Company Registration No. 162966

# THE DAVY ROLL COMPANY LIMITED

**Report and Financial Statements**

**31 December 2004**

Deloitte & Touche LLP
Newcastle upon Tyne

# REPORT AND FINANCIAL STATEMENTS 2004

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# REPORT AND FINANCIAL STATEMENTS 2004

## OFFICERS AND PROFESSIONAL ADVISERS

### DIRECTORS

RA Paul
E G Siddons
C Hersey
S A Bell
R G Carothers

### SECRETARY

P Gardner

### REGISTERED OFFICE

P O Box 21
Close Works
Gateshead
Tyne and Wear
NE8 3DX

### BANKERS

Barclays Bank plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

### SOLICITORS

Ward Hadaway
Sandgate House
102 Quayside
Newcastle upon Tyne
NE1 3DX

### AUDITORS

Deloitte & Touche LLP
Newcastle upon Tyne

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

### ACTIVITIES

The principal activity of the company throughout the year has been the manufacture of rolling mill rolls.

### REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors do not anticipate any change in the fundamental activities of the company. Prospects for the company will be dependent on market conditions; however the company goes into 2005 with the largest ever level of orders on hand. The company has completed the installation of the production machinery from its recent capital investment programme, which will increase output and efficiency, thus helping to offset the escalation in cost of steel scrap, alloys and energy. Additionally, the curtailment of the contributory defined benefit pension scheme (see note 19) is expected to contain the growth in pension liabilities and stabilize employer contributions.

### RESULTS

The results for the year are set out in the profit and loss account on page 6. The retained loss of £177,000 (2003 restated: retained profit of £732,000) has been withdrawn from (2003: transferred to) reserves.

### DIVIDENDS

The directors do not recommend the payment of any dividend on the issued ordinary share capital of the company in respect of the year ended 31 December 2004 (2003: £nil).

### DIRECTORS AND THEIR INTERESTS

The present membership of the board is set out on page 1. All directors served throughout the year.

None of the directors held any interest in the share capital of the company. The directors' interests in the share capital of the parent company are shown in that company's accounts.

No directors during the year had a material interest in any contract significant to the company's business.

### THE ENVIRONMENT

The company is committed to pursue policies that comply with the relevant legislation and standards applicable to their particular industries.

### EMPLOYMENT POLICIES

The company is committed to a policy of providing equal opportunities for all, regardless of race, religion, sex or disability.

The company is committed to training and management development, so as to ensure a supply of trained and skilled employees.

The company keeps employees informed about its current activities and progress by various methods, including in-house publications.

## DIRECTORS' REPORT (continued)

### DONATIONS

During the year the company made donations to various charitable organisations amounting to £ nil (2003: £180).

No political donations were made (2003: £nil).

### SUPPLIER PAYMENT POLICY

The company is responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is the company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

The number of days billing from trade suppliers outstanding at 31 December 2004 was 70 (2003: 66).

### THE EURO

A working party has investigated the likely impact of the Euro on our business. The company is confident that all preparations have been made for any possible business implications of the United Kingdom's potential entry into the European single currency.

### AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting. Deloitte & Touche LLP have expressed their willingness to continue in office as auditors.

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

Director

Date : 31/10.2005.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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; 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 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.

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

Director

Date: 31.10.2005.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE DAVY ROLL COMPANY LIMITED

We have audited the financial statements of The Davy Roll Company Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 1985. We also report 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.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

**Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 circumstances of the company 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

31 October 2005

## PROFIT AND LOSS ACCOUNT
## Year ended 31 December 2004

| | Note | | 2004 | | 2003 |
|---|---|---|---|---|---|
| | | | | as restated | as restated |
| | | £'000 | £'000 | £'000 | £'000 |
| **TURNOVER** | 1, 2 | | 24,510 | | 21,480 |
| Cost of sales: | | | | | |
| Exceptional cost of sales | 3 | 1,842 | | - | |
| Other cost of sales | | (24,645) | | (19,264) | |
| | | | (22,803) | | (19,264) |
| **GROSS PROFIT** | | | 1,707 | | 2,216 |
| Administrative expenses: | | | | | |
| Exceptional administrative expenses | 3 | 171 | | - | |
| Other administrative expenses | | (2,176) | | