# European Electrical Steels Limited
# Annual report for the year ended 28 March 1998

Registered no: 2642030

# European Electrical Steels Limited

# Annual report for the year ended 28 March 1998

# Directors and advisers

## Directors

J B McDowall (Chairman)
S H Best
D R Gabriel (appointed 8 June 1998)
C G Johansson (appointed 3 June 1997)
R M Lanchbury (resigned 8 June 1998)
K A L Sander
G H Söderberg (resigned 3 June 1997)
E P Wallace

## Secretary and registered office

**I A Gilbert**
Orb Works
Corporation Road
Newport
Gwent
NP9 0XT

## Auditors

**Coopers & Lybrand**
Churchill House
Churchill Way
Cardiff
CF1 4XQ

## Solicitors

**British Steel plc**
15 Marylebone Road
London
NW1 5JD

## Bankers

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

# Directors' report for the year ended 28 March 1998

The directors present their report and the audited financial statements for the year ended 28 March 1998.

## Principal activities

The principal activity of the group is the processing of steel coil to apply properties appropriate for use within the electrical industry.

## Review of business

The consolidated profit and loss account is set out on page 8.

Trading conditions were less favourable during the year and the group's results suffered accordingly. In particular, the strength of sterling against other major currencies adversely impacted on the group's exports, whilst at the same time making imports into the UK more attractive to competitors. Orb Electrical Steels Limited accelerated a manning reorganisation to offset partially poorer trading conditions.

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

## Dividends

The directors have recommended the following dividend in respect of the year ended 28 March 1998.

| | £'000 |
|---|---|
| Ordinary dividends: | |
| Final proposed | 3,899 |

## Changes in fixed assets

The movements in fixed assets during the year are set out in notes 11 to 13 of the financial statements. The group's interests in land are in the main fully utilised for normal trading operations and it has not been considered necessary to establish their market value.

## Directors

The directors of the company at 28 March 1998, all of whom were directors for the whole of the year ended on that date, except as noted, are listed on page 1.

## Directors' interests in shares of the company

No director of the company at 28 March 1998 had any interest in the shares of the company or its subsidiaries, according to the register required to be kept by Section 325 of the 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, are noted below:

| | Ordinary shares | |
|---|---|---|
| | 28 March 1998 Number | 29 March 1997 Number |
| J B McDowall | **65,256** | 65,256 |
| S H Best | **2,244** | 2,244 |
| R M Lanchbury | **9,197** | 5,000 |
| E P Wallace | **3,682** | 3,682 |

Details of share options are as follows:-

| Name | 30 March 1997 | Movements in the year | | | 28 March 1998 |
|---|---|---|---|---|---|
| | | Granted | Waived | Exercised | |
| | Number | Number | Number | Number | Number |
| J B McDowall | 333,695 | 110,265 | (13,595) | - | **430,365** |
| S H Best | 79,615 | 31,303 | - | - | **110,918** |
| R M Lanchbury | 84,435 | 31,206 | - | - | **115,641** |
| E P Wallace | 52,215 | 18,306 | (3,230) | - | **67,291** |

The exercise prices and dates of exercise in respect of the options held at 28 March 1998 are as follows:-

| | Number of shares | Price per share | Date of exercise |
|---|---|---|---|
| British Steel Sharesave scheme | 72,015 | 50.0p to 128.0p | 1 April 1994 to 30 Sept 2003 |
| British Steel Executive scheme | 652,200 | 57.0p to 176.0p | 30 July 1995 to 24 July 2007 |

On 1 April 1998, R M Lanchbury exercised 14,500 sharesave options. There have been no other changes in the interests of the directors in the shares of the ultimate parent company since 28 March 1998.

## Employees

The group'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 group's performance.

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

## Group research and development activities

The group has its own research and development facility and in addition commissions programmes from external sources appropriate to its business.

## Political and charitable contributions

The group made no political contributions in the year. Charitable contributions amounted to £4,955 (1997: £3,897).

