	29,419	50.0p to 128.0p	1 April 1994 to 1 April 2001
British Steel Executive scheme	68,300	57.0p to 176.0p	30 July 1995 to 30 July 2006

There have been no changes in the interests of the directors in the shares of the ultimate parent company since 29 March 1997.

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 March 1997 was 65 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, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



Company Secretary
Newport, 27 May 1997

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year 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 March 1997. 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



Company Secretary
Newport, 27 May 1997

Report of the auditors to the members of Orb Electrical Steels Limited

We have audited the financial statements on pages 7 to 18.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and Registered Auditors
Cardiff, 27 May 1997

Profit and loss account for the year ended 29 March 1997

	Notes	Year ended 29 March 1997 £'000	Year ended 30 March 1996 £'000
Turnover	2	119,189	123,514
Cost of sales		(97,752)	(100,442)
Gross profit		21,437	23,072
Net operating expenses	3	(12,813)	(13,998)
Exceptional operating expenses: Redundancy and related costs		(1,037)	-
Operating profit		7,587	9,074
Interest receivable and similar income		303	364
		7,890	9,438
Interest payable and similar charges	6	-	(475)
Profit on ordinary activities before taxation	7	7,890	8,963
Tax on profit on ordinary activities	8	(2,668)	(2,822)
Profit for the financial year		5,222	6,141
Dividends paid and proposed	9	(6,528)	-
(Loss)/retained profit for the year	18	(1,306)	6,141

Continuing operations

All items dealt with in arriving at operating profit for the years ended 29 March 1997 and 30 March 1996, respectively, relate to continuing operations.

Shareholders' funds

A statement of the movement on reserves is given in note 18 to the financial statements and a reconciliation of movements in shareholders' funds is given in note 19.

Statement of total recognised gains and losses

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

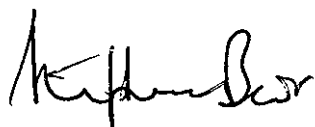
Historical cost profits and losses

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

**Balance sheet
at 29 March 1997**

	Notes	29 March 1997 £'000	30 March 1996 £'000
Fixed assets			
Tangible assets	10	24,897	24,929
Current assets			
Stocks	11	11,799	12,619
Debtors	12	31,147	28,780
Cash at bank and in hand		7,044	5,964
		49,990	47,363
Creditors: amounts falling due within one year	13	(31,832)	(28,010)
Net current assets		18,158	19,353
Total assets less current liabilities		43,055	44,282
Accruals and deferred income	14	(268)	(325)
Provision for liabilities and charges	15	(136)	-
Net assets		42,651	43,957
Capital and reserves			
Called-up share capital	17	32,000	32,000
Profit and loss account	18	10,651	11,957
Total equity shareholders' funds	19	42,651	43,957

The financial statements on pages 7 to 18 were approved by the board of directors on 27 May 1997 and were signed on its behalf by:



Director



Director

**Notes to the financial statements
for the year ended 29 March 1997****1 Principal accounting policies**

The financial statements have been prepared under the historical cost convention 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 presentation of financial information

FRS 8 "Related party disclosures" requires the disclosure of material transactions between the reporting entity and any related parties. The new standard came into effect for all accounting periods commencing on or after 23 December 1995. Accordingly, the new disclosure requirements are dealt with in notes 21 and 22.

Cash flow statement

The company is a wholly owned subsidiary of European Electrical Steels Limited and the cash flows of the company are included in the consolidated cash flow statement of European Electrical Steels 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 accounted for using the liability method in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

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 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 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 which house plant, and other works buildings		25 years
Other freehold buildings		50 years
Plant and machinery	maximum	25 years
Office equipment and furniture		10 years
Motor vehicles		4 years

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 profit and loss account are treated as either provisions or prepayments in the balance sheet. Further details are given in Note 16.

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:-

	1997 £'000	1996 £'000
UK	58,505	55,535
Rest of Europe	30,584	39,876
Rest of World	30,100	28,103
	<u>119,189</u>	<u>123,514</u>

The company's operating profit and net assets have not been analysed by geographical segment as the directors believe that this disclosure would be seriously prejudicial to the interests of the company.

3 Net operating expenses

	1997 £'000	1996 £'000
Distribution costs	6,053	6,872
Administrative expenses	6,760	7,126
	<u>12,813</u>	<u>13,998</u>

4 Directors' emoluments

Emoluments paid to directors of the company are paid by the parent company, European Electrical Steels Limited, and recharged to the company as part of a management charge. This management charge, which in 1997 amounted to £534,000, (1996: £489,000) also includes a charge for administration 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 weekly number of persons employed during the year was:

	1997 Number	1996 Number
Production	382	389
Administration	153	150
	<u>535</u>	<u>539</u>
	<u>535</u>	<u>539</u>
	1997	1996
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	11,386	10,785
Social security costs	915	865
Other pension costs	675	635
	<u>12,976</u>	<u>12,285</u>
	<u>12,976</u>	<u>12,285</u>

6 Interest payable and similar charges

	1997 £'000	1996 £'000
On loans repayable to group undertakings within 5 years, not by instalments	-	475
	<u>-</u>	<u>475</u>

7 Profit on ordinary activities before taxation

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Rates rebates received in the year	710	-
Amortisation of government grants	57	57
Profit on disposal of fixed assets	5	-
	<u> </u>	<u> </u>
And after charging:		
Depreciation charge for the period:		
Tangible owned fixed assets	2,264	2,296
Auditors' remuneration for audit	30	29
Research and development expenditure	616	625
	<u> </u>	<u> </u>

There were no other fees payable to the auditors in respect of non-audit services for the year (1996: £Nil).

