Registered no: 1517971

ELG Haniel Metals Limited

Annual report and financial statements

Year ended 31 December 1998

ELG Haniel Metals Limited

Annual report for the year ended 31 December 1998

Directors and advisers

Directors

M G Wright
F Terorde
U Lessmann
A E Ellis
T Pashley

Secretary and Registered Office

T Pashley
Templeborough Works
Sheffield
S9 1RT

Auditors

PricewaterhouseCoopers
1 East Parade
Sheffield
S1 2ET

Solicitors

Hartley, Linfoot & Whitlam
2 St Peter's Close
Sheffield
S1 2EJ

Bankers

Barclays Bank PLC
Fitzalan Square
Sheffield

Directors' report for the year ended 31 December 1998

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

Principal activities

The profit and loss account for the year is set out on page 7.

The principal activity of the company is that of metal trading.

Review of business and future developments

The directors are pleased to report a profit before taxation for the year of £775,662 (1997: £3,941,289).

During September 1998 the two companies, in which ELG Haniel Metals Limited held investments, National Scrap Metals Limited and T W Ward (Steel and Alloys) Limited, were wound up. These companies were no longer required for the purposes for which they were set up.

In the director's report for the year ended 31 December 1997 we ended by anticipating extremely difficult trading conditions throughout 1998 due to deteriorating nickel prices. This proved to be an accurate assessment and during 1998, nickel dropped to its lowest level for 12 years, to a price of US$1.70 per pound.

Nickel is the highest value alloy in stainless steel raw materials, which is the predominant material handled by the company. This decline, coupled with substantial falls in chrome and iron prices, saw the price of stainless steel raw materials fall to levels last seen in the early 1980's.

The problems the industry faced in the Far East also contributed to extreme trading conditions. Furthermore, the continued strong pound effected the contribution from our steel making division (Carrs Special Steels).

Despite this dramatic market situation, our low cost operations and strong market presence enabled us to report a profit. Although we are not expecting further dramatic falls in 1999, we are still anticipating continued difficult trading conditions.

Dividends

The directors do not recommend the payment of a dividend for the year (1997: £1.1667 per share on both 'A' ordinary and 'B' ordinary shares).

Directors

The directors of the company at 31 December 1998, all of whom have been directors for the whole year, were as follows:

M G Wright
F Terorde
U Lessmann
A E Ellis
T Pashley (Company Secretary)

Directors' interests

The interests of the directors of the company in the shares of the company at 31 December 1998, together with their interests at 1 January 1998 were:

	`B' ordinary shares of £1 each	
	31 December 1998	1 January 1998
	Number	Number
M G Wright	150,000	150,000

As permitted, the register required to be kept by Section 325 of the Companies Act 1985 does not contain details of interests of directors who are also directors of the company's holding company.

Other than shown in the table above, no director had any interest in the shares of the company in the year.

Changes in fixed assets

The movements in fixed assets during the year are set out in note 11 to the financial statements.

Year 2000

The company has conducted a review of its computer systems and computer-controlled processes and has implemented a programme for dealing with potential Year 2000 issues. Compliance is being achieved through the conversion and replacement of existing systems.

The company is well advanced in its own preparations for Year 2000. However, given the complexity of the problem, it is not possible for any organisation to be certain that no Year 2000 problems will occur even if its own systems are fully compliant.

The costs of achieving Year 2000 compliance have been funded as a normal part of the company's operations. The costs have not been separately identified but are not considered to be material.

Economic and Monetary Union

The company undertakes transactions with companies located in countries within the Economic and Monetary Union (EMU) zone which introduced a single European currency, the Euro, on 1 January 1999.

Steps have been taken to ensure the company's systems are compliant.

The costs of addressing EMU have not been separately identified but are not considered to be material.

Directors' responsibilities

The directors are required by UK company law 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.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonably and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 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.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 and the directors have appointed PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers will be proposed at the annual general meeting.

By order of the board

T Pashley
Company Secretary
15th March 1999

Report of the auditors to the members of ELG Haniel Metals Limited

We have audited the financial statements on pages 7 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 4, 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' remuneration 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 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 affairs of the company at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Sheffield
18 March 1999

Profit and loss account for the year ended 31 December 1998

	Notes	1998 £	1997 £
Turnover	2	**46,560,411**	64,695,168
Cost of sales		**(40,331,651)**	(55,246,108)
Gross profit		**6,228,760**	9,449,060
Net operating expenses	3	**(4,911,277)**	(4,893,932)
Operating profit	6	**1,317,483**	4,555,128
Interest receivable and similar income	7	**125,435**	156,685
Interest payable and similar charges	8	**(667,256)**	(770,524)
Profit on ordinary activities before taxation		**775,662**	3,941,289
Tax on profit on ordinary activities	9	**(225,033)**	(1,280,037)
Profit on ordinary activities after taxation		**550,629**	2,661,252
Dividend		**-**	(3,500,000)
Retained profit/(loss) for the year		**550,629**	(838,748)

All items dealt with in arriving at the operating profit above relate to continuing operations.

