

Orb Electrical Steels Limited
Annual report for the
year ended 30 March 1996

Registered no: 2640894



Orb Electrical Steels Limited

Annual report for the year ended 30 March 1996

	Pages
Directors and advisers	1
Directors' report	2 - 4
Statement of directors' responsibilities	5
Report of the auditors	6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9 - 16

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 30 March 1996

The directors present their report and the audited financial statements for the year ended 30 March 1996.

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.

The company was able to take advantage of favourable trading conditions during the year and the profitability of the company improved as a result. The level of profitability in the next financial year will depend on the development of market conditions.

The directors are pleased to report that the company was granted the Queen's Award for Export Achievement 1996 in recognition of its improved export performance in the three years 1993 to 1995. The company also achieved status as an Investor in People during the financial year in recognition of its success in training and developing its workforce.

Dividends and transfers to reserves

The directors do not recommend a dividend in respect of the year ended 30 March 1996. The profit for the financial year will be credited to reserves.

Fixed assets

The movements in fixed assets during the year are set out in note 9 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 them.

Directors

The directors of the company at 30 March 1996, all of whom have been directors for the whole of the year ended on that date, are listed below:-

S H Best
I A Gilbert
F D Morgan

Directors' interests in shares of the company

Interests in shares

No director of the company at 30 March 1996 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.

The interests of the directors in the shares of the ultimate parent company, British Steel plc, at 30 March 1996 were:-

	2 April 1996	30 March 1995
S H Best	2,244	2,244
I A Gilbert	473	473
F D Morgan	2,268	5,468

There has been no change in the interests set out above since the year end.

Interests in share options

Details of options held by directors are set out below:

British Steel Sharesave Scheme

	2 April	Number of options granted in the year	exercised in the year	30 March	Exercise price range	Date from which ex- ercisable	Expiry date
S H Best	3,230	8,085	-	11,315	50p-128p	1.4.1994	1.4.2001
F D Morgan	15,159	6,145	(3,200)	18,104	50p-128p	1.4.1994	1.4.2001

British Steel Executive Scheme

	2 April	Number of options granted in the year	exercised in the year	30 March	Exercise price range	Date from which ex- ercisable	Expiry date
S H Best	112,600	21,800	(87,800)	46,600	57p-166p	30.7.1995	30.6.2005

The market price of the above shares at 30 March 1996 was 190p and the range during the year was between 150p and 200p.

The directors and officers of the company are covered by liability insurance.

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

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.

Taxation status

The company was not a close company within the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the year.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



Company Secretary,

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 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 30 March 1996. 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 taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the board



Company Secretary,

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

We have audited the financial statements on pages 7 to 16.

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.

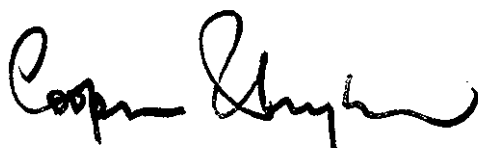
Basis of opinion

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 30 March 1996 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,

29 May 1996

Profit and loss account for the year ended 30 March 1996

	Notes	Year ended 30 March 1996 £'000	Year ended 1 April 1995 £'000
Turnover	2	123,514	108,832
Cost of sales		(100,442)	(87,999)
Gross profit		23,072	20,833
Net operating expenses	3	(13,998)	(14,151)
Operating profit		9,074	6,682
Interest receivable and similar income		364	290
		9,438	6,972
Interest payable and similar charges	6	(475)	(864)
Profit on ordinary activities before taxation	7	8,963	6,108
Tax on profit on ordinary activities	8	(2,822)	(2,019)
Retained profit for the year	18	6,141	4,089

All items dealt with in arriving at operating profit for the year ended 30 March 1996 relate to continuing operations.

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.

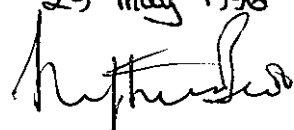
The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

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 30 March 1996**

	Notes	30 March 1996 £'000	1 April 1995 £'000
Fixed assets			
Tangible assets	9	<u>24,929</u>	<u>25,333</u>
Current assets			
Stocks	10	12,619	11,465
Debtors	11	28,780	28,244
Cash at bank and in hand		<u>5,964</u>	<u>4,047</u>
		47,363	43,756
Creditors: amounts falling due within one year	12	<u>(28,010)</u>	<u>(22,891)</u>
Net current assets		<u>19,353</u>	<u>20,865</u>
Total assets less current liabilities		44,282	46,198
Creditors: amounts falling due after more than one year	13	-	(8,000)
Accruals and deferred income	15	<u>(325)</u>	<u>(382)</u>
Net assets		<u>43,957</u>	<u>37,816</u>
Capital and reserves			
Called-up share capital	17	32,000	32,000
Profit and loss account	18	<u>11,957</u>	<u>5,816</u>
Total equity shareholders' funds	19	<u>43,957</u>	<u>37,816</u>

The financial statements on pages 7 to 16 were approved by the board of directors on 29 May 1996 and were signed on its behalf by:


Director

**Notes to the financial statements
for the year ended 30 March 1996**

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 is set out below.

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 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 in 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 in one class of business. Turnover by destination may be analysed as follows:

	1996 £'000	1995 £'000
UK	55,535	44,214
Rest of Europe	39,876	36,148
Rest of World	28,103	28,470
	<u>123,514</u>	<u>108,832</u>

3 Net operating expenses

	1996 £'000	1995 £'000
Distribution costs	6,872	7,048
Administrative expenses	7,126	7,103
	<u>13,998</u>	<u>14,151</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 1996 amounted to £489,000 (1995: £392,000) also includes a charge for administration costs paid by the parent company and it is not possible to identify separately the amount of the directors' emoluments.

