

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

Registered no: 2642030



European Electrical Steels Limited

Annual report for the year ended 3 April 1999

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European Electrical Steels Limited

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Directors and advisers

Directors

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

Secretary and registered office

I A Gilbert
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
NP9 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 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 7.

Trading conditions remained unfavourable during the year and the group's results suffered accordingly. In particular, the continued strength of Sterling against other major currencies adversely impacted on the company's exports from the UK, 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 group will continue to take steps to maintain and improve its cost competitiveness.

Dividends

The directors do not recommend the payment of a final dividend in respect of the year ended 3 April 1999 (1998: £3,899,000). An interim dividend of £698,000 was paid during the year (1998: £Nil).

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 3 April 1999, 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 3 April 1999 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	
	3 April 1999 Number	28 March 1998/ Date of appointment Number
J B McDowall	65,256	65,256
S H Best	2,244	2,244
E P Wallace	3,682	3,682
D R Gabriel	2,233	2,233

Details of share options are as follows:-

Name	29 March 1998 Number	Movements in the year			3 April 1999 Number
		Granted Number	Waived Number	Exercised Number	
J B McDowall	430,365	-	-	-	430,365
S H Best	110,918	-	-	-	110,918
E P Wallace	67,291	-	-	-	67,291

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	43,274	50.0p to 128.0p	1 April 1994 to 30 September 2003
British Steel Executive scheme	565,300	57.0p to 176.0p	30 July 1995 to 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 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.

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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 £5,939 (1998: £4,955).

Payment to creditors

The company does not have trade creditors. The average creditor payment period of the group's UK subsidiaries at 3 April 1999 was 56 days (1998: 61 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.

Year 2000

The Group 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 Group estimates that it will spend approximately £950,000 in total over the duration of the whole Year 2000 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, PricewaterhouseCoopers, will be proposed at the annual general meeting.

By order of the board



I A Gilbert
Company Secretary
11 June 1999

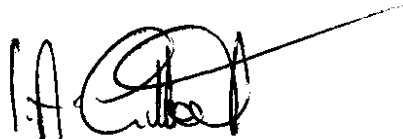
Statement of directors' responsibilities

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 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 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

A handwritten signature in black ink, appearing to read 'I A Gilbert', with a long horizontal line extending from the end of the signature.

I A Gilbert
Company Secretary
11 June 1999

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

We have audited the financial statements on pages 7 to 26.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 5, 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.

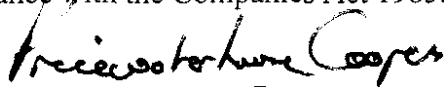
Basis of opinion

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 affairs of the company and the group at 3 April 1999 and of the loss, total recognised gains and losses and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cardiff

11 June 1999

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Consolidated 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	157,876	178,759
Cost of sales		(132,439)	(147,234)
Gross profit		25,437	31,525
Net operating expenses	3	(23,267)	(21,212)
Exceptional operating expenses: Redundancy and related costs		(926)	-
Operating profit		1,244	10,313
Interest receivable and similar income		634	785
		1,878	11,098
Interest payable and similar charges	6	(166)	(122)
Profit on ordinary activities before taxation	7	1,712	10,976
Tax on profit on ordinary activities	8	(1,121)	(3,179)
Profit for the financial year		591	7,797
Dividends	10	(698)	(3,899)
Retained (loss)/profit for the year	22	(107)	3,898

Continuing operations

All items dealt with in arriving at operating 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 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 3 April 1999**

	Year ended 3 April 1999 £'000	Year ended 28 March 1998 £'000
Profit for the financial year	591	7,797
Other recognised gains and losses for the year:		
Currency translation differences on foreign currency net investments	(70)	(1,940)
Total recognised gains and losses relating to the year	<u>521</u>	<u>5,857</u>

