

**Company Registration No. 3222077**

**OSKMET (DRI) LIMITED**

**Report and Financial Statements**

**31 December 1998**



## **OSKMET (DRI) LIMITED**

### **REPORT AND FINANCIAL STATEMENTS 1998**

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## **OSKMET (DRI) LIMITED**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

I Falconer  
A F Moshiri

#### **SECRETARY**

J P Gorman, FCA

#### **REGISTERED OFFICE**

Fifth Floor  
100 Avenue Road  
London NW3 3HF

#### **AUDITORS**

Deloitte & Touche  
Chartered Accountants  
Hill House  
1 Little New Street  
London EC4A 3TR

## **OSKMET (DRI) LIMITED**

### **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31 December 1998.

### **ACTIVITIES**

The company is engaged in the trading of direct reduced iron product.

### **REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS**

The directors consider the results for the year to be satisfactory and expect the results for 1999 to be similar.

### **RESULTS AND DIVIDENDS**

The results of the company for the year to 31 December 1998 are set out in detail on page 6.

The directors do not recommend the payment of a dividend for the year ended 31 December 1998.

### **DIRECTORS AND THEIR INTERESTS**

The directors who held office during the year and in the period to the date of signing these financial statements are as follows:

I Falconer	
A F Moshiri	- appointed 27 February 1999
R Stubbs	- resigned 28 February 1999
A Hejazi	- resigned 1 November 1998

The interests of I Falconer and A F Moshiri in the share capital of the ultimate parent company are disclosed in the financial statements of that company. None of the directors held or holds any beneficial interests in the shares of the company or any other group company.

The interests of R Stubbs in options over ordinary shares in the ultimate parent company granted under the Employee Share Option Scheme are as follows:

	<b>No. of shares</b>	<b>Exercise price</b>	<b>Exercise dates</b>
R Stubbs	1,000,000	3.5p	15.07.01 - 14.07.08

**DIRECTORS' REPORT (continued)**

**CREDITOR PAYMENT POLICY**

The company's policy is normally to pay trade creditors according to the agreed terms of business. These terms are usually agreed with trade creditors before they provide the goods and services. The company's policy is to adhere to the payment terms providing the relevant goods or services have been supplied in accordance with the agreements. The company's creditors days are fourteen days (1997 - one day).

**YEAR 2000**

To ensure continuity of operations in the approaching new Millennium, the company has reviewed all its computers and other business systems which have time sensitive programs that may not properly reflect or recognise the Year 2000. All such systems were purchased/leased in recent years and have been confirmed as Year 2000 compliant by the suppliers of the equipment and software. Expenditure on addressing Year 2000 issues has been, and is expected to remain, immaterial. Oskol Electrometallurgical Kombinat has indicated that all its computer and other business systems have been reviewed and that they are Year 2000 compliant.

**AUDITORS**

Deloitte & Touche, have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.



J P Gorman

Secretary

30 July 1999

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## AUDITORS' REPORT TO THE MEMBERS OF OSKMET (DRI) LIMITED

We have audited the financial statements on pages 6 to 14 which have been prepared under the accounting policies set out on page 8.

### **Respective responsibilities of directors and auditors**

As described on page 4 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.

### *Uncertainty*

In forming our opinion we have considered the adequacy of the disclosure made in note 1(a) dealing with the uncertainty concerning the company's trading with the Russian Federation. We consider that this matter should be drawn to your attention but our opinion is not qualified in this respect.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of the profit for the year ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants  
and Registered Auditors  
Hill House  
1 Little New Street  
London EC4A 3TR

30 July 1999

# OSKMET (DRI) LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 December 1998

		Year ended	For the period from the date of incorporation on 9 July 1996 to 31 December 1997
	Note	31 December 1998	31 December 1997
		US\$	US\$
<b>TURNOVER</b>	2	48,405,589	74,192,902
Cost of sales		(46,603,555)	(72,755,802)
<b>Gross profit</b>		1,802,034	1,437,100
Administrative expenses		(314,207)	(295,728)
<b>OPERATING PROFIT</b>	3	1,487,827	1,141,372
Interest receivable and similar income		29,550	74,305
Interest payable and similar charges	5	(37,834)	(8,079)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,479,543	1,207,598
Tax on profit on ordinary activities	6	(5,567)	(386,495)
<b>PROFIT FOR THE YEAR</b>		1,473,976	821,103
<b>RETAINED PROFIT BROUGHT FORWARD</b>		821,103	-
<b>RETAINED PROFIT CARRIED FORWARD</b>		2,295,079	821,103

All activities derive from continuing operations.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 31 December 1998

There are no recognised gains or losses other than the profit attributable to shareholders disclosed in the above profit and loss account.

