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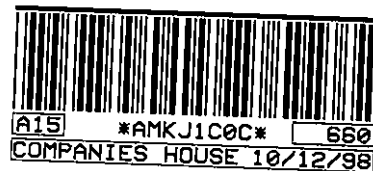
Company No: 3242331

**PHILIP SERVICES (EUROPE) LIMITED**  
(formerly Scohold Limited)

**Report and Financial Statements**

**Period ended 31 December 1997**

**Deloitte & Touche**  
Queen Anne House  
69-71 Queen Square  
Bristol  
BS1 4JP



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**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

A Gabarin  
H D Yendoll

**SECRETARY**

M C H Soule

**REGISTERED OFFICE**

Bridge House  
Heron Square  
Richmond  
Surrey  
TW9 1EN

**AUDITORS**

Deloitte & Touche  
Queen Anne House  
69-71 Queen Square  
Bristol  
BS1 4JP

**BANKERS**

Lloyds Bank PLC  
42 Commercial Street  
Newport  
Gwent  
NP9 1WX

**SOLICITORS**

Norton Rose  
Kempson House  
Camomile Street  
London  
EC3A 7AN

## **DIRECTORS' REPORT**

The directors submit their report and the audited financial statements for the period from incorporation on 27 August 1996 to 31 December 1997.

## **PRINCIPAL ACTIVITIES**

The principal activity of the company is that of a holding company. The principal activity of the group is the processing, recycling and distribution of metal.

## **INCORPORATION, CHANGE OF NAME AND PRINCIPAL ACTIVITIES**

The company was incorporated on 27 August 1996 as Scohold Limited. On 10 January 1997, the company changed its name to Philip Environmental (Europe) Limited and on 9 July 1997, the company again changed its name to Philip Services (Europe) Limited.

On 17 January 1997, the issued share capital of the company was purchased by Philip Services Corp.

## **REVIEW OF THE BUSINESS AND FUTURE PROSPECTS**

The group commenced trading in January 1997.

The directors are satisfied with the trading results of the group and do not envisage any significant changes for the foreseeable future.

## **RESULTS AND DIVIDENDS**

The profit on ordinary activities after taxation for the period amounted to £430,000. The directors do not recommend the payment of a dividend.

## **DIRECTORS AND THEIR INTERESTS**

The current membership of the Board is set out on page 1.

Directors who served during the course of the period were:

	<b>Date of appointment</b>	<b>Date of resignation</b>
Norton Rose Limited	27 August 1996	9 January 1997
Norose	27 August 1996	9 January 1997
R Karia	9 January 1997	17 January 1997
O A Bazin	9 January 1997	17 January 1997
A Gabarin	17 January 1997	-
F Luchesa	17 January 1997	17 October 1997
P Fracassi	22 January 1997	3 November 1997
H D Yendoll	17 October 1997	-

None of the directors had any interest in the shares of the company or any other group company at the date of appointment or at the end of the period.

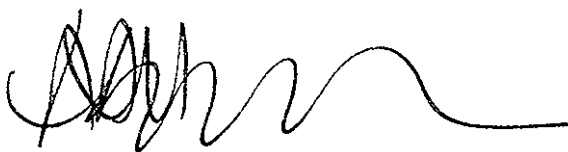


**DIRECTORS' REPORT (continued)**

**AUDITORS**

Deloitte & Touche were appointed as the first auditors of the company. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

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



A Gabarin  
Director

4<sup>th</sup> December 1998

## **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 the group as at the end of the financial year and of the profit or loss of the group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## AUDITORS' REPORT TO THE MEMBERS OF

### PHILIP SERVICES (EUROPE) LIMITED (formerly Scohold Limited)

We have audited the financial statements on pages 6 to 25 which have been prepared under the accounting policies set out on pages 9 to 11.