8 Taxation on profit on ordinary activities

	1997 £'000	1996 £'000
Tax on profit on ordinary activities		
United Kingdom corporation tax at 33% (1996: 33%)		
Current	2,670	2,866
Prior year	(2)	(44)
	<u> </u>	<u> </u>
	2,668	2,822
	<u> </u>	<u> </u>

9 Dividends

	1997 £'000	1996 £'000
Dividends on equity shares:		
Interim paid of 10.556p per share	3,378	-
Final proposed of 9.842p per share	3,150	-
	<u> </u>	<u> </u>
	6,528	-
	<u> </u>	<u> </u>

10 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost				
At 31 March 1996	2,198	45,435	1,025	48,658
Additions	-	1,215	997	2,212
Transfer from assets in the course of construction	-	897	(897)	-
Disposals	-	(131)	(127)	(258)
At 29 March 1997	2,198	47,416	998	50,612
Depreciation				
At 31 March 1996	1,642	25,919	-	27,561
Charge for the period	50	2,213	-	2,263
Disposals	-	(127)	-	(127)
At 29 March 1997	1,692	28,005	-	29,697
Net book value at 29 March 1997	506	19,411	998	20,915
Spares, loose plant and tools				3,982
Net book value of tangible fixed assets at 29 March 1997				24,897
Net book value at 30 March 1996	556	19,516	1,025	21,097
Spares, loose plant and tools				3,832
Net book value of tangible fixed assets at 30 March 1996				24,929

11 Stocks

	1997 £'000	1996 £'000
Raw materials and consumables	3,554	3,601
Work in progress	5,706	5,401
Finished goods and goods for resale	2,539	3,617
	11,799	12,619

12 Debtors

	1997	1996
	£'000	£'000
Amounts falling due within one year		
Trade debtors	22,766	23,930
Amounts owed by group undertakings	7,843	4,249
Other debtors	538	601
	<u>31,147</u>	<u>28,780</u>

13 Creditors: amounts falling due within one year

	1997	1996
	£'000	£'000
Trade creditors	13,050	14,088
Amounts owed to group undertakings	7,733	6,333
Corporation tax	2,526	2,859
Other taxation and social security payable	1,548	1,594
Other creditors	3,825	3,136
Dividend payable	3,150	-
	<u>31,832</u>	<u>28,010</u>

14 Accruals and deferred income

Government grants	£'000
At 31 March 1996	325
Amortisation in year	(57)
	<u>—</u>
At 29 March 1997	268
	<u>—</u>

15 Provisions for liabilities and charges

	Ration- alisation & redundancy £'000	Deferred taxation (see below) £'000	Total £'000
At 31 March 1996	-	-	-
Charged to the profit and loss account	1,037	-	1,037
Utilised	(901)	-	(901)
	<u>136</u>	<u>-</u>	<u>136</u>
At 29 March 1997	<u>136</u>	<u>-</u>	<u>136</u>

Rationalisation and redundancy

The balance of £136,000 represents the amounts payable after more than one year. Included within other creditors due less than one year is a balance of £901,000 which represents the current portion of the total liability.

Deferred taxation

Deferred taxation provided in the financial statements, and the total potential liability including the amounts for which provision has been made, are as follows:

	Amount provided		Amount unprovided	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	-	-	3,892	4,060
Other	-	-	(412)	(467)
	<u>-</u>	<u>-</u>	<u>3,480</u>	<u>3,593</u>

In calculating the provision for deferred taxation, account is taken of the existence of group relief from other companies within British Steel Plc.

16 Pension and similar obligations

The company participates in a group pension scheme operated by British Steel plc. The pension scheme is of the defined benefit type 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 years the actuary reviews the continuing appropriateness of the rates. The latest actuarial assessment of the scheme was at 31 March 1996. The next formal valuation will be carried out on 31 March 1999. Particulars of the valuation are contained in the accounts of British Steel plc.

17 Called-up share capital

	1997 £'000	1996 £'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

18 Profit and loss account

	Profit and loss account £
At 31 March 1996	11,957
Loss for the year	(1,306)
At 29 March 1997	10,651

19 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Profit for the financial year	5,222	6,141
Dividends paid and proposed	(6,528)	-
Opening equity shareholders' funds	43,957	37,816
Closing equity shareholders' funds	42,651	43,957

20 Capital commitments

	1997 £'000	1996 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	2,311	1,010

21 Related party transactions

The company has identified the following transactions which fall to be disclosed under the terms of FRS 8.

British Steel plc

At 29 March 1997, British Steel plc held 75% of the equity share capital of the company's immediate parent company, European Electrical Steels Limited

In the course of normal trading, the company enters into transactions with British Steel plc and its subsidiaries for the purchase and sale of steel products. The total of such purchases in the year amounted to £41,204,000 and the total sales amounted to £15,745,000. In addition, the company purchases certain management and administrative services from British Steel plc, which amounted to £1,411,000 during the year ended 29 March 1997.

The total amounts owed to British Steel plc and its subsidiaries in respect of such transactions was £6,419,000 and the total amounts due from British Steel plc and its subsidiaries was £7,733,000. No amounts were written off in the period in respect of debts due to or from British Steel plc and its subsidiaries.

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

22 Ultimate and immediate parent companies

European Electrical Steels Limited is the company's controlling related party by nature of its 100% interest in the share capital of the company.

The company's ultimate controlling related party and ultimate parent company is British Steel plc, a company registered in England.

Copies of the consolidated financial statements of both European Electrical Steels Limited and British Steel plc may be obtained from the Secretary at the address shown on page 1 of these accounts.