## Payment to creditors

The company does not have trade creditors. The average creditor payment period of the group's UK subsidiaries at 28 March 1998 was 61 days (1997: 65 days).

It is the policy of the company and its UK subsidiaries 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.

## European Monetary Union ("EMU") and Year 2000

The Group is well advanced in its preparations for EMU and the Year 2000 date change by participating in internal projects established by its ultimate parent company, British Steel plc, to address each issue. The Group does not expect the costs or benefits from the introduction of the euro to have a material effect on the Group's trading performance. However, in relation to the Year 2000 project the Group estimates that it will spend approximately £750,000 in total over the duration of the whole project. In accordance with accounting policies, all remediation and software costs are written off as incurred. Further particulars of each project are disclosed within the accounts of British Steel plc.

## Auditors

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

**By order of the board**

I A Gilbert

**I A Gilbert**
**Company Secretary**
8 June 1998

# 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 and the group as at the end of the financial year and of the profit or loss of the group 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 28 March 1998. 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**By order of the board**

I A Gilbert

**I A Gilbert**
Company Secretary
8 June 1998

# Report of the auditors to the members of European Electrical Steels Limited

We have audited the financial statements on pages 8 to 29.

**Respective responsibilities of directors and auditors**

As described on page 6 the company's directors are responsible for the preparation of 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 affairs of the company and the group at 28 March 1998 and of the profit, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand

**Chartered Accountants and Registered Auditors**
**Cardiff**
8 June 1998

# Consolidated profit and loss account for the year ended 28 March 1998

| | Notes | Year ended 28 March 1998 £'000 | Year ended 29 March 1997 £'000 |
|---|---|---|---|
| **Turnover** | 2 | **178,759** | 190,781 |
| Cost of sales | | **(147,234)** | (156,167) |
| **Gross profit** | | **31,525** | 34,614 |
| Net operating expenses | 3 | **(21,212)** | (18,634) |
| Exceptional operating expenses: | | | |
| Redundancy and related costs | | **-** | (1,037) |
| **Operating profit** | | **10,313** | 14,943 |
| Interest receivable and similar income | | **785** | 750 |
| | | **11,098** | 15,693 |
| Interest payable and similar charges | 6 | **(122)** | (213) |
| **Profit on ordinary activities before taxation** | 7 | **10,976** | 15,480 |
| Tax on profit on ordinary activities | 8 | **(3,179)** | (4,425) |
| **Profit for the financial year** | | **7,797** | 11,055 |
| Dividends | 10 | **(3,899)** | (5,528) |
| **Retained profit for the year** | 22 | **3,898** | 5,527 |

## Continuing operations

All items dealt with in arriving at operating profit for the years ended 28 March 1998 and 29 March 1997, respectively, relate to continuing operations.

## Shareholders' funds

A statement of the movement on reserves is given in note 22 to the financial statements and a reconciliation of movements in shareholders' funds is given in note 23.

## 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.

# Statement of total recognised gains and losses for the year ended 28 March 1998

| | Year ended 28 March 1998 £'000 | Year ended 29 March 1997 £'000 |
|---|---|---|
| **Profit for the financial year** | **7,797** | 11,055 |
| **Other recognised gains and losses for the year:** | | |
| Currency translation differences on foreign currency net investments | **(1,940)** | (5,108) |
| **Total recognised gains and losses relating to the year** | **5,857** | 5,947 |