5 Employee information

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

	1996 Number	1995 Number
Production	389	395
Administration	150	151
	<u>539</u>	<u>546</u>
	<u>1996</u>	<u>1995</u>
	<u>£'000</u>	<u>£'000</u>
Staff costs (for the above persons):		
Wages and salaries	10,785	10,526
Social security costs	865	841
Other pension costs	635	614
	<u>12,285</u>	<u>11,981</u>

6 Interest payable and similar charges

	1996 £'000	1995 £'000
On bank loans, overdrafts and other loans:		
Repayable to group undertakings within 5 years, not by instalments	475	864
	<u>475</u>	<u>864</u>

7 Profit on ordinary activities before taxation

	1996 £'000	1995 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Amortisation of government grants	57	57
	<u>57</u>	<u>57</u>
And after charging:		
Depreciation charge for the period:		
Tangible owned fixed assets	2,296	2,260
Auditors' remuneration	29	26
Research and development expenditure	625	499
	<u>2,950</u>	<u>2,785</u>

Fees payable to the auditors in respect of non-audit services for the year amounted to £Nil (1995: £5,000).

8 Taxation on profit on ordinary activities

	1996 £'000	1995 £'000
Tax on profit on ordinary activities		
United Kingdom corporation tax at 33% (1995: 33%)		
Current	2,866	2,019
Prior year	(44)	-
	<u>2,822</u>	<u>2,019</u>

9 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost				
At 2 April 1995	2,198	44,487	73	46,758
Additions	-	-	1,900	1,900
Transfer from assets in the course of construction	-	948	(948)	-
Disposals	-	-	-	-
	<u>2,198</u>	<u>45,435</u>	<u>1,025</u>	<u>48,658</u>
At 30 March 1996	2,198	45,435	1,025	48,658
Depreciation				
At 2 April 1995	1,587	23,678	-	25,265
Charge for the period	55	2,241	-	2,296
Disposals	-	-	-	-
	<u>1,642</u>	<u>25,919</u>	<u>-</u>	<u>27,561</u>
At 30 March 1996	1,642	25,919	-	27,561
Net book value				
At 30 March 1996	556	19,516	1,025	21,097
	<u>556</u>	<u>19,516</u>	<u>1,025</u>	<u>21,097</u>
Spares, loose plant and tools				3,832
				<u>3,832</u>
Net book value of tangible fixed assets at 30 March 1996				24,929
				<u>24,929</u>
Net book value				
At 1 April 1995	611	20,809	73	21,493
	<u>611</u>	<u>20,809</u>	<u>73</u>	<u>21,493</u>
Spares, loose plant and tools				3,840
				<u>3,840</u>
Net book value of tangible fixed assets at 1 April 1995				25,333
				<u>25,333</u>

10 Stocks

	1996 £'000	1995 £'000
Raw materials and consumables	3,601	3,731
Work in progress	5,401	4,910
Finished goods and goods for resale	3,617	2,824
	<u>12,619</u>	<u>11,465</u>

11 Debtors

	1996 £'000	1995 £'000
Amounts falling due within one year		
Trade debtors	23,930	20,818
Amounts owed by parent company and fellow subsidiary undertakings	4,249	6,910
Other debtors	601	516
	<u>28,780</u>	<u>28,244</u>

12 Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Trade creditors	14,088	12,291
Amounts owed to parent company and fellow subsidiary undertakings	6,333	5,056
Corporation tax	2,859	2,018
Other taxation and social security payable	1,594	1,433
Other creditors	3,136	2,093
	<u>28,010</u>	<u>22,891</u>

13 Creditors: amounts falling due after more than one year

	1996 £'000	1995 £'000
Amounts owed to parent company	-	8,000
	<u>-</u>	<u>8,000</u>

14 Provisions for liabilities and charges

Deferred taxation

Deferred taxation provided in the financial statements, and the amount unprovided of the total potential liability, are as follows:-

	Amount provided		Amount unprovided	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	-	-	4,060	4,100
Other	-	-	(467)	(594)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	3,593	3,506
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

15 Accruals and deferred income

Government grants	£'000
At 2 April 1995	382
Amortisation in year	(57)
	<u>-</u>
At 30 March 1996	325
	<u>-</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 1993. The next formal valuation is being carried out as at 31 March 1996. Particulars of the valuation are contained in the accounts of British Steel plc.

17 Called-up share capital

	1996	1995
	£'000	£'000
Authorised		
35,000,000 ordinary shares of £1 each	35,000	35,000
	<u>-</u>	<u>-</u>
Allotted, called up and fully paid		
32,000,000 ordinary shares of £1 each	32,000	32,000
	<u>-</u>	<u>-</u>

18 Profit and loss account

	Profit and loss account £
At 2 April 1995	5,816
Profit for the financial year	6,141
	<hr/>
At 30 March 1996	11,957
	<hr/> <hr/>

19 Reconciliation of movements in shareholders' funds

	1996 £'000	1995 £'000
Profit for the financial year	6,141	4,089
Opening equity shareholders' funds	37,816	33,727
	<hr/>	<hr/>
Closing equity shareholders' funds	43,957	37,816
	<hr/> <hr/>	<hr/> <hr/>

20 Capital commitments

	1996 £'000	1995 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,010	518
	<hr/> <hr/>	<hr/> <hr/>

21 Ultimate and immediate parent companies

The immediate parent company is European Electrical Steels Limited, a company registered in Wales. The directors regard British Steel plc, a company registered in England, as the ultimate parent company.

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.