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

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Balance sheet at 31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	11	**7,779,541**	8,447,411
Investments	12	**-**	202,070
		7,779,541	8,649,481
Current assets			
Stocks	13	**4,230,071**	7,356,445
Debtors: amounts falling due within one year	14	**6,453,294**	14,611,135
Debtors: amounts falling due after more than one year	14	**-**	875,000
Cash at bank and in hand		**12,109**	2,163
		10,695,474	22,844,743
Creditors: amounts falling due within one year	15	**(6,446,141)**	(19,987,337)
Net current assets		**4,249,333**	2,857,406
Total assets less current liabilities		**12,028,874**	11,506,887
Provisions for liabilities and charges			
Deferred taxation	16	**(258,925)**	(287,567)
		11,769,949	11,219,320
Capital and reserves			
Called-up share capital	17	**3,000,000**	3,000,000
Profit and loss account	18	**8,769,949**	8,219,320
Equity shareholders' funds	19	**11,769,949**	11,219,320

The financial statements on pages 7 to 18 were approved by the board of directors on 15th March 1999 and were signed on its behalf by:

T Pashley
Director

Notes to the financial statements for the year ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared 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 accounting

The financial statements are prepared under the historical cost convention. In preparing the financial statements to 31 December 1998 the opportunity has been taken to bring the classification of balances in line with the company's German reporting requirements. Certain comparative figures have been adjusted accordingly.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over their estimated economic lives. The principal annual rates are:

Freehold buildings	2%
Plant and equipment	12.5%
Fixtures and fittings	10%
Motor vehicles	20%

Operating leases

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

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in, first out basis and includes transport and handling costs. In the case of manufactured products, costs include all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Turnover

Turnover represents the invoiced value of goods and services supplied, excluding value added tax.

Foreign exchange

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of transaction or at the agreed contractual rate. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at rates of exchange ruling at the balance sheet date or at the agreed contractual rate. All differences on exchange are taken to the profit and loss account in the year in which they arise.

Pension scheme arrangements

The company operates a defined benefit pension scheme for the benefit of the majority of its employees, the assets of which are held separately from those of the company in independently administered funds. The fund is valued every three years by a professionally qualified actuary. The scheme is funded by contributions partly from the employees and partly from the company at rates determined by independent actuaries.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' services. The effect of variations from regular cost is spread over the expected average remaining service lives of the members of the scheme.

The company also operates a defined contribution top up scheme for the benefit of the directors and certain senior management. The costs relating to this scheme are charged to profit and loss as they fall due.

The company provides no other post retirement benefits to its employees.

Exemption from obligation to prepare a cash flow statement

In accordance with the exemption allowed by Financial Reporting Standard Number 1 (Revised), a cash flow statement has not been prepared as the company accounts are included in those of the immediate parent company, ELG Haniel GmbH, a company incorporated in Germany.

2 Turnover

Geographical analysis of turnover by destination:

	1998	1997
	£	£
United Kingdom sales	**42,190,233**	61,141,820
European sales	**3,431,101**	2,714,934
Rest of the World sales	**939,077**	838,414
	46,560,411	64,695,168

3 Net operating expenses

	1998 £	1997 £
Premises costs	**598,142**	595,497
Administrative expenses	**4,419,588**	4,685,661
Financial expenses	**70,491**	69,861
Other operating income and recharges to group companies	**(176,944)**	(457,087)
	4,911,277	4,893,932

4 Directors' emoluments

	1998 £	1997 £
Aggregate emoluments	**315,087**	254,771
Company pension contributions to money purchase schemes	**24,026**	22,422

Retirement benefits are accruing to three of the directors under the company's defined contribution scheme and to two of the directors under the company's defined benefit scheme.

Emoluments of F Terorde and U Lessmann are paid by other group companies. These directors are also directors of the ultimate parent company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of these. Accordingly, the above details include no emoluments in respect of these directors. Their total emoluments are included in the aggregate of directors' emoluments in the relevant group companies.