# Balance sheets at 28 March 1998

| | Notes | Group 28 March 1998 £'000 | Company 28 March 1998 £'000 | Group 29 March 1997 £'000 | Company 29 March 1997 £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 11 | 56 | - | 97 | - |
| Tangible assets | 12 | 34,951 | - | 35,020 | - |
| Investments | 13 | - | 43,667 | - | 43,667 |
| | | 35,007 | 43,667 | 35,117 | 43,667 |
| **Current assets** | | | | | |
| Stocks | 14 | 22,309 | - | 20,850 | - |
| Debtors: | | | | | |
| Amounts falling due within one year | 15 | 46,860 | 4,024 | 43,078 | 3,150 |
| Amounts falling due after more than one year | 15 | 244 | 244 | 197 | 197 |
| Cash at bank and in hand | | 16,756 | 17 | 21,200 | 18 |
| | | 86,169 | 4,285 | 85,325 | 3,365 |
| **Creditors:** amounts falling due within one year | 16 | (45,460) | (4,223) | (46,737) | (3,382) |
| **Net current assets/(liabilities)** | | 40,709 | 62 | 38,588 | (17) |
| **Total assets less current liabilities** | | 75,716 | 43,729 | 73,705 | 43,650 |
| **Creditors:** amounts falling due after more than one year | 17 | (1,393) | - | (1,464) | - |
| **Provisions for liabilities and charges** | 18 | (440) | (166) | (259) | - |
| **Accruals and deferred income** | 19 | (211) | - | (268) | - |
| **Net assets** | | 73,672 | 43,563 | 71,714 | 43,650 |
| **Capital and reserves** | | | | | |
| Called-up share capital | 21 | 42,667 | 42,667 | 42,667 | 42,667 |
| Profit and loss account | 22 | 31,005 | 896 | 29,047 | 983 |
| **Total equity shareholders' funds** | 23 | 73,672 | 43,563 | 71,714 | 43,650 |

The financial statements on pages 8 to 29 were approved by the board of directors on 8 June 1998 and were signed on its behalf by:

Stephen Best

Director

# Consolidated cash flow statement for the year ended 28 March 1998

| | Note | Year ended 29 March 1998 £'000 | Year ended 29 March 1997 £'000 |
|---|---|---|---|
| **Net cash inflow from continuing operating activities (reconciliation to operating profit on page 12)** | | **8,514** | 20,152 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **724** | 789 |
| Interest paid | | **(122)** | (212) |
| Interest paid on finance leases | | **-** | (3) |
| | | **602** | 574 |
| **Taxation** | | | |
| UK corporation tax paid | | **(2,699)** | (3,018) |
| Overseas tax paid | | **(1,617)** | (2,436) |
| | | **(4,316)** | (5,454) |
| **Capital expenditure** | | | |
| Purchase of tangible fixed assets | | **(4,173)** | (4,492) |
| Sale of tangible fixed assets | | **10** | 71 |
| | | **(4,163)** | (4,421) |
| **Equity dividends paid** | | **(3,150)** | (2,378) |
| **Cash (outflow)/inflow before management of liquid resources and financing** | | **(2,513)** | 8,473 |
| **Management of liquid resources** | | | |
| Cash (received from)/placed on short-term deposit | | **525** | (1,525) |
| **Financing** | | | |
| Repayment of bank loans | | **(904)** | - |
| Receipt of bank loan | | **-** | 345 |
| Repayment of principal under finance leases | | **-** | (57) |
| | | **(904)** | 288 |
| **(Decrease)/increase in cash in the period** | 25 | **(2,892)** | 7,236 |

# Consolidated cash flow statement for the year ended 28 March 1998 (continued)

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

| | Year ended 29 March 1998 £'000 | Year ended 29 March 1997 £'000 |
|---|---|---|
| Operating profit - continuing operations | **10,313** | 14,943 |
| Amortisation of government grants | **(57)** | (57) |
| Amortisation of intangible fixed assets | **35** | 41 |
| Depreciation of tangible fixed assets | **3,650** | 3,615 |
| Loss/(profit) on disposal of fixed assets | **4** | (4) |
| Movement on pension provision | **77** | (245) |
| Decrease/(increase) in spares, loose plant and tools | **43** | (111) |
| (Increase)/decrease in stocks | **(1,459)** | 3,951 |
| Increase/(decrease) in debtors | **(3,721)** | 1,088 |
| Increase/(decrease) in creditors | **1,008** | (2,217) |
| Exchange rate differences | **(511)** | (988) |
| Rationalisation costs provided | **-** | 1,037 |
| Utilisation of rationalisation provision | **(868)** | (901) |
| **Net cash inflow from continuing operating activities** | **8,514** | 20,152 |