# OSKMET (DRI) LIMITED

## BALANCE SHEET 31 December 1998

	Note	1998 US\$	1997 US\$
<b>FIXED ASSETS</b>			
Tangible assets	7	<u>10,300</u>	<u>11,798</u>
<b>CURRENT ASSETS</b>			
Debtors	8	10,883,844	11,074,912
Cash at bank and in hand		<u>131,906</u>	<u>23,339</u>
		11,015,750	11,098,251
<b>CREDITORS: amounts falling due within one year</b>	9	(8,730,346)	(10,288,321)
<b>NET CURRENT ASSETS</b>		<u>2,285,404</u>	<u>809,930</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,295,704</u>	<u>821,728</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	10	<u>(622)</u>	<u>(622)</u>
		2,295,082	821,106
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	3	3
Profit and loss account		<u>2,295,079</u>	<u>821,103</u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>		<u>2,295,082</u>	<u>821,106</u>

These financial statements were approved by the Board of Directors on 3 July 1999.

Signed on behalf of the Board of Directors.



A F Moshiri

Director

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**1. BASIS OF PREPARING THE FINANCIAL STATEMENTS**

- (a) The directors have always recognised that trading with the Russian Federation has a degree of political, regulatory and economic risk. The directors pay close attention to the monitoring and management of such risks in order to ensure the company's continued ability to trade. Having considered these issues the directors believe it appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the crystallisation of any such risk.
- (b) **Accounting policies**  
The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

**Accounting convention**

The financial statements are prepared under the historical cost convention and are presented in US dollars as this is the currency in which the majority of transactions are executed.

**Tangible fixed assets**

Depreciation is provided on an equal annual instalment basis over the anticipated useful lives of the assets at the following rate:

Office equipment - 20% on cost.

**Deferred tax**

Deferred tax is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

**Turnover**

Turnover represents sales invoiced to external customers, excluding Value Added Tax.

**Translation of foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rate of exchange ruling on the balance sheet date. Revenue and expense items are translated at average rates of exchange for the year. Resulting exchange gains and losses are taken to the profit and loss account.

# OSKMET (DRI) LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 1998

### 2. TURNOVER

	Year ended 31 December 1998 US\$	For the period from the date of incorporation on 9 July 1996 to 31 December 1997 US\$
<b>Turnover by destination:</b>		
Spain	30,929,129	21,433,867
Indonesia	10,146,510	9,151,567
Poland	2,337,950	6,696,513
Finland	2,067,780	-
CIS	1,808,400	-
Turkey	711,442	-
Greece	269,978	-
Slovakia	134,400	-
Mexico	-	16,972,528
Indonesia	-	12,539,116
USA	-	3,955,339
Guatemala	-	2,981,245
Italy	-	462,727
	<u>48,405,589</u>	<u>74,192,902</u>

All turnover derives from direct reduced iron trading activities and relates to the sale of an OEMK product.

### 3. OPERATING PROFIT

	Year ended 31 December 1998 US\$	For the period from the date of incorporation on 9 July 1996 to 31 December 1997 US\$
Operating profit is after charging:		
Depreciation	2,670	1,045
Auditors' remuneration:		
- Audit fees	33,200	16,400
- Other services	3,000	2,000
Management fee paid to ultimate parent company (see note 4)	<u>83,000</u>	<u>-</u>

### 4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no remuneration from the company for their services either in 1998 or 1997.

	Year ended 31 December 1998 No.	For the period from the date of incorporation on 9 July 1996 to 31 December 1997 No.
<b>Employees</b>		
Average number of persons employed in the year:		
Management	<u>-</u>	<u>1</u>
	US\$	US\$
<b>Staff costs</b>		
Wages and salaries	<u>-</u>	<u>58,177</u>

The company's ultimate parent company has provided administrative services to the company in 1998 for which the company has paid the ultimate parent company a management fee of US\$83,000 (see note 3).

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	Year ended 31 December 1998	For the period from the Date of incorporation on 9 July 1996 to 31 December 1997
	US\$	US\$
Bank loans	112,903	386,467
Bank charges	227,317	206,350
	<u>340,220</u>	<u>592,817</u>
Less included in cost of sales	(302,386)	(584,738)
	<u>37,834</u>	<u>8,079</u>

Interest on bank loans of US\$112,843 (1997 – US\$386,467) and bank charges of US\$189,543 (1997 – US\$198,271) have been included in cost of sales as these expenses are trade finance related.