Highest paid director

	1998 £	1997 £
Aggregate emoluments	**144,509**	141,576
Company pension contributions to money purchase schemes	**8,589**	8,006
Defined benefit schemes:		
Accrued pension at end of year	**23,500**	19,341
Accrued lump sum at end of year	**46,080**	43,516

5 Employee information

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

	1998 £	1997 £
By activity		
Production	**147**	153
Selling and administration	**63**	65
	210	218
Staff costs for the above persons		
Wages and salaries	**3,852,296**	4,185,599
Social security costs	**338,558**	347,646
Other pension costs (note 22)	**396,997**	337,205
	4,587,851	4,870,450

6 Operating profit

The operating profit is stated after charging/(crediting):

	1998 £	1997 £
Depreciation of tangible fixed assets	**631,587**	551,014
Profit on disposal of fixed assets	**(33,539)**	(59,251)
Auditors' remuneration	**29,500**	29,000
Non-audit fees paid to the company's auditors	**8,800**	3,000
Hire of plant and machinery – operating leases	**130,331**	138,330
Provisions no longer required	**(540,831)**	-

7 Interest receivable and similar income

	1998 £	1997 £
Bank interest	**125,435**	62,319
Group interest	**-**	94,366
Bank interest	**125,435**	156,685

8 Interest payable and similar charges

	1998 £	1997 £
On bank loans and overdrafts	**86,950**	132,025
On group loans	**580,306**	638,499
	667,256	770,524

9 Taxation

	1998 £	1997 £
United Kingdom corporation tax at 31% (1997: 31.5%)		
Current	**252,839**	1,186,826
Deferred	**25,774**	93,211
Deferred tax charge		
Under/(over) provision in respect of prior years:		
Current	**836**	-
Deferred	**(46,270)**	-
Adjustment to deferred tax balances due to change in tax rates	**(8,146)**	-
	225,033	1,280,037

10 Dividends

	1997 £	1996 £
Dividend paid on `A' ordinary shares of £1.1667 per share in 1997	-	3,150,000
Dividend paid on `B' ordinary shares of £1.1667 per share in 1997	-	350,000
	-	3,500,000

11 Tangible fixed assets

	Freehold property £	Plant and equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Cost					
At 1 January 1998	6,152,233	3,269,361	413,104	837,246	10,671,944
Additions	51,992	316,958	18,539	-	387,489
Disposals	-	(92,916)	-	(118,030)	(210,946)
Transfers to group companies	(350,000)	-	-	-	(350,000)
At 31 December 1998	**5,854,225**	**3,493,403**	**431,643**	**719,216**	**10,498,487**
Depreciation					
At 1 January 1998	325,849	1,407,159	176,773	314,752	2,224,533
Charge for year	81,837	361,295	38,983	149,472	631,587
Disposals	(4,000)	(40,594)	-	(92,580)	(137,174)
At 31 December 1998	**403,686**	**1,727,860**	**215,756**	**371,644**	**2,718,946**
Net book value					
At 31 December 1998	**5,450,539**	**1,765,543**	**215,887**	**347,572**	**7,779,541**
Net book value					
At 31 December 1997	5,826,384	1,862,202	236,331	522,494	8,447,411

12 Investments

	1998 £	1997 £
Investments in subsidiary undertakings	-	202,070

On 22 September 1998 the two companies in which ELG Haniel Metals Limited held investments, National Scrap Metals Limited and Donat Consultants Limited, formerly T W Ward (Steel and Alloys) Limited, were placed into members voluntary liquidation.

13 Stocks

	1998 £	1997 £
Raw material and consumables	**2,745,143**	4,910,207
Work in progress	**369,560**	1,530,959
Finished goods and goods for resale	**1,115,368**	915,279
	4,230,071	7,356,445

14 Debtors

	1998 £	1997 £
Amounts falling due within one year		
Trade debtors	**4,418,696**	13,351,804
Amounts due from group undertakings	**1,052,847**	279,752
ACT recoverable	**622,160**	545,598
Other debtors	**93,294**	114,913
Prepayments	**266,297**	319,068
	6,453,294	14,611,135
Amounts falling due after more than one year		
ACT recoverable	-	875,000
	6,453,294	15,486,135

Other debtors includes staff loans made to employees of the company totalling £80,850 (1997: £80,609).

15 Creditors: amounts falling due within one year

	1998 £	1997 £
Bank overdraft	**371,342**	2,931,956
Trade creditors	**1,724,466**	3,211,145
Amounts owed to group undertakings	**3,856,948**	7,239,812
Corporation tax	-	1,194,563
Advance corporation tax	-	875,000
Other taxation and social security	**147,635**	654,752
Dividends payable	-	3,500,000
Accruals and other creditors	**345,750**	380,109
	6,446,141	19,987,337

The company's bank overdraft is secured by an unlimited composite accounting guarantee between ELG Haniel Metals Limited, Nichro Alloys (Barking) Limited, Nichro Alloys (Barking) Holdings Limited and ELG Metals (NW) Limited. A letter of negative pledge is held by the bank, dated 31 July 1990.

Amounts owed to group undertakings includes an unsecured loan of £2,117,555 which carries interest at the German commercial bank rate of 7.5% and is repayable on 12 January 1999.