# Notes to the financial statements for the year ended 28 March 1998

## 1 Principal accounting policies

The financial statements have been prepared under the historical cost convention and 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 consolidation

The consolidated financial statements include the company and its subsidiary undertakings. Intra-group sales and profits are eliminated fully on consolidation. Acquisitions are accounted for using the acquisition method of accounting. Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the attributable net assets acquired. Goodwill arising on the acquisition of subsidiary and associated undertakings is written off immediately against reserves.

### Turnover

Turnover, which excludes value added tax, sales between group companies 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.

### Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements, which transfer to the group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

**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. Profit and loss account items in foreign currencies are translated into sterling at the average rates ruling during the year.

Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies are taken to reserves. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

**Tangible and intangible fixed assets**

Tangible and intangible fixed assets are recorded at original cost less accumulated depreciation. In the case of assets constructed by the group, 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. Also included within tangible fixed assets are 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 and intangible fixed assets including those held under finance leases. They are depreciated from the dates they are brought into use over their estimated useful lives, or in the case of leased assets, over the lease period if shorter. 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 tangible fixed assets are:

| | |
|---|---|
| Freehold buildings | 25 - 50 years |
| Plant and machinery | |
| - computers, office equipment and furniture and motor vehicles | 3 - 10 years |
| - other | 3 - 25 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 profit and loss account are treated as either provisions or prepayments in the balance sheet. Further details are given in note 20.

**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 and profit on ordinary activities before taxation

The group'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:-

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| United Kingdom | 63,205 | 77,082 |
| Rest of Europe | 71,245 | 63,248 |
| Rest of World | 44,309 | 50,451 |
| | 178,759 | 190,781 |

The group'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 group.

## 3 Net operating expenses

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| Distribution costs | 7,544 | 6,484 |
| Administrative expenses | 13,668 | 12,150 |
| | 21,212 | 18,634 |

## 4 Directors' emoluments

The remuneration paid to the directors of European Electrical Steels Limited was:

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| Emoluments (including benefits in kind) | 122 | 101 |

Pension benefits are accruing to one director under defined benefit pension arrangements.

## 5 Employee information

The average weekly number of persons (including executive directors) employed during the year was:

| | 1998 Number | 1997 Number |
|---|---|---|
| Production | 664 | 676 |
| Administration | 254 | 273 |
| | 918 | 949 |

**Staff costs (for the above persons):**

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| Wages and salaries | 19,138 | 20,335 |
| Social security costs | 2,009 | 2,412 |
| Other pension costs (see note 20) | 2,234 | 2,289 |
| | 23,381 | 25,036 |

## 6 Interest payable and similar charges

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| On bank loans, overdrafts and other loans repayable within 5 years, not by instalments | 122 | 210 |
| On finance leases and hire purchase contracts | - | 3 |
| | 122 | 213 |

## 7 Profit on ordinary activities before taxation

| | 1998 £'000 | 1997 £'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 | - | 4 |
| **And after charging:** | | |
| Amortisation of intangible fixed assets | 35 | 41 |
| Depreciation charge for the period: | | |
| Tangible owned fixed assets | 3,650 | 3,561 |
| Tangible fixed assets held under finance leases | - | 54 |
| Auditors' remuneration for audit services | 77 | 85 |
| Hire of plant and machinery - operating leases | 175 | 112 |
| Research and development expenditure | 757 | 701 |
| Loss on disposal of fixed assets | 4 | - |

Other fees payable to the auditors in respect of non audit services during the year amounted to £6,000 (1997: £6,000).

## 8 Taxation on profit on ordinary activities

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| **Tax on profit on ordinary activities** | | |
| United Kingdom corporation tax at 31% (1997 : 33%) | | |
| Current | 1,459 | 2,628 |
| Prior year | 23 | (3) |
| Overseas taxation | 1,369 | 1,741 |
| Deferred taxation | | |
| UK | 166 | - |
| Overseas | 162 | 59 |
| | 3,179 | 4,425 |

## 9 Profit for the year

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the financial year, before dividends, was £3,812,000 (1997: £6,522,000).

## 10 Dividends

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| Dividends on equity shares: | | |
| 1997 Interim paid of 1.393 pence per share | - | 2,378 |
| Final proposed of 2.285 pence per share (1997: 1.846 pence per share | 3,899 | 3,150 |
| | 3,899 | 5,528 |

## 11 Intangible fixed assets

### Group

| | Licences £'000 |
|---|---|
| **Cost** | |
| At 30 March 1997 | 182 |
| Exchange rate translation differences | (13) |
| **At 28 March 1998** | **169** |
| **Depreciation** | |
| At 30 March 1997 | 85 |
| Charge for year | 35 |
| Exchange rate translation differences | (7) |
| **At 28 March 1998** | **113** |
| **Net book value of intangible fixed assets At 28 March 1998** | **56** |
| Net book value of intangible fixed assets At 29 March 1997 | 97 |

## 12 Tangible fixed assets

**Group**

| | Freehold land and buildings £'000 | Short leasehold land and buildings £'000 | Plant and machinery £'000 | Assets in the course of construction £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 30 March 1997 | 5,905 | 82 | 63,570 | 1,293 | 70,850 |
| Exchange rate translation differences | (228) | 10 | (995) | (7) | (1,220) |
| Additions | 45 | - | 3,307 | 821 | 4,173 |
| Transfers | - | - | 1,149 | (1,149) | - |
| Disposals | - | - | (358) | | (358) |
| **At 28 March 1998** | 5,722 | 92 | 66,673 | 958 | 73,445 |
| **Depreciation** | | | | | |
| At 30 March 1997 | 3,046 | 28 | 37,018 | - | 40,092 |
| Exchange rate translation differences | (85) | (2) | (598) | - | (685) |
| Charge for the period | 176 | 10 | 3,464 | - | 3,650 |
| Disposals | - | - | (344) | - | (344) |
| **At 28 March 1998** | 3,137 | 36 | 39,540 | - | 42,713 |
| **Net book value at 28 March 1998** | 2,585 | 56 | 27,133 | 958 | 30,732 |
| **Spares, loose plant and tools** | | | | | 4,219 |
| **Net book value of tangible fixed assets at 28 March 1998** | | | | | 34,951 |
| Net book value at 29 March 1997 | 2,859 | 54 | 26,552 | 1,293 | 30,758 |
| Spares, loose plant and tools | | | | | 4,262 |
| Net book value of tangible fixed assets at 29 March 1997 | | | | | 35,020 |

**Company**

The company has no tangible fixed assets.

## 13 Fixed asset investments

**Company**

| | Interests in subsidiary undertakings | |
|---|---|---|
| | **1998** | 1997 |
| | **£'000** | £'000 |
| **Cost and net book value** | | |
| At 30 March 1997 | **43,667** | 42,667 |
| Additions | - | 1,000 |
| **At 28 March 1998** | **43,667** | 43,667 |

### Interests in subsidiary undertakings

| Name of undertaking | Country of incorporation or registration | Description of shares held | Proportion of nominal value of issued shares held | Principal activity |
|---|---|---|---|---|
| Orb Electrical Steels Limited | England & Wales | Ordinary shares | 100% | ) Processing ) and sale |
| British Transformer Cores Limited | England & Wales | Ordinary shares | 100% | ) of electrical ) steels ) |
| Surahammar Bruks AB | Sweden | Ordinary shares | 100% | ) |

The addition last year of £1,000,000 represents the Company's investment in British Transformer Cores Limited.