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	Year ended 31 December 1998	For the period from the Date of incorporation on 9 July 1996 to 31 December 1997
	US\$	US\$
United Kingdom corporation tax at 31.0% (1997 – 31.5%)	-	385,873
Deferred tax	-	622
	<u>-</u>	<u>386,495</u>
Prior year adjustment	5,567	-
	<u>5,567</u>	<u>386,495</u>

The tax charge for 1998 is low due to group relief claimed for £nil consideration.

# OSKMET (DRI) LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 1998

### 7. TANGIBLE FIXED ASSETS

	Office equipment US\$
<b>Cost:</b>	
At 1 January 1998	12,843
Additions	1,172
At 31 December 1998	<u>14,015</u>
<b>Accumulated depreciation:</b>	
At 1 January 1998	1,045
Charge for the year	2,670
At 31 December 1998	<u>3,715</u>
<b>Net book value:</b>	
At 31 December 1998	<u>10,300</u>
At 31 December 1997	<u>11,798</u>

### 8. DEBTORS

	1998 US\$	1997 US\$
Trade debtors	7,369,999	10,529,800
Amount owed by ultimate parent company	3,513,716	3
Other debtors	129	349,451
Prepayments	-	195,658
	<u>10,883,844</u>	<u>11,074,912</u>

Included in other debtors as at 31 December 1998 is US\$ nil (1997 - US\$345,934) due from Oskol Electrometallurgical Kombinat, ("OEMK"). This amount relates to the prepayment for deliveries of direct reduced iron products purchased by the company for resale.

# OSKMET (DRI) LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 1998

### 9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998	1997
	US\$	US\$
Bank overdraft	15,460	775,488
Bank loans	2,140,000	2,534,999
Trade creditors	761,798	527,112
Amount owed to ultimate parent company	-	5,664,971
Amount owed to fellow subsidiary company	3,367,156	55,721
Corporation tax	100,941	385,873
Other creditors	2,260,654	-
Accruals and deferred income	84,337	344,157
	<u>8,730,346</u>	<u>10,288,321</u>

The company's bank loans at 31 December 1998 of US\$2,140,000 (1997 - US\$2,534,999) are secured on trade debtors.

Included in other creditors as at 31 December 1998 is US\$2,129,659 (1997 - US\$nil) owing to OEMK. This amount relates to the payments to be made for deliveries of direct reduced iron products purchased by the company for resale.

### 10. PROVISIONS FOR LIABILITIES AND CHARGES

	US\$
Deferred tax	
At 1 January 1998 and 31 December 1998	<u>622</u>

The amount of deferred tax provided for in the financial statements and potential amount not provided for are:

	Provided 1998 US\$	Not provided 1998 US\$	Provided 1997 US\$	Not provided 1997 US\$
Other timing differences	<u>622</u>	<u>-</u>	<u>622</u>	<u>-</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**11. CALLED UP SHARE CAPITAL**

	1998	1997
	£	£
Authorised:		
1,000 (1997 – 1,000) ordinary shares of £1 each	1,000	1,000
	US\$	US\$
Called up, allotted and unpaid:		
2 (1997 – 2) ordinary shares of £1 each	3	3

**12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	Year ended 31 December 1998 US\$	For the period from the date of incorporation on 9 July 1996 to 31 December 1997 US\$
Profit for the year	1,473,976	821,103
Share capital subscribed on incorporation	-	3
Net additions to shareholders' funds	1,473,976	821,106
Opening shareholders' funds	821,106	-
Closing shareholders' funds	2,295,082	821,106

**13. RELATED PARTY INFORMATION**

The company's controlling party is Middlesex Holdings plc. The company has taken advantage of the exemption granted under paragraph 3(c) of FRS 8 and not disclosed details of transactions with other group companies qualifying as related parties as it is a wholly owned subsidiary of Middlesex Holdings plc.

**14. GUARANTEE**

The company has received, with one of its fellow subsidiary companies, a guarantee of its borrowings of up to US\$50 million, from its ultimate parent company at 31 December 1998 and 31 December 1997.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1998**

**15. ULTIMATE PARENT COMPANY**

The company's results are consolidated in the accounts of Middlesex Holdings plc, the company's ultimate parent company, which is incorporated in Great Britain. The consolidated accounts are available at Fifth Floor, 100 Avenue Road, London NW3 3HF.