16 Deferred taxation

	Amount provided		Amount unprovided	
	1998 £	1997 £	1998 £	1997 £
Accelerated capital allowances	**230,620**	262,377	**227,514**	167,838
Short term timing differences	**28,305**	25,190	-	-
	258,925	287,567	**227,514**	167,838

	£
At 1 January 1998	287,567
Transfer to profit and loss account (note 9)	(28,642)
At 31 December 1998	**258,925**

17 Called up share capital

	1998	1997
	£	£
Authorised		
2,700,000 `A' ordinary shares of £1 each	**2,700,000**	2,700,000
300,000 `B' ordinary shares of £1 each	**300,000**	300,000
	3,000,000	3,000,000
Allotted, called up and fully paid		
2,700,000 `A' ordinary shares of £1 each	**2,700,000**	2,700,000
300,000 `B' ordinary shares of £1 each	**300,000**	300,000
	3,000,000	3,000,000

The `A' ordinary shares and the `B' ordinary shares rank pari passu in all respects.

18 Profit and loss account

	£
At 1 January 1998	8,219,320
Retained profit for the year	550,629
At 31 December 1998	**8,769,949**

19 Reconciliation of movements in shareholders' funds

	1997	1996
	£	£
Profit on ordinary activities after taxation	**550,629**	2,661,252
Dividends	-	(3,500,000)
	550,629	(838,748)
Opening shareholders' funds	**11,219,320**	12,058,068
Closing shareholders' funds	**11,769,949**	11,219,320

20 Financial commitments

The company had annual commitments under non-cancellable operating leases as follows:

	Plant and machinery	
	1998	1997
	£	£
Expiring within one year	**7,338**	35,866
Expiring between two and five years	**109,435**	86,654
	116,773	122,520

21 Contingent liabilities

The company has given the following guarantees:

(a) Guarantee to H M Customs & Excise of £450,000 (1997: £450,000) in respect of a deferment of payment of VAT and duty on imports.

(b) Sterling equivalent of outstanding foreign exchange contracts of £1,496,784 (1997: £90,905).

22 Pension schemes

The main pension scheme to which the company is a party is the ELG Haniel Metals Limited Pension & Assurance Scheme ("the scheme"). This is a 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 company.

The pension cost charge for the year was £339,657 (1997: £296,171). The costs of the scheme were assessed in accordance with the advice of independent qualified actuaries and have been based on the actuarial valuation of the Scheme as at 6 April 1996.

For this valuation, the actuarial method adopted was the projected unit method and the main actuarial assumptions used were that wages and salaries would increase on average by 6.0% per annum, that the return on investments would be 8.0% per annum and that pensions increases would be 3.75% per annum.

The valuation showed the actuarial value of the assets to be sufficient to cover 101% of the actuarial value of the accrued benefits, after allowing for the expected future increases in pay and pensions. The market value of the Scheme's assets at 6 April 1996 was £3.85 million. The next formal valuation is to be carried out as at 6 April 1999.

The company also operates a defined contribution scheme for the benefit of directors and certain senior management. The pension cost for the defined contribution scheme, which represents contributions payable by the company, amounted to £57,340 (1997: £41,034).

23 Related party transactions

In accordance with the exemption allowed by Financial Reporting Standard Number 8 "Related Party Transactions", transactions with ELG Haniel GmbH, Franz Haniel & Cie GmbH and fellow subsidiaries are not disclosed.

Wax Interactive Communications Limited

A E Ellis, the Managing Director, is the company secretary and a 5% shareholder of Wax Interactive Communications Limited. During the year, ELG Haniel Metals Limited purchased £21,965 (1997: £151,365) of goods and services from Wax Interactive Communications Limited. The purchases were made on an arm's length basis. The year-end creditor balance was £1,649 (1997: £Nil).

Wax Interactive Communications Limited also purchased a vehicle from ELG Haniel Metals Limited during the year, the net book value of which was £6,838 with sale proceeds of £12,500. The sale was made on an arm's length basis.

Wax Digital Marketing Network Limited

A E Ellis is also the company secretary of Wax Digital Marketing Network Limited. P E Ellis, the son of A E Ellis, has a significant shareholding in the company. During the year ELG Haniel Metals Limited purchased £39,889 (1997: £Nil) of goods and services from Wax Digital Marketing Network Limited. The purchases were made on an arm's length basis. The year-end creditor balance was £nil (1997: £nil).

24 Ultimate controlling party and holding company

The directors regard ELG Haniel GmbH and Franz Haniel & Cie GmbH, companies incorporated in Germany, as the company's immediate and ultimate parent company and controlling party respectively. According to the register kept by the company, ELG Haniel GmbH has a 95% interest in the equity of ELG Haniel Metals Limited at 31 December 1998. Copies of the parent's consolidated financial statements may be obtained from Kremerskamp 16, D-47138 Duisberg, Germany.