#### 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.

#### Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the accounts concerning the uncertainty as to the continuation of the support by Philip Services Corp's lenders of the Philip Services Corp group including Philip Services (Europe) Limited. In view of the significance of this uncertainty we consider that it 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 1997 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*

**DELOITTE & TOUCHE**  
Chartered Accountants and  
Registered Auditors

*9 December 1998*

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
Period ended 31 December 1997

	Note	Period from 27 August 1996 to 31 December 1997 £'000
<b>TURNOVER</b>	3	60,124
Change in stock of finished goods and work in progress		907
Raw materials and consumables		(39,419)
Other external charges		(7,446)
Staff costs	4	(5,541)
Depreciation and other amounts written off tangible and intangible fixed assets	7	(2,318)
Other operating charges		(3,900)
<b>OPERATING PROFIT</b>	7	<u>2,407</u>
Interest receivable and similar income	5	161
Interest payable and similar charges	6	(1,625)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>943</u>
Tax on profit on ordinary activities	8	(513)
<b>PROFIT RETAINED FOR THE FINANCIAL YEAR</b>	19	<u><u>430</u></u>

All results arise from acquisitions.

There are no recognised gains or losses for the current financial period other than as stated in the profit and loss account accordingly a statement of total recognised gains and losses is not presented with these financial statements.

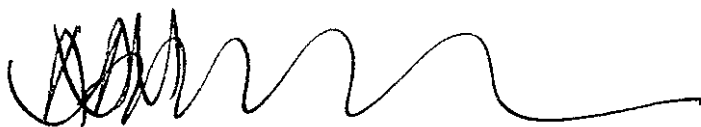


**CONSOLIDATED BALANCE SHEET**  
 As at 31 December 1997

	Note	£'000	1997 £'000
<b>FIXED ASSETS</b>			
Intangible assets	10		9,482
Tangible assets	11		23,973
			<u>33,455</u>
<b>CURRENT ASSETS</b>			
Stocks	13	2,124	
Debtors	14	11,679	
Cash at bank and in hand		5,805	
		<u>19,608</u>	
<b>CREDITORS: amounts falling due within one year</b>	15	(7,612)	
		<u></u>	
<b>NET CURRENT ASSETS</b>			11,996
			<u></u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			45,451
<b>CREDITORS: amounts falling due after more than one year</b>	16		(19,087)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	17		(810)
			<u></u>
<b>NET ASSETS</b>			25,554
			<u><u></u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18		20,889
Other reserves	19		4,235
Profit and loss account	19		430
			<u></u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>			25,554
			<u><u></u></u>

These financial statements were approved by the Board of Directors on 4<sup>th</sup> December 1998.

Signed on behalf of the Board of Directors



A Gabarin  
 Director



**PARENT COMPANY BALANCE SHEET**  
As at 31 December 1997

	Note	£'000	1997 £'000
<b>FIXED ASSETS</b>			
Tangible assets	11		290
Investments	12		19,753
			<u>20,043</u>
<b>CURRENT ASSETS</b>			
Debtors	14	4,798	
Cash at bank and in hand		657	
		<u>5,455</u>	
<b>CREDITORS: amounts falling due within one year</b>	15	(820)	
		<u></u>	
<b>NET CURRENT ASSETS</b>			4,635
<b>NET ASSETS</b>			<u>24,678</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18		20,889
Other reserves	19		4,235
Profit and loss account	19		(446)
			<u>24,678</u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>			<u>24,678</u>

These financial statements were approved by the Board of Directors on 4<sup>th</sup> December 1998.

Signed on behalf of the Board of Directors

A Gabarin  
Director

**NOTES TO THE ACCOUNTS**  
**Period ended 31 December 1997****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

**Basis of preparation**

As disclosed in note 22 of these accounts, Philip Services (Europe) Limited together with other group companies is a guarantor ("the guarantee") for a Philip Services Corp, the ultimate parent company, US\$ group borrowing facility. Borrowings under the facility are secured by a charge on the issued share capital, and the assets of certain of Philip Services Corp's subsidiaries.

The borrowing facility contains certain restrictive covenants and financial covenants. Philip Services Corp is not in compliance with the financial covenants. As Philip Services Corp is not in compliance with the terms of its borrowing facility, the debt outstanding under the facility is classified as a current liability by Philip Services Corp.

These financial statements have been prepared on a going concern basis which assumes that Philip Services (Europe) Limited will realise the carrying value of its assets and satisfy its obligations and commitments as they become due in the normal course of business. The ability of Philip Services (Europe) Limited to continue operating in this manner is dependant upon a number of factors including that the lenders to the ultimate parent company do not make any demand on Philip Services (Europe) Limited under the terms of the guarantee.

Philip Services Corp management is in active discussions with its lenders to secure appropriate financing arrangements while continuing to implement its operating and divestment plans to ensure the long term viability of the group. The directors of Philip Services (Europe) Limited have considered statements issued by Philip Services Corp concerning the current status of the negotiations between Philip Services Corp and its lenders and the lenders' written notice of their current intention not to make any demand or take any other action against Philip Services (Europe) Limited to claim a payment under the guarantee. On the basis of the information available to the directors at the time of approving these financial statements they consider it appropriate to prepare the accounts on the going concern basis. The financial statements do not include any adjustments that would be necessary if the going concern assumption were not considered to be appropriate.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries. The results of all subsidiaries acquired during the period are included as from their effective date of acquisition using the acquisition method of accounting.

**NOTES TO THE ACCOUNTS**  
**Period ended 31 December 1997**

**1. ACCOUNTING POLICIES**

**Goodwill**

Where the cost of acquisition exceeds the fair value attributable to the assets acquired, the difference is treated as purchased goodwill and is capitalised. Capitalised goodwill is amortised over its estimated useful economic life of twenty years.

**Tangible fixed assets**

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of these assets by equal instalments over their estimated useful economic lives as follows:

Leasehold land and buildings	-	life of lease
Freehold buildings	-	50 years
Plant and machinery	-	between 10 and 20 years
Office equipment	-	between 3 and 10 years

**Investments**

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

**Stock**

Stock is valued at the lower of cost and net realisable value. In determining the cost, the average purchase price is used together with, where necessary, an appropriate proportion of overheads.

**Cashflow**

As a wholly owed subsidiary included within consolidated financial statements which are publicly available, the company has taken advantage of the exemption contained in FRS1 revised, 'Cash Flow Statements', and has not produced a cash flow statement.

**Leases**

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the lease and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

All other leases are accounted for as 'operating leases' and the rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

**1. ACCOUNTING POLICIES (continued)**

**Deferred taxation**

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at the rates at which it is expected that tax will arise.

**Foreign exchange**

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions or at the rates of exchange fixed under the terms of the relevant transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

**Pension costs**

The expected costs of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme so that the pension cost is a substantially level percentage of current and expected future pensionable payroll. Variations from regular cost are spread over the remaining lives of current employees in the scheme.

**2. ACQUISITIONS**

During the period the group has made the following acquisitions; these acquisitions have been accounted for by the acquisition method of accounting.

<b>Date</b>	<b>Acquisition</b>
25 January 1997	Blackbushe Limited and Subsidiaries
30 May 1997	BM Metals (Recycling) Limited
14 August 1997	E Pearse (Holdings) Limited and Subsidiaries
3 December 1997	Bath Reclamation (Avonmouth) Co Limited
25 January 1997	Assets and trade of a division of Allied Steel and Wire plc

Details of the assets acquired and the results of the entities prior to acquisition are set out below.

**NOTES TO THE ACCOUNTS**  
**Period ended 31 December 1997**

**2. ACQUISITIONS (continued)**

a) Blackbushe Limited

**1 January 1997  
to 25 January 1997  
£'000**

Turnover	755
Operating profit and profit on ordinary activities before tax	65

There were no recognised gains or losses in the period 1 January 1997 to 25 January 1997 other than the profit for the period.

The profit on ordinary activities after taxation for the year ended 31 December 1996 was £1,141,000.

The following table explains the adjustment to book value of the major category of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisition.

	<b>Book amount £'000</b>	<b>Revaluation £'000</b>	<b>Fair value £'000</b>
Tangible fixed assets	4,511	1,536	6,047
Stocks	192	-	192
Debtors	1,460	-	1,460
Cash less overdraft	35	-	35
Creditors	(1,410)	-	(1,410)
	<u>4,788</u>	<u>1,536</u>	<u>6,324</u>
Goodwill			(942)
Cash consideration			<u>5,382</u>



**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

**2. ACQUISITIONS (continued)**

b) E Pearse (Holdings) Limited

**1 July 1996 to  
14 August 1997  
£'000**

Turnover	4,962
Operating loss and loss on ordinary activities before tax	(50)

There were no recognised gains or losses in the period 1 July 1996 to 14 August 1997 other than the loss for the period.