Surahammar Bruks AB in turn holds 100% of the share capital of two subsidiaries:-

| Name of undertaking | Country of incorporation or registration | Description of shares held | Proportion of nominal value of issued shares held | Principal activity |
|---|---|---|---|---|
| NorMag Incorporated | United States | Ordinary shares | 100% | ) Processing and ) sale of |
| CorMag Incorporated | Canada | Ordinary shares | 100% | ) electrical steels |

All the above subsidiaries have been included in the group consolidation.

## 14 Stocks

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|---|---|---|---|---|
| Raw materials and consumables | 2,810 | - | 3,871 | - |
| Work in progress | 15,035 | - | 12,240 | - |
| Finished goods and goods for resale | 4,464 | - | 4,739 | - |
| | 22,309 | - | 20,850 | - |

## 15 Debtors

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| Trade debtors | 33,905 | - | 32,588 | - |
| Amounts owed by group undertakings: | | | | |
| Parent company and fellow subsidiary undertakings | 10,975 | - | 8,892 | - |
| Subsidiary undertakings | - | 4,024 | - | 3,150 |
| Other debtors | 1,980 | - | 1,598 | - |
| | 46,860 | 4,024 | 43,078 | 3,150 |
| **Amounts falling due after more than one year** | | | | |
| ACT recoverable | 244 | 244 | 197 | 197 |

## 16 Creditors: amounts falling due within one year

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|---|---|---|---|---|
| Bank loans and overdrafts | 589 | - | 1,473 | - |
| Obligations under finance leases (see note 17) | - | - | - | - |
| Trade creditors | 18,032 | - | 19,363 | - |
| Amounts owed to group undertakings: | | | | |
| Parent company and fellow subsidiary undertakings | 12,699 | - | 10,189 | - |
| Subsidiary undertakings | - | - | - | - |
| Corporation tax | 1,262 | 1 | 2,479 | 3 |
| ACT payable | 244 | 244 | 197 | 197 |
| Other taxation and social security payable | 2,629 | 3 | 3,650 | - |
| Other creditors | 6,106 | 76 | 6,236 | 32 |
| Dividend payable | 3,899 | 3,899 | 3,150 | 3,150 |
| | 45,460 | 4,223 | 46,737 | 3,382 |

The bank loans and overdrafts are not secured and are repayable on demand.

## 17 Creditors: amounts falling due after more than one year

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|---|---|---|---|---|
| Bank loan | 274 | - | 422 | - |
| Other creditors | 1,119 | - | 1,042 | - |
| | 1,393 | - | 1,464 | - |

The bank loan is unsecured and interest is calculated at base plus 0.25%.

### Bank loans and overdrafts

| | Group 1998 £'000 | Company 1998 £'000 | Group 1997 £'000 | Company 1997 £'000 |
|---|---|---|---|---|
| Repayable as follows: | | | | |
| On demand | 589 | - | 1,473 | - |
| Between one and two years | 126 | - | 133 | - |
| Between two and five years | 148 | - | 289 | - |
| | 863 | - | 1,895 | - |

## 18 Provisions for liabilities and charges

| | Ration-alisation & redundancy £'000 | Deferred taxation (see below) £'000 | Group Total £'000 | Company Deferred taxation £'000 |
|---|---|---|---|---|
| At 30 March 1997 | 136 | 123 | 259 | - |
| Charged to the profit and loss account | - | 328 | 328 | 166 |
| Utilised | (136) | - | (136) | - |
| Exchange rate differences | - | (11) | (11) | - |
| **At 28 March 1998** | - | **440** | **440** | **166** |