Balance sheets at 3 April 1999

	Notes	Group 3 April 1999 £'000	Company 3 April 1999 £'000	Group 28 March 1998 £'000	Company 28 March 1998 £'000
Fixed assets					
Intangible assets	11	23	-	56	-
Tangible assets	12	38,748	-	34,951	-
Investments	13	-	43,667	-	43,667
		<u>38,771</u>	<u>43,667</u>	<u>35,007</u>	<u>43,667</u>
Current assets					
Stocks	14	21,482	-	22,309	-
Debtors:					
Amounts falling due within one year	15	33,963	2	46,860	4,024
Amounts falling due after more than one year	15	-	-	244	244
Cash at bank and in hand		12,989	6,574	16,756	17
		<u>68,434</u>	<u>6,576</u>	<u>86,169</u>	<u>4,285</u>
Creditors: amounts falling due within one year	16	(31,807)	(1,122)	(45,460)	(4,223)
Net current assets		<u>36,627</u>	<u>5,454</u>	<u>40,709</u>	<u>62</u>
Total assets less current liabilities		<u>75,398</u>	<u>49,121</u>	<u>75,716</u>	<u>43,729</u>
Creditors: amounts falling due after more than one year	17	(1,482)	-	(1,393)	-
Provisions for liabilities and charges	18	(268)	-	(440)	(166)
Accruals and deferred income	19	(153)	-	(211)	-
Net assets		<u>73,495</u>	<u>49,121</u>	<u>73,672</u>	<u>43,563</u>
Capital and reserves					
Called-up share capital	21	42,667	42,667	42,667	42,667
Profit and loss account	22	30,828	6,454	31,005	896
Total equity shareholders' funds	23	<u>73,495</u>	<u>49,121</u>	<u>73,672</u>	<u>43,563</u>

The financial statements on pages 7 to 26 were approved by the board of directors on 11 June 1999 and were signed on its behalf by:



Stephen Best
Director

Consolidated cash flow statement for the year ended 3 April 1999

	Note	Year ended 3 April 1999 £'000	Year ended 28 March 1998 £'000
Net cash inflow from continuing operations (reconciliation to operating profit on page 11)		10,396	8,514
Returns on investments and servicing of finance			
Interest received		743	724
Interest paid		(166)	(122)
		577	602
Taxation			
UK corporation tax paid		(1,517)	(2,699)
Overseas tax paid		(1,659)	(1,617)
		(3,176)	(4,316)
Capital expenditure			
Purchase of tangible fixed assets		(7,278)	(4,173)
Sale of tangible fixed assets		-	10
		(7,278)	(4,163)
Equity dividends paid		(4,598)	(3,150)
Cash (outflow)/inflow before management of liquid resources and financing		(4,079)	(2,513)
Management of liquid resources			
Cash (received from)/placed on short-term deposit		(2,644)	525
Financing			
Repayment of bank loans		(121)	(904)
		(121)	(904)
Decrease in cash in the period	25	(6,844)	(2,892)

**Consolidated cash flow statement for the year ended
3 April 1999 (continued)**

**Reconciliation of operating profit
to net cash inflow from operations**

	Year ended 3 April 1999 £'000	Year ended 28 March 1998 £'000
Operating profit - continuing operations	1,244	10,313
Amortisation of government grants	(58)	(57)
Amortisation of intangible fixed assets	34	35
Depreciation of tangible fixed assets	3,948	3,650
Loss on disposal of fixed assets	-	4
Movement on pension provision	217	77
(Increase)/decrease in spares, loose plant and tools	(425)	43
Decrease/(increase) in stocks	827	(1,459)
Decrease/(increase) in debtors	12,787	(3,721)
(Decrease)/increase in creditors	(8,471)	1,008
Exchange rate differences	(229)	(511)
Rationalisation costs provided	691	-
Utilisation of rationalisation provision	(169)	(868)
Net cash inflow from continuing operations	10,396	8,514

**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 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.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

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:-

	1999 £'000	1998 £'000
United Kingdom	44,895	63,205
Rest of Europe	65,350	71,245
Rest of World	47,631	44,309
	<u>157,876</u>	<u>178,759</u>

