

Orb Electrical Steels Limited
Annual report for the
year ended 3 April 1999

Registered no: 2640894



Orb Electrical Steels Limited

Annual report for the year ended 3 April 1999

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Directors and advisers

Directors

S H Best
I A Gilbert
F D Morgan

Secretary and registered office

J W Suter
Orb Works
Corporation Road
Newport
NP19 0XT

Auditors

PricewaterhouseCoopers
Churchill House
Churchill Way
Cardiff
CF10 2XQ

Solicitors

British Steel plc
15 Marylebone Road
London
NW1 5JD

Bankers

Lloyds Bank plc
Newport Branch
42 Commercial Street
Newport
NP19 1WX

Directors' report for the year ended 3 April 1999

The directors present their report and the audited financial statements for the year ended 3 April 1999.

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 8.

Trading conditions remained unfavourable during the year and the company's results suffered accordingly. In particular, the continued 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 continue to take steps to maintain and improve its cost competitiveness.

Dividends

The directors have not declared or recommended a dividend in respect of the year ended 3 April 1999.

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 3 April 1999, 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 of the company

No director of the company at 3 April 1999 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	
	3 April 1999 Number	28 March 1998 Number
S H Best	2,244	2,244
I A Gilbert	473	473
F D Morgan	12,718	5,468

Details of share options are as follows:-

	30 March 1998 Number	Movements in the year		3 April 1999 Number
		Granted Number	Exercised Number	
S H Best	110,918	-	-	110,918
I A Gilbert	15,153	-	-	15,153
F D Morgan	33,557	-	(7,250)	26,307

The exercise prices and dates of exercise in respect of the options held at 3 April 1999 are as follows:-

	Number of shares	Price per share	Date of exercise
British Steel Sharesave scheme	30,778	50.0p – 128.0p	1 April 1994 – 30 September 2003
British Steel Executive scheme	121,600	57.0p – 176.0p	30 July 1995 – 24 July 2007

There have been no changes in the interests of the directors in the shares of the ultimate parent company since 3 April 1999.

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 3 April 1999 was 59 days (1998 : 61 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.

Year 2000

The company is well advanced in its preparations for the Year 2000 date change by participating in internal projects established by its ultimate parent company, British Steel plc, to address the issue. The company estimates that it will spend approximately £400,000 in total in relation to the Year 2000 over the duration of the whole project. In accordance with accounting policies all remediation and software costs are written off as incurred. Further particulars are disclosed within the accounts of British Steel plc.

Auditors

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

By order of the board

A handwritten signature in black ink, appearing to be 'J W Suter', written over the printed name.

J W Suter

Company Secretary

8 June 1999

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 3 April 1999. 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



J W Suter

Company Secretary

8 June 1999

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

We have audited the financial statements on pages 8 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 6, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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 Companies Act. 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.

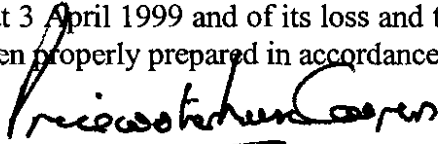
Basis of opinion

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 3 April 1999 and of its loss and total recognised losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Cardiff

8 June 1999

Profit and loss account for the year ended 3 April 1999

	Notes	Year ended 3 April 1999 £'000	Year ended 28 March 1998 £'000
Turnover	2	86,920	109,863
Cost of sales		(74,941)	(90,902)
Gross profit		11,979	18,961
Net operating expenses	3	(12,585)	(14,131)
Exceptional operating expenses: Redundancy and related costs		(309)	-
Operating (loss)/profit		(915)	4,830
Interest receivable and similar income		201	264
		(714)	5,094
Interest payable and similar charges	6	(19)	(1)
(Loss)/profit on ordinary activities before taxation	7	(733)	5,093
Tax on (loss)/profit on ordinary activities	8	563	(1,548)
(Loss)/profit for the financial year		(170)	3,545
Dividends paid and proposed	9	-	-
(Loss)/profit for the year	18	(170)	3,545

Continuing operations

All items dealt with in arriving at operating (loss)/profit for the years ended 3 April 1999 and 28 March 1998, 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.

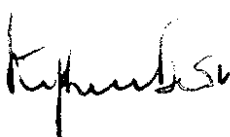
Historical cost profits and losses

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 3 April 1999**

	Notes	3 April 1999 £'000	28 March 1998 £'000
Fixed assets			
Tangible assets	10	27,918	24,941
Current assets			
Stocks	11	11,977	11,806
Debtors	12	19,793	30,844
Cash at bank and in hand		3,706	2,853
		35,476	45,503
Creditors: amounts falling due within one year	13	(17,215)	(24,037)
Net current assets		18,261	21,466
Total assets less current liabilities		46,179	46,407
Accruals and deferred income	14	(153)	(211)
Provision for liabilities and charges	15	-	-
Net assets		46,026	46,196
Capital and reserves			
Called-up share capital	17	32,000	32,000
Profit and loss account	18	14,026	14,196
Total equity shareholders' funds	19	46,026	46,196

The financial statements on pages 8 to 18 were approved by the board of directors on 8 June 1999 and were signed on its behalf by:



Director

Notes to the financial statements for the year ended 3 April 1999

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.

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 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.