### Rationalisation and redundancy

Included within other creditors due in less than one year in 1998 is a balance of £169,000 (1997: £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:

| **Group** | **Amount provided** | | Amount unprovided | |
|---|---|---|---|---|
| | **1998 £'000** | 1997 £'000 | **1998 £'000** | 1997 £'000 |
| Tax effect of timing differences because of: | | | | |
| Excess of tax allowances over depreciation | **231** | 164 | **3,913** | 4,777 |
| Remittance of overseas profits | **166** | - | **-** | - |
| Other | **43** | (41) | **(347)** | 983 |
| | **440** | 123 | **3,566** | 5,760 |
| **Company** | | | | |
| Tax effect of timing differences because of: | | | | |
| Remittance of overseas profits | **166** | - | - | - |

No deferred taxation has been provided on the untaxed reserve of £2,398,000 in Surahammar Bruks AB on the grounds that the directors believe that, for the foreseeable future, the liability will not crystallise.

## 19 Accruals and deferred income

### Group

**Government grants**

| | £'000 |
|---|---|
| At 30 March 1997 | 268 |
| Amortisation in year | (57) |
| **At 28 March 1998** | 211 |

## 20 Pension and similar obligations

European Electrical Steels Limited, Orb Electrical Steels Limited and British Transformer Cores Limited participate in a group pension scheme operated by British Steel plc. This is a funded, defined benefit scheme providing benefits based on final pay and service at retirement. The scheme is operated under trust and its assets are invested independently of the group.

This scheme was established on 1 October 1990 and members of the previous scheme transferred their benefits into the scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. The latest actuarial assessment of the scheme was at 31 March 1996. The next formal valuation will be carried out as at 31 March 1999. Particulars of the valuation are contained in the accounts of British Steel plc. The pension costs to the above companies for the year ended 28 March 1998 amounted to £467,000 (1997: £698,000).

Surahammars Bruks AB operates four separate pension schemes as part of the Swedish State Scheme. All schemes are defined contribution schemes and the contributions payable by the company amounted to £1,675,000 (1997: £1,508,000) in the year. Three of the schemes are externally funded, however for one scheme the total liability of £1,119,000 (1997: £1,042,000) is provided for and included in long term liabilities. The company also contributes to a fund which guarantees payment should the company be unable to meet its commitments.

NorMag Inc maintains a defined benefit pension plan covering substantially all of their employees. The benefits are based on final salary and number of years service. The plan is operated under trust and its assets are invested independently of the group. The plan is fully funded and the company has provided in full for its obligations thereunder. The pension costs to the company for the year ended 28 March 1998 amounted to £60,000 (1997: £54,000).

CorMag Inc maintains a defined contribution pension scheme. The pension cost to the company for the year ended 28 March 1998 amounted to £32,000 (1997: £28,000).

## 21 Called-up share capital

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| **Authorised** | | |
| 180,000,000 ordinary shares of 25p each | **45,000** | 45,000 |
| **Allotted, called up and fully paid** | | |
| 170,667,600 ordinary shares of 25p each | **42,667** | 42,667 |

## 22 Reserves

| **Group** | **Profit and loss account £'000** |
|---|---|
| At 30 March 1997 | 29,047 |
| Exchange losses arising on consolidation of subsidiaries | (1,940) |
| Retained profit for the year | 3,898 |
| **At 28 March 1998** | **31,005** |

| **Company** | **Profit and loss account £'000** |
|---|---|
| At 30 March 1997 | 983 |
| Result for the year | (87) |
| **At 28 March 1998** | **896** |

## 23 Reconciliation of movements in equity shareholders' funds

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| Profit for the financial year | **7,797** | 11,055 |
| Dividends | **(3,899)** | (5,528) |
| | **3,898** | 5,527 |
| Other recognised (losses)/gains | **(1,940)** | (5,108) |
| Net addition to equity shareholders' funds | **1,958** | 419 |
| Opening equity shareholders' funds | **71,714** | 71,295 |
| **Closing equity shareholders' funds** | **73,672** | 71,714 |