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

	1999 £'000	1998 £'000
Distribution costs	8,497	7,544
Administrative expenses	14,770	13,668
	<u>23,267</u>	<u>21,212</u>

4 Directors' emoluments

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

	1999 £'000	1998 £'000
Emoluments (including benefits in kind)	<u>113</u>	<u>122</u>

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:

	1999 Number	1998 Number
Production	654	664
Administration	241	254
	<u>895</u>	<u>918</u>

Staff costs (for the above persons):

	1999 £'000	1998 £'000
Wages and salaries	18,756	19,138
Social security costs	2,391	2,438
Other pension costs (see note 20)	1,662	1,805
	<u>22,809</u>	<u>23,381</u>

6 Interest payable and similar charges

	1999 £'000	1998 £'000
On bank loans, overdrafts and other loans repayable within 5 years, not by instalments	<u>166</u>	<u>122</u>

7 Profit on ordinary activities before taxation

	1999 £'000	1998 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Amortisation of government grants	<u>58</u>	<u>57</u>
And after charging:		
Amortisation of intangible fixed assets	34	35
Depreciation charge for the period:		
Tangible owned fixed assets	3,948	3,650
Auditors' remuneration for audit services (company: £12,530; 1998: company £12,535)	86	83
Hire of plant and machinery - operating leases	231	175
Research and development expenditure	660	757
Loss on disposal of fixed assets	<u>-</u>	<u>4</u>

Other fees payable to the auditors in respect of non audit services during the year amounted to £236,000 (1998: £6,000).

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	3,930	1,459
Less double tax relief	(3,366)	-
Prior year	-	23
Overseas taxation	729	1,369
Deferred taxation		
UK	(166)	166
Overseas	(6)	162
	<u>1,121</u>	<u>3,179</u>

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, after dividends payable was £5,558,000 (1998: £3,812,000).

10 Dividends

	1999 £'000	1998 £'000
Dividends on equity shares:		
1999 Interim paid of 0.409 pence per share	698	-
1998 Final proposed of 2.285 pence per share	-	3,899
	<u>698</u>	<u>3,899</u>

11 Intangible fixed assets

Group

	Licences £'000
Cost	
At 29 March 1998	169
Exchange rate translation differences	1
At 3 April 1999	<u>170</u>
Depreciation	
At 29 March 1998	113
Charge for year	34
Exchange rate translation differences	-
At 3 April 1999	<u>147</u>
Net book value of intangible fixed assets	
At 3 April 1999	<u>23</u>
 Net book value of intangible fixed assets At 28 March 1998	 <u>56</u>

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 29 March 1998	5,722	92	66,673	958	73,445
Exchange rate translation differences	43	(1)	73	3	118
Additions	-	-	1,758	5,520	7,278
Transfers	-	-	962	(1,174)	(212)
Disposals	-	-	(166)	-	(166)
At 3 April 1999	5,765	91	69,300	5,307	80,463
Depreciation					
At 29 March 1998	3,137	36	39,540	-	42,713
Exchange rate translation differences	17	-	59	-	76
Charge for the period	178	10	3,760	-	3,948
Disposals	-	-	(166)	-	(166)
At 3 April 1999	3,332	46	43,193	-	46,571
Net book value at 3 April 1999	2,433	45	26,107	5,307	33,892
Spares, loose plant and tools					4,856
Net book value of tangible fixed assets at 3 April 1999					38,748
 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

Transfers of fixed assets include the transfer of plant and machinery with a cost of £212,000 to spares, loose plant and tools.

Company

The company has no tangible fixed assets.