The profit on ordinary activities after taxation for the year ended 30 June 1996 was £18,000.

The following table explains the adjustment to book value of the major category of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisition.

	<b>Book amount £'000</b>	<b>Revaluation £'000</b>	<b>Fair value £'000</b>
Tangible fixed assets	1,027	600	1,627
Stocks	84	-	84
Debtors	630	-	630
Cash less overdraft	13	-	13
Creditors	(1,181)	-	(1,181)
	<u>573</u>	<u>600</u>	<u>1,173</u>
Goodwill			1,292
Cash consideration			<u>2,465</u>



**NOTES TO THE ACCOUNTS**  
**Period ended 31 December 1997**

**2. ACQUISITIONS (continued)**

c) Assets and trade of a division of Allied Steel and Wire Plc

The summarised profit and loss account of the division of Allied Steel and Wire Plc acquired is as follows:

	<b>1 January 1997 to 25 January 1997 £'000</b>
Turnover	1,700
Operating profit and profit on ordinary activities before tax	61

There were no recognised gains or losses in the period 1 January 1997 to 25 January 1997 other than the profit for the period.

The profit on ordinary activities before taxation for the year ended 31 December 1996 was £1,829,000.

The following table explains the adjustment to book value of the major category of assets and liabilities acquired to arrive at the fair values included in the consolidated financial statements at the date of acquisition.

	<b>Book amount £'000</b>	<b>Revaluation £'000</b>	<b>Fair value £'000</b>
Tangible fixed assets	5,415	9,140	14,555
Stocks	1,961	-	1,961
Debtors	5,935	-	5,935
Creditors	(2,616)	-	(2,616)
	<u>10,695</u>	<u>9,140</u>	<u>19,835</u>
Goodwill			6,965
Cash consideration			<u>26,800</u>




**NOTES TO THE ACCOUNTS**  
 Period ended 31 December 1997

**2. ACQUISITIONS (continued)**

## d) Other acquisitions

The following table explains the adjustment to book value of the major category of assets and liabilities acquired to arrive at the fair values of other acquisitions included in the consolidated financial statements at their date of acquisition.

	Book amount £'000	Revaluation £'000	Fair value £'000
Tangible fixed assets	1,954	194	2,148
Stocks	30	-	30
Debtors	560	-	560
Cash	237	-	237
Creditors	(1,039)	-	(1,039)
	<u>1,742</u>	<u>194</u>	<u>1,936</u>
Goodwill			<u>1,426</u>
Cash consideration			<u>3,362</u>

**3. TURNOVER**

Turnover represents the value, excluding value added tax, of goods and services supplied to customers during the period in respect of the group's principal activity. The analysis of turnover by geographical area of destination is as follows:

	Period from 27 August 1996 to 31 December 1997 £'000
United Kingdom	37,415
Rest of Europe	4,980
America	2,800
Asia and Australia	14,929
	<u>60,124</u>

**NOTES TO THE ACCOUNTS**  
**Period ended 31 December 1997**

**4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

**Period from  
27 August 1996 to  
31 December 1997  
£'000**

Directors' emoluments:

Emoluments	136
	<u>      </u>

	<b>No.</b>
Number of directors who are members of a defined benefit pension scheme	-
	<u>      </u>

Mr Yendoll is remunerated by Philip Metals (Europe) Limited while Mr Fracassi was remunerated by Philip Services Corp. It is not practicable to allocate their remuneration between services as directors of Philip Services (Europe) Limited and their services as directors of other group companies. The other directors received no emoluments.

The average number of people, including directors, employed by the group was:	<b>No.</b>
Production	179
Selling and administration staff	96
	<u>      </u>
	275
	<u>      </u>

The costs incurred in respect of these employees were:	<b>£'000</b>
Wages and salaries	4,740
Social security costs	350
Other pension costs	451
	<u>      </u>
	5,541
	<u>      </u>

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

**Period from  
27 August 1996 to  
31 December 1997  
£'000**

Bank interest receivable	161
	<u>      </u>


**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

<b>6. INTEREST PAYABLE AND SIMILAR CHARGES</b>	<b>Period from 27 August 1996 to 31 December 1997 £'000</b>
Loans from group companies	1,545
Bank overdrafts	63
Hire purchase contracts and finance leases	17
	<hr/> 1,625 <hr/>
<b>7. OPERATING PROFIT</b>	<b>Period from 27 August 1996 to 31 December 1997 £'000</b>
Operating profit is stated after charging:	
Amortisation of goodwill	351
Depreciation of owned assets	1,846
Depreciation of leased assets	121
Auditors' remuneration:	
- Group audit fees	72
- Company audit fees	8
Non audit fees paid to auditors	43
Operating lease rentals:	
- plant and machinery	595
- other operating leases	127
	<hr/> 513 <hr/>
<b>8. TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	<b>Period from 27 August 1996 to 31 December 1997 £'000</b>
United Kingdom corporation tax at 31% based on the profit for the period	47
Deferred taxation (note 17)	466
	<hr/> 513 <hr/>

The tax charge for the period is high as the amortisation of goodwill is not an allowable deduction for tax purposes and recognition has not been made in deferred tax of excess management expenses carried forward in the parent company.


**NOTES TO THE ACCOUNTS**  
 Period ended 31 December 1997

**9. PROFIT OF PARENT COMPANY**

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial period amounted to £445,970.

**10. INTANGIBLE FIXED ASSETS**
**Goodwill**  
**£'000**
**Cost**

Additions

9,833

At 31 December 1997

9,833

**Amortisation**

Charge for the period

351

At 31 December 1997

351

**Net book value**

At 31 December 1997

9,482

**11. TANGIBLE FIXED ASSETS**

The Group	Land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>					
Subsidiaries acquired	3,273	110	6,690	84	10,157
Additions	875	-	16,175	198	17,248
Disposals	-	-	(91)	-	(91)
At 31 December 1997	4,148	110	22,774	282	27,314
<b>Depreciation</b>					
Subsidiaries acquired	3	-	1,351	49	1,403
Charge for the period	56	6	1,844	61	1,967
Disposals	-	-	(29)	-	(29)
At 31 December 1997	59	6	3,166	110	3,341
<b>Net book value</b>					
At 31 December 1997	4,089	104	19,608	172	23,973



**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

**11. TANGIBLE FIXED ASSETS (continued)**

	<b>1997</b>
	<b>£'000</b>
The net book value of land and buildings and leasehold improvements comprises:	
Freehold	759
Leasehold - long	3,102
Leasehold - short	332
	<u>4,193</u>

Included in the total net book value of plant and machinery is £410,000 in respect of assets held under finance leases and hire purchase contracts.

	<b>Freehold land £'000</b>	<b>Fixtures and fittings £'000</b>	<b>Total £'000</b>
<b>The Company</b>			
<b>Cost</b>			
Additions	250	46	296
At 31 December 1997	<u>250</u>	<u>46</u>	<u>296</u>
<b>Depreciation</b>			
Charge for the period	-	6	6
At 31 December 1997	<u>-</u>	<u>6</u>	<u>6</u>
<b>Net book value</b>			
At 31 December 1997	<u>250</u>	<u>40</u>	<u>290</u>

**12. INVESTMENTS HELD AS FIXED ASSETS**

	<b>Shares in subsidiary undertakings £'000</b>
<b>The Company</b>	
<b>Cost</b>	
Additions	19,753
At 31 December 1997	<u>19,753</u>



**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

**12. INVESTMENTS HELD AS FIXED ASSETS (continued)**

Subsidiary undertaking	Nature of business	Holding	Proportion held %
Philip Metals (Europe) Limited	Scrap Metal Merchant	Ordinary shares	100
Blackbushe Limited	Scrap Metal Merchant	Ordinary shares	100
Elliott Metal Company Limited*	Scrap Metal Merchant	Ordinary shares	100
Southern Hauliers Limited*	Haulage Contractor	Ordinary shares	100
T C Fraser Metals Limited*	Scrap Metal Merchant	Ordinary shares	75
Blackbushe Metals (Western) Limited	Dormant	Ordinary shares	100
Bath Reclamation (Avonmouth) Co Limited	Scrap Metal Merchant	Ordinary shares	100
BM Metals (Recycling) Limited	Scrap Metal Merchant	Ordinary shares	100
E Pearse (Holdings) Limited	Dormant	Ordinary shares	100
E Pearse & Co Limited*	Scrap Metal Merchant	Ordinary shares	100
Widsite Limited*	Dormant	Ordinary shares	100
Mayer Pearce Limited*	Dormant	Ordinary shares	100
C Philip & Sons (Bristol) Limited*	Dormant	Ordinary shares	100
Philip Cardiff Facility Company Limited	Dormant	Ordinary shares	100
Cardiff Dust Processing Limited*	Dormant	Ordinary shares	50
Allied Metals Limited	Dormant	Ordinary shares	100

All subsidiary undertakings are registered in England and Wales. With the exception of companies marked with an \*, all shareholdings are in the name of Philip Services (Europe) Limited.

**13. STOCKS**

	1997 £'000
<b>The Group</b>	
Raw materials and consumables	1,217
Finished goods	907
	<u>2,124</u>

**14. DEBTORS**

	The Group 1997 £'000	The Company 1997 £'000
Trade debtors	10,307	-
Amounts owed by group companies	85	50
Amounts owed by subsidiary companies	-	4,535
Other debtors	851	140
Prepayments and accrued income	436	73
	<u>11,679</u>	<u>4,798</u>

All debtors fall due within one year.


**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

15. CREDITORS: amounts falling due within one year	The Group	The Company
	1997 £'000	1997 £'000
Bank overdraft	1,177	-
Hire purchase and finance lease creditors	78	-
Trade creditors	2,795	-
Amounts owed to group companies	166	6
Amounts owed to subsidiary companies	-	468
Other creditors	408	210
Other taxes and social security	532	-
Accruals and deferred income	2,456	136
	<u>7,612</u>	<u>820</u>

The bank overdraft is unsecured. Hire purchase and finance lease creditors are secured by the related assets and all amounts are repayable within five years.

16. CREDITORS: amounts falling due after more than one year	The Group	The Company
	1997 £'000	1997 £'000
Hire purchase and finance lease creditors	87	-
Amounts owed to group companies	19,000	-
	<u>19,087</u>	<u>-</u>

The loan from the group company, is repayable within two to five years. The loan bears interest at the rate of two per cent per annum above the Midland Bank Plc base rate. The loan is unsecured.

**17. PROVISION FOR LIABILITIES AND CHARGES**

The Group	£'000
Deferred taxation	
Subsidiaries acquired	344
Charge to profit and loss account	466
At 31 December 1997	<u>810</u>


**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

**17. PROVISION FOR LIABILITIES AND CHARGES (continued)**

The amounts of deferred taxation provided and unprovided in the accounts are:

	<b>Provided 1997 £'000</b>	<b>Unprovided 1997 £'000</b>
<b>The Group</b>		
Capital allowances in excess of depreciation	874	(23)
Other timing differences	(64)	-
Surplus on revaluation	-	782
Trading losses	-	(23)
	<u>810</u>	<u>736</u>

**The Company**

The company has no deferred taxation liability. Unprovided deferred taxation amounted to £95,916 at 31 December 1997 which related to other timing differences.

**18. SHARE CAPITAL**

	<b>No.</b>	<b>1997 £'000</b>
<b>Authorised</b>		
Ordinary shares of £1 each	21,200,000	21,200
	<u>          </u>	<u>          </u>
<b>Called up, allotted and fully paid</b>	<b>No.</b>	<b>£'000</b>
Ordinary shares of £1 each	20,888,742	20,889
	<u>          </u>	<u>          </u>

The following transactions occurred during the period with regards to the company's share capital.