## 24 Reconciliation of net cash flow to movement in net funds

| | 1998 £'000 | 1997 £'000 |
|---|---|---|
| (Decrease)/increase in cash in the period | (2,892) | 7,236 |
| Decrease/(increase) in debt | 904 | (427) |
| (Decrease)/increase in liquid resources | (525) | 1,525 |
| Reduction in finance leases | - | 54 |
| **Change in net funds resulting from cash flows** | (2,513) | 8,388 |
| Non-cash items: | | |
| Translation differences | (899) | (2,319) |
| Movement in net funds in the period | (3,412) | 6,069 |
| Opening net funds | 19,305 | 13,236 |
| Closing net funds | 15,893 | 19,305 |

## 25 Analysis of net funds

| | At 29 March 1997 £'000 | Cash flow £'000 | Exchange movements £'000 | At 28 March 1998 £'000 |
|---|---|---|---|---|
| **Net cash** | | | | |
| Cash at bank and in hand | 21,200 | (3,486) | (958) | 16,756 |
| Less: deposits treated as liquid resources | (1,525) | 525 | - | (1,000) |
| | 19,675 | (2,961) | (958) | 15,756 |
| Bank overdrafts | (559) | 69 | 27 | (463) |
| | 19,116 | (2,892) | (931) | 15,293 |
| **Liquid resources** | | | | |
| Deposits included in cash | 1,525 | (525) | - | 1,000 |
| **Debt** | | | | |
| Debt due after one year | (422) | 130 | 18 | (274) |
| Debt due within one year | (914) | 774 | 14 | (126) |
| | (1,336) | 904 | 32 | (400) |
| **Total** | 19,305 | (2,513) | (899) | 15,893 |

## 26 Capital commitments

| | Group 1998 £'000 | Group 1997 £'000 |
|---|---|---|
| Capital expenditure that has been contracted for but has not been provided for in the financial statements | 367 | 2,946 |

## 27 Financial commitments

At 28 March 1998 the company had annual commitments under non-cancellable operating leases as follows:

| | 1998 Land and buildings £'000 | 1998 Other £'000 | 1997 Land and buildings £'000 | 1997 Other £'000 |
|---|---|---|---|---|
| Expiring within one year | - | 133 | - | 41 |
| Expiring between two and five years inclusive | - | 140 | - | 149 |
| Expiring in more than five years | 71 | - | 54 | - |
| | 71 | 273 | 54 | 190 |

## 28 Related party transactions

The Group 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 28 March 1998, British Steel plc held 75% of the equity share capital of the company.

In the course of normal trading, the Group enters into transaction 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 £39,160,000 (1997: £41,916,000) and the total sales amounted to £17,034,000 (1997: £25,267,000). In addition, the Group purchases certain management and administrative services from British Steel plc, which amounted to £934,000 (1997: £909,000) during the year ended 28 March 1998.

The total amounts owed to British Steel plc and its subsidiaries in respect of such transactions was £12,699,000 (1997: £10,189,000) and the total amounts due from British Steel plc and its subsidiaries was £10,975,000 (1997 : £8,892,000). 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.

## 28 Related party transactions (continued)

**SSAB Svenskt Stal AB**

At 28 March 1998, SSAB Tunnplåt AB held 25% of the equity share capital of the company.

In the course of normal trading, the Group enters into transactions with SSAB Tunnplåt AB for the purchase of steel coil. The total of such purchases in the year amounted to £27,395,000 (1997: £19,102,000). The total amounts owed to SSAB Tunnplåt AB in respect of such transactions was £2,619,000 (1997: £2,319,000). No amounts were written off in the period in respect of debts due to SSAB Tunnplåt AB.

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

## 29 Ultimate and immediate parent company

The directors regard British Steel plc, a company registered in England, as the company's controlling related party and ultimate parent company. According to the register kept by the company, British Steel plc had a 75% interest in the equity share capital of European Electrical Steels Limited at 28 March 1998. The results and state of affairs of the company are only consolidated by British Steel plc, the consolidated financial statements of which are available to the public and may be obtained from British Steel plc, 15 Marylebone Road, London, NW1 5JD.