13 Fixed asset investments

Company	Interests in subsidiary undertakings	
	1999 £'000	1998 £'000
Cost and net book value At 3 April 1999 and 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) of electrical
British Transformer Cores Limited	England & Wales	Ordinary shares	100%) steels)
Surahammars Bruks AB	Sweden	Ordinary shares	100%)

Surahammars 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 1999 £'000	Company 1999 £'000	Group 1998 £'000	Company 1998 £'000
Raw materials and consumables	3,192	-	2,810	-
Work in progress	12,251	-	15,035	-
Finished goods and goods for resale	6,039	-	4,464	-
	<u>21,482</u>	<u>-</u>	<u>22,309</u>	<u>-</u>

15 Debtors

	Group 1999 £'000	Company 1999 £'000	Group 1998 £'000	Company 1998 £'000
Amounts falling due within one year				
Trade debtors	25,250	-	33,905	-
Amounts owed by group undertakings:				
Parent company and fellow subsidiary undertakings	7,272	-	10,975	-
Subsidiary undertakings	-	-	-	4,024
Other debtors	1,441	2	1,980	-
	<u>33,963</u>	<u>2</u>	<u>46,860</u>	<u>4,024</u>
Amounts falling due after more than one year				
ACT recoverable	-	-	244	244

16 Creditors: amounts falling due within one year

	Group 1999 £'000	Company 1999 £'000	Group 1998 £'000	Company 1998 £'000
Bank loans and overdrafts	912	-	589	-
Trade creditors	16,885	-	18,032	-
Amounts owed to group undertakings:				
Parent company and fellow subsidiary undertakings	5,850	-	12,699	-
Subsidiary undertakings	-	184	-	-
Corporation tax	170	880	1,262	1
ACT payable	32	32	244	244
Other taxation and social security payable	1,211	-	2,629	3
Other creditors	6,747	26	6,106	76
Dividend payable	-	-	3,899	3,899
	<u>31,807</u>	<u>1,122</u>	<u>45,460</u>	<u>4,223</u>

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

Rationalisation and redundancy

Included within other creditors due in less than one year in 1999 is a balance of £691,000 (1998 : £169,000) which represents the current portion of the total liability.

17 Creditors: amounts falling due after more than one year

	Group 1999 £'000	Company 1999 £'000	Group 1998 £'000	Company 1998 £'000
Bank loan	146	-	274	-
Other creditors	1,336	-	1,119	-
	<u>1,482</u>	<u>-</u>	<u>1,393</u>	<u>-</u>

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

Bank loans and overdrafts

	Group 1999 £'000	Company 1999 £'000	Group 1998 £'000	Company 1998 £'000
Repayable as follows:				
On demand	912	-	589	-
Between one and two years	125	-	126	-
Between two and five years	21	-	148	-
	<u>1,058</u>	<u>-</u>	<u>863</u>	<u>-</u>

18 Deferred tax

	Group Deferred taxation £'000	Company Deferred taxation £'000
At 29 March 1998	440	166
Credited to the profit and loss account	(172)	(166)
At 3 April 1999	<u>268</u>	<u>-</u>

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	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	268	231	4,984	3,913
Remittance of overseas profits	-	166	-	-
Other	-	43	1,415	(347)
	<u>268</u>	<u>440</u>	<u>6,399</u>	<u>3,566</u>
Company				
Tax effect of timing differences because of:				
Remittance of overseas profits	-	166	-	-
	<u>-</u>	<u>166</u>	<u>-</u>	<u>-</u>

No deferred taxation has been provided on the untaxed reserve of £2,728,000 in Surahammars 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 29 March 1998	211
Amortisation in year	(58)
At 3 April 1999	<u>153</u>

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 1999. The next formal valuation will be carried out as at 31 March 2002. Particulars of the valuation are contained in the accounts of British Steel plc. The pension costs to the above companies for the year ended 3 April 1999 amounted to £450,000 (1998 : £467,000).

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 £1,141,000 (1998 : £1,246,000) in the year. Three of the schemes are externally funded, however for one scheme the total liability of £1,251,000 (1998 : £1,119,000) 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 3 April 1999 amounted to £38,000 (1998 : £60,000).