On 27 August 1996 the company was incorporated with an authorised share capital of 100 £1 ordinary shares. On this date one share of £1 was allotted at par. On 22 January 1997 15,499,900 £1 ordinary shares were authorised. On the same date 15,499,999 shares were allotted at par. On 6 August 1997 the authorised share capital was increased by a further 2,300,000 £1 ordinary shares. 2,000,000 of these shares were allotted at par. Finally, on 13 August 1997 a further 3,400,000 £1 ordinary shares were authorised by the Board. 3,388,742 shares were allotted at par on this date.

All share issues during the period were to enable the company to fund its acquisition programme.




**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997

**19. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES**

	Share capital £'000	Profit and loss account £'000	Other reserves £'000	Total 1997 £'000
<b>The Group</b>				
Shares issued	20,889	-	-	20,889
Capital contribution	-	-	4,235	4,235
Profit for the period	-	430	-	430
At 31 December 1997	20,889	430	4,235	25,554
<b>The Company</b>	£'000	£'000	£'000	£'000
Shares issued	20,889	-	-	20,889
Capital contribution	-	-	4,235	4,235
Loss for the period	-	(446)	-	(446)
At 31 December 1997	20,889	(446)	4,235	24,678

On 27 February 1998 the authorised share capital of the company was increased by 3,923,871 £1 shares to 25,123,871 £1 shares. 4,235,129 shares of £1 each were issued on this date. Additional shares were allotted at par by way of a conversion of other reserves to share capital.

**20. FINANCIAL COMMITMENTS**
**Operating leases**

The group had annual commitments under operating leases and contract hire arrangements at 31 December 1997 as set out below.

	Land and buildings 1997 £'000	Other leases 1997 £'000
Agreements which expire:		
Within one year	-	127
Within two to five years	-	231
After five years	133	-
	133	358

**NOTES TO THE ACCOUNTS**  
Period ended 31 December 1997**21. CAPITAL COMMITMENTS** **1997**  
**£'000**

Contracted but not provided for	212
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**22. CONTINGENT LIABILITIES**

The company together with other group companies is a guarantor for a US\$ borrowing facility of the ultimate parent company, Philip Services Corp. As at 31 December 1997, the amount outstanding under the group facility was US\$ 956 million.

**23. PENSION SCHEME**

The company operates two defined benefit schemes providing pensions and other related benefits based on final pensionable pay. The assets of the schemes are held in a separate trust fund, administered by Trustees.

**The Philip Services UK Pension Plan**

The Philip Services UK Pension Plan was established on 24 July 1997. The scheme is a funded scheme of a defined benefit type. An opening actuarial valuation and statement was produced under the projected unit method in which the actuary recommended contribution rates. Contributions are currently made by both employee and employers in line with actuarial recommendations. The main assumptions used in the valuation were: rate of investment return of 8%, rate of earnings increases 5.75%, rate of pension increases 3.7%. Henceforth the scheme will be subject to triennial actuarial valuations.

**The Blackbushe Limited Staff Benefits Plan**

The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at 1 April 1996 using the attained age method. The assumptions which had the most significant effect on the results of the valuation were those relating to the rate of return on investments and the rate of increase in salaries. It was assumed in the valuation that the investment returns would be 8.5% per annum and that salary increases would average 6.5% per annum.

At the last actuarial valuation the market value of the scheme's assets was £994,794 which represented 85% of the benefits that had accrued to members, after allowing for increases in earnings. Consequently the employer's contribution rate over the average remaining service lives of the members of the scheme and recognised in the pensions cost charged in the accounts, was increased from 1 April 1997 to take account of the deficit disclosed by the valuation. Payment of this increased contribution commenced on 1 January 1998 and hence the pension cost of the company has been increased by £87,000 to take account of the period 1 April 1997 to 31 December 1997. This amount was outstanding at the period end.

The pension costs represents contributions to the fund amounting to £143,000 (1996: £60,000) and personal pension plans of £120,000.



**NOTES TO THE ACCOUNTS**  
**Period ended 31 December 1997**

**24. RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemptions contained in Financial Reporting Standard No. 8 from the requirement to disclose related party transactions within the group.

**25. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY**

The directors consider Philip Services Corp, a company incorporated and registered in Canada, as the ultimate parent company and controlling company. Copies of group accounts may be obtained from Allied House, Beaufort Square, Chepstow, NP6 5CP.