

**Armacell UK Limited**  
*formerly Armstrong Insulation Products*  
*Limited and Preci (1738) Limited*

**Directors' report and financial statements**

31 December 1999  
Registered number 3729805



## Directors' report and financial statements

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## Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 1999.

### Principal activities

The company was incorporated on 10 March 1999 and on 1 June 1999 changed its name to Armstrong Insulation Products Limited. It then further changed its name to Armacell UK Limited on 17 July 2000.

On 1 June 1999, the company acquired Armstrong World Industries Limited's insulation business and certain net assets for net book value. The company's principal activity since that date has been the manufacture and sale of elastomeric and polyethylene products.

### Business review

	1999 £000
Turnover	9,771
Loss on ordinary activities before taxation	(304)
Tax on profit on ordinary activities	93
Loss for the financial year	(211)

### Proposed dividend

The Directors do not propose the payment of a dividend.

### Post balance sheet event

On 1 April 2000, £4.5m of the inter-company balance between the company and Armstrong World Industries Limited that arose on the acquisition of the insulation business was capitalised. The remainder of the balance was paid by the company.

### Directors and directors' interests

The following were directors of the company during the year under review:

Diane Penfold	(appointed 10 March, resigned 13 May)
Clare Wilson	(appointed 10 March, resigned 13 May)
Stuart Abbott	(appointed 13 May)
James Mars	(appointed 13 May)
Mark Willis-Jones	(appointed 13 May)
Ulrich Weimer	(appointed 25 May)

As recorded in the Register of Directors Interests maintained by the company, no director had an interest in shares or debentures of any group UK company.

### The environment

The company is committed to a policy which recognises environmental issues in all aspects of its business. Responsibility for compliance with environmental best practice is vested in the directors and environmentally sensitive options are integrated into the company's business at all levels of operations.

## Directors' report *(continued)*

### Employees

It is the policy of the company to give full and fair consideration to applications for employment from disabled persons having regard to their particular aptitudes and abilities.

As far as is possible, arrangements are made to continue the employment of employees who have become disabled during the course of their employment with the company and where necessary, appropriate training facilities are provided. Disabled persons are given the same opportunities for training, career development and promotion as are available to all employees within the limitations of their aptitudes and abilities.

During the course of the years, the company has maintained its policy of fostering good industrial relations with its Trade Union members through regular consultation before significant matters of concern arise and by taking prompt action to resolve any difficulties. All employees are also encouraged to attend business review meetings at locations where this is practical or are represented at them where numbers involved are too great.

The company now reports through the medium of its "Team Briefs" monthly to all employees in a way designed to provide information on matters of concern and to report on progress and prospects, whilst developing a common awareness on the part of all employees of the basic factors affecting the performance of the company.

### Year 2000

The Directors appreciate the importance of developing a policy towards meeting the challenges faced by the problems associated with the Year 2000 (or millennium dating) problem which arises due to the inability of some computer systems to function correctly post 31 December 1999.

A Year 2000 programme has been completed by the company to address the impact on computer and business systems. The programme has included a review of the critical systems and plans have been formulated to address the completion of major issues.

The total incremental expenditure for ensuring that systems across the association are Year 2000 compliant have not been significant.

No significant Year 2000 related errors or failures have been identified since the year end.

### Political and charitable donations

No charitable or political donations. Were made during the period.

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Stuart Wheatley  
Secretary

Market Square  
Uxbridge  
Middlesex  
UB8 1NG

27/10/2000

## 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 and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



PO Box 695  
8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

## **Report of the auditors to the members of Armacell UK Limited**

We have audited the financial statements on pages 6 to 17.

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

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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' remuneration and transactions with the company is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 and of its loss for the nine month period then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG*

**KPMG**  
*Chartered Accountants*  
*Registered Auditors*  
*London*

*30 October* 2000

# **Profit and loss account**

*for the nine month period ended 31 December 1999*

*Note*

		1999 £000
Turnover	2	9,771
Cost of sales		(6,341)
Gross profit		3,430
Distribution costs		(398)
Administrative expenses		(3,323)
Operating loss		(291)
Other interest receivable and similar income	6	11
Interest payable and similar charges	6	(1)
Loss on sale of fixed assets		(23)
Loss on ordinary activities before taxation	4	(304)
Tax on profit on ordinary activities	7	93
Retained loss for the financial period		(211)

The company had no other recognised gains or losses in the financial year.

There is no material difference between the above results and the results as given on an unmodified historical cost basis.

**Balance sheet**  
*at 31 December 1999*

	<i>Note</i>	<b>1999</b> <b>£000</b>	<b>1999</b> <b>£000</b>
<b>Fixed assets</b>			
Tangible assets	8		3,205
<b>Current assets</b>			
Stocks	9	1,619	
Debtors	10	1,506	
Cash at bank and in hand		918	
		<hr/>	
<b>Creditors: amounts falling due within one year</b>	11	4,043 (6,994)	
		<hr/>	
<b>Net current liabilities</b>			(2,951)
			<hr/>
<b>Total assets less current liabilities</b>			254
<b>Provisions for liabilities and charges</b>	12		(465)
			<hr/>
<b>Net liabilities</b>			(211)
			<hr/>
<b>Capital and reserves</b>			
Called up share capital	15		-
Profit and loss account	14		(211)
			<hr/>
<b>Equity shareholders' funds</b>			(211)
			<hr/>

The notes on pages 8 to 17 form part of these accounts.

These financial statements were approved by the board of directors on 27/10/00 and were signed on its behalf by:



**Stuart Abbott**  
*Director*



## Notes

(forming part of the financial statements)

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### *Basis of preparation*

The financial statements have been prepared on a going concern basis in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Armstrong World Industries Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Armstrong (U.K.) Investments Group, within which this company is included, can be obtained from the address given in note 20.

#### *Leased assets*

##### *Finance leases*

The fair values of assets held under finance leases are capitalised. Rentals payable are apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable. Finance charges are allocated to accounting periods over the respective lease terms so as to produce a constant periodic rate of charge on the remaining balance of each obligation for each accounting period.

##### *Operating leases*

Rentals payable under operating leases are charged on a straight line basis over the lease term.

##### *Depreciation and amortisation*

Depreciation and amortisation on owned assets are provided on the straight line basis at the annual rates set out below so as to write off the cost of the assets over their estimated useful life:

Freehold land	Nil
Plant and machinery	10%
Tools and equipment	20%
Data processing equipment	25%
Motor vehicles	25%
Buildings - leasehold	5% - or over the period of the lease (which ever is the higher)
Office furniture	12.5%
Licenses to operate software	20%

A full year's charge is provided on fixed assets in the year of acquisition or when fully brought into use.

Depreciation on finance leased assets is taken on a straight line basis over the period of the lease.

## Notes (continued)

### Accounting policies (continued)

#### *Stock and work in progress*

Stock and work in progress are stated at the lower of cost and net realisable value. Cost includes related production overheads and is calculated on a FIFO basis.

#### *Foreign currencies*

- a) Transactions denominated in foreign currencies are translated into sterling and recorded at the exchange rate ruling on the date of the transaction, unless covered by a specific foreign exchange contract, when the contracted rate is used.
- b) Balances denominated in foreign currencies are translated into sterling and recorded at the exchange rate ruling on the balance sheet date, unless covered by a specific foreign exchange contract when the contracted rate is used.
- c) The investment in the associated company is stated at the historical exchange rate in the accounts of the Company.
- d) Other exchange differences have been taken to the profit and loss account.

#### *Research and development*

Research and development expenditure is written off in the year in which it is incurred.

#### *Deferred taxation*

Deferred taxation is provided in full in respect of the taxation effect of all timing differences.

#### *Pensions*

The group operates a pension scheme providing benefits based on final pensionable pay for staff and works employees. The assets of the scheme are held separately from those of the group in trustee administered funds. Pension charges are calculated in accordance with the US Financial Accounting Standard Number 87.

#### *Turnover*

The turnover of the Company comprises the sales of insulation products (excluding value added tax).

**Notes (continued)**

**2 Turnover**

	1999 £000
United Kingdom	7,262
Rest of Europe	1,130
Australia & Far East	549
Middle East & Africa	101
Other	729
	<hr/>
	9,771
	<hr/>

**3 Staff numbers and costs**

The aggregate payroll costs were:

	1999 £000
Wages & Salaries	1,977
Social Security Costs	147
Other Pension Costs (see note 19)	267
	<hr/>
	2,391
	<hr/>

The average number of persons employed by the company (including Directors) during the year was as follows:

	1999
Administration	31
Production	125
	<hr/>
Total	156
	<hr/>

**Notes (continued)**

**4 Loss on ordinary activities before taxation**

Loss on ordinary activities before taxation is stated after charging / (crediting):

	1999 £000
Depreciation of owned assets	416
Net gain on foreign exchange	10
Restructuring costs	235
Hire of plant and machinery - operating leases	18
Other operating leases - land and buildings	146
Auditors remuneration for :	
audit work	14
non- audit work	4

**5 Emoluments of directors**

	1999 £
Directors' emoluments	64
Amounts receivable under long term incentive schemes	-
	<hr/> 64
Company contributions to final salary defined benefit schemes	4
	<hr/> 68 <hr/>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £64,300. He is a member of the Armstrong UK group defined benefit pension scheme, under which his accrued pension at the year end was £49,500, and his accrued lump sum was £111,300.

**Number of directors  
1999**

Retirement benefits are accruing to the following number of directors under:

Defined benefit schemes	1
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One director exercised share options in Armstrong World Industries Inc (the ultimate parent undertaking) during the year.

**Notes** *(continued)*

**6 Interest receivable/payable**

	1999 £000
Interest receivable and similar income:	
Foreign exchange gain	11
	<hr/>
Total interest receivable and similar income	11
	<hr/>
Interest payable and similar charges:	
Foreign exchange loss	1
	<hr/>
Total interest payable and similar charges	1
	<hr/>

**7 Tax on profit on ordinary activities**

	1999 £000
The charge for taxation is comprised as follows:	
UK corporation tax at 30%	7
Deferred taxation	(100)
	<hr/>
	(93)
	<hr/>

## Notes (continued)

### 8 Tangible fixed assets

	Freehold land £000	Leasehold improvements £000	Plant and equipment £000	Motor vehicles £000	In course of construction £000	Total £000
<i>Cost</i>						
At beginning of period	-	-	-	-	-	-
Transfer at 1 June 1999	54	1,559	7,140	45	522	9,320
Additions	-	-	-	-	297	297
Transfers from 'in- course of construction'	-	9	415	-	(424)	-
<b>At end of the period</b>	<b>54</b>	<b>1,568</b>	<b>7,555</b>	<b>45</b>	<b>395</b>	<b>9,617</b>
<i>Depreciation</i>						
At beginning of period	-	-	-	-	-	-
Transfer at 1 June 1999	-	990	4,976	30	-	5,996
Charge for the period	-	39	371	6	-	416
<b>At end of the period</b>	<b>-</b>	<b>1,029</b>	<b>5,347</b>	<b>36</b>	<b>-</b>	<b>6,412</b>
<i>Net book value</i>						
At beginning of period	-	-	-	-	-	-
<b>At end of the period</b>	<b>54</b>	<b>539</b>	<b>2,208</b>	<b>9</b>	<b>395</b>	<b>3,205</b>

### 9 Stock and work in progress

	1999 £000
Finished Goods	1,227
Work in Progress	81
Raw Materials	311
	<b>1,619</b>

**Notes (continued)**

**10 Debtors**

	1999 £000
Trade debtors	150
Amounts owed by group undertakings	563
Other debtors, prepayments and accrued income	793
	<hr/>
	1,508
	<hr/>

**11 Creditors: amounts falling due within one year**

	1999 £000
Trade creditors	1,270
Amounts owed to group undertakings	4,938
Corporation tax	7
Other taxation and social security	178
Accruals and deferred income	601
	<hr/>
	6,994
	<hr/>

**12 Provision for liabilities and charges**

	Deferred Taxation £000	Restructuring Provision £000	Total £000
At 10 March 1999	-	-	-
Transfer at 1 June 1999	330	127	457
Charged during the period	(100)	108	8
	<hr/>	<hr/>	<hr/>
At 31 December 1999	230	235	465
	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 14 Reserves

	Profit and loss account £000
At the beginning of the period	-
Loss for the financial period	(211)
At the end of the year	<u>(211)</u>

### 15 Share capital

	1999 Number
Authorised	
Ordinary shares of £1.00 each	<u>100</u>
Allocated, called up and fully paid	
Ordinary shares of £1.00 each	<u>2</u>

### 16 Commitments

Contracts for capital expenditure at 31 December 1999 amounted to £6,500. In addition capital expenditure authorised by the Board but not contracted for amounted to £23,200.



**Notes (continued)**

**17 Operating leases**

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as set out below:

<b>Land and buildings</b>	<b>1999</b>
	<b>£000</b>
Date when commitment expires:	
Less than one year	-
2 to 5 years	121
More than 5 years	95
	<hr/>
Total	216
	<hr/>

**18 Contingent liabilities**

At the end of the year, there were no material contingent liabilities.

**19 Post balance sheet events**

On 1 April 2000, £4.5m of the inter-company balance between the company and Armstrong World Industries Limited that arose on the acquisition of the insulation business was capitalised. The remainder of the balance was paid by the company.

**20 Ultimate holding company**

The smallest group in which the results of the company are consolidated is that headed by Armstrong (U.K.) Investments, registered in England. Copies of its accounts can be obtained from:

Armstrong (U.K.) Investments  
 Armstrong House  
 38 Market Square  
 Uxbridge  
 Middlesex  
 UB8 1NG

The Company's ultimate holding company is Armstrong World Industries Inc, a company incorporated in the USA. Group accounts are prepared by Armstrong World Industries Inc. and may be obtained from:

The Chief Financial Officer  
 Armstrong World Industries Inc  
 PO Box 1001  
 Lancaster  
 Pennsylvania  
 17604

## Notes (continued)

### 21 Pensions

The company is part of the group pension scheme operated by Armstrong World Industries Limited which provides benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company in trustee administered funds. The details below relate to this group scheme.

The pension charge in the profit and loss account for 1999 has been calculated in accordance with the US Financial Accounting Standard No. 87. The most significant assumptions used in the calculation were a return on assets of 8.5%, a discount rate of 8.0%, and an allowance for general increase to salaries of 6.5% per annum. This charge is not significantly different from that determined under SSAP24.

The company's contributions are determined by Consulting Actuaries on the basis of triennial valuations using the projected unit method. The most recent valuation was carried out as at 31 December 1998.

The most significant assumptions used in the valuation were a rate of return on investment of 8.25%, an allowance for an increase in salaries of 6.0% and that dividends on the underlying All-Share Index would increase at the rate of 3.5% per annum. The result of the actuarial valuation indicates that the capital value of the schemes' assets were £38,541,000 and that the actuarial values represented 102% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The Company's contributions are made at 10.0% since 1 January 1999.