Tangible fixed assets (continued)

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 the 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:-

	1999 £'000	1998 £'000
UK	31,279	46,039
Rest of Europe	32,567	35,259
Rest of World	23,074	28,565
	<u>86,920</u>	<u>109,863</u>

3 Net operating expenses

	1999 £'000	1998 £'000
Distribution costs	4,757	7,045
Administrative expenses	7,828	7,086
	<u>12,585</u>	<u>14,131</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 1999 amounted to £624,514 (1998: £608,313) 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 monthly number of persons employed during the year was:

	1999 Number	1998 Number
Production	334	363
Administration	127	142
	<u>461</u>	<u>505</u>
	1999 £'000	1998 £'000
Staff costs (for the above persons):		
Wages and salaries	10,258	10,467
Social security costs	786	813
Other pension costs	427	445
	<u>11,471</u>	<u>11,725</u>

6 Interest payable and similar charges

	1999 £'000	1998 £'000
Bank loans and overdrafts	<u>19</u>	<u>1</u>

7 (Loss)/profit on ordinary activities before taxation

	1999 £'000	1998 £'000
(Loss)/profit on ordinary activities before taxation is stated after crediting:		
Amortisation of government grants	58	57
And after charging:		
Depreciation charge for the period:		
Tangible owned fixed assets	2,608	2,381
Auditors' remuneration for audit services	31	31
Research and development expenditure	616	727
Loss on disposal of fixed assets	-	2

There were no other fees payable to the auditors in respect of non-audit services for the year (1998: £Nil).

8 Taxation on profit on ordinary activities

	1999 £'000	1998 £'000
Tax on profit on ordinary activities		
United Kingdom corporation tax at 31% (1998: 31%)		
Current	-	1,520
Group relief receivable	(563)	-
Prior year	-	28
	<u>(563)</u>	<u>1,548</u>

9 Dividends

No dividends were paid or proposed in the year (1998: £Nil).

10 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost				
At 29 March 1998	2,198	50,766	414	53,378
Additions	-	448	5,110	5,558
Transfer from assets in the course of construction	-	414	(414)	-
Disposals	-	-	-	-
At 3 April 1999	2,198	51,628	5,110	58,936
Depreciation				
At 29 March 1998	1,742	30,325	-	32,067
Charge for the period	51	2,557	-	2,608
Disposals	-	-	-	-
At 3 April 1999	1,793	32,882	-	34,675
Net book value at 3 April 1999	405	18,746	5,110	24,261
Spares, loose plant and tools				3,657
Net book value of tangible fixed assets at 3 April 1999				27,918
Net book value at 28 March 1998	456	20,441	414	21,311
Spares, loose plant and tools				3,630
Net book value of tangible fixed assets at 28 March 1998				24,941

11 Stocks

	1999 £'000	1998 £'000
Raw materials and consumables	1,866	2,423
Work in progress	6,094	7,024
Finished goods and goods for resale	4,017	2,359
	<u>11,977</u>	<u>11,806</u>

12 Debtors

	1999 £'000	1998 £'000
Amounts falling due within one year		
Trade debtors	12,391	20,192
Amounts owed by group undertakings	6,205	10,121
Other debtors	634	531
Group relief receivable	563	-
	<u>19,793</u>	<u>30,844</u>

13 Creditors: amounts falling due within one year

	1999 £'000	1998 £'000
Trade creditors	10,002	10,510
Amounts owed to group undertakings	3,258	8,472
Corporation tax	-	1,327
Other taxation and social security payable	24	588
Other creditors	3,931	3,140
	<u>17,215</u>	<u>24,037</u>

Rationalisation and redundancy

Included within other creditors due in less than one year is a balance of £77,000 (1998: £169,000) which represents the total outstanding liability at the year end.

14 Accruals and deferred income

	£'000
Government grants	
At 29 March 1999	211
Amortisation in year	(58)
At 3 April 1999	<u>153</u>

15 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	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	-	-	4,024	3,856
Other	-	-	(203)	(346)
	<u>-</u>	<u>-</u>	<u>3,821</u>	<u>3,510</u>

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 1999. The next formal valuation will be carried out on 31 March 2002. Particulars of the valuation are contained in the accounts of British Steel plc.

17 Called-up share capital

	1999	1998
	£'000	£'000
Authorised		
35,000,000 ordinary shares of £1 each	<u>35,000</u>	<u>35,000</u>
Allotted, called up and fully paid		
32,000,000 ordinary shares of £1 each	<u>32,000</u>	<u>32,000</u>

18 Profit and loss account

	Profit and loss account £
At 29 March 1998	14,196
Profit for the year	(170)
At 3 April 1999	<u>14,026</u>

19 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Profit for the financial year	(170)	3,545
Opening equity shareholders' funds	46,196	42,651
Closing equity shareholders' funds	<u>46,026</u>	<u>46,196</u>

20 Capital commitments

	1999 £'000	1998 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>3,411</u>	<u>367</u>

21 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".

British Steel plc

At 3 April 1999, 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 £24,656,000 (1998: £38,199,000) and the total sales amounted to £7,140,000 (1998: £11,086,000). In addition, the company purchases certain management and administrative services from British Steel plc, which amounted to £1,463,000 (1998: £934,000) during the year ended 3 April 1999.

The total amounts owed to British Steel plc and its subsidiaries at the year end in respect of such transactions was £3,258,000 (1998 : £8,550,000) and the total amounts due from British Steel plc and its subsidiaries was £4,870,000 (1998: £9,255,000). 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.