CorMag Inc maintains a defined contribution pension scheme. The pension cost to the company for the year ended 3 April 1999 amounted to £33,000 (1998 : £32,000).

21 Called-up share capital

	1999 £'000	1998 £'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 29 March 1998	31,005
Exchange losses arising on consolidation of subsidiaries	(70)
Retained profit for the year	(107)
At 3 April 1999	30,828
Company	Profit and loss account £'000
At 29 March 1998	896
Result for the year	5,558
At 3 April 1999	6,454

23 Reconciliation of movements in equity shareholders' funds

	1999 £'000	1998 £'000
Profit for the financial year	591	7,797
Dividends	(698)	(3,899)
	<u>(107)</u>	<u>3,898</u>
Other recognised losses	(70)	(1,940)
	<u>(177)</u>	<u>1,958</u>
Net addition to equity shareholders' funds	73,672	71,714
Opening equity shareholders' funds	<u>73,495</u>	<u>73,672</u>
Closing equity shareholders' funds		

24 Reconciliation of net cash flow to movement in net funds

	1999 £'000	1998 £'000
(Decrease) in cash in the period	(6,844)	(2,892)
Decrease in debt	121	904
Increase/(decrease) in liquid resources	<u>2,644</u>	<u>(525)</u>
Change in net funds resulting from cash flows	(4,079)	(2,513)
Non-cash items:		
Translation differences	117	(899)
	<u>(3,962)</u>	<u>(3,412)</u>
Movement in net funds in the period	15,893	19,305
Opening net funds	<u>11,931</u>	<u>15,893</u>
Closing net funds		

25 Analysis of net funds

	At 29 March 1998 £'000	Cash flow £'000	Exchange movements £'000	At 3 April 1999 £'000
Net cash				
Cash at bank and in hand	16,756	(3,881)	114	12,989
Less: deposits treated as liquid resources	-	(2,644)	-	(2,644)
	<u>16,756</u>	<u>(6,525)</u>	<u>114</u>	<u>10,345</u>
Bank overdrafts	(463)	(319)	(5)	(787)
	<u>16,293</u>	<u>(6,844)</u>	<u>109</u>	<u>9,558</u>
Liquid resources				
Deposits included in cash	-	2,644	-	2,644
Debt				
Debt due after one year	(274)	121	7	(146)
Debt due within one year	(126)	-	1	(125)
	<u>(400)</u>	<u>121</u>	<u>8</u>	<u>(271)</u>
Total	<u>15,893</u>	<u>(4,079)</u>	<u>117</u>	<u>11,931</u>

26 Capital commitments

	Group 1999 £'000	Group 1998 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>3,792</u>	<u>367</u>

27 Financial commitments

At 3 April 1999 the company had annual commitments under non-cancellable operating leases as follows:

	1999 Land and buildings £'000	1999 Other £'000	1998 Land and buildings £'000	1998 Other £'000
Expiring within one year	-	98	-	133
Expiring between two and five years inclusive	-	45	-	140
Expiring in more than five years	70	-	71	-
	<u>70</u>	<u>143</u>	<u>71</u>	<u>273</u>

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 3 April 1999, British Steel plc held 75% of the equity share capital of the company.

In the course of normal trading, the Group 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 £26,496,000 (1998: £39,160,000) and the total sales amounted to £13,622,000 (1998 : £17,034,000). In addition, the Group purchases certain management and administrative services from British Steel plc, which amounted to £1,766,000 (1998 : £934,000) during the year ended 3 April 1999.

The total amounts owed to British Steel plc and its subsidiaries in respect of such transactions was £5,850,000 (1998 : £12,699,000) and the total amounts due from British Steel plc and its subsidiaries was £7,272,000 (1998 : £10,975,000). 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.

SSAB Svenskt Stål AB

At 3 April 1999, 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 £18,511,000 (1998 : £27,395,000). The total amounts owed to SSAB Tunnplåt AB in respect of such transactions was £1,791,000 (1998 : £2,619,000). 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 3 April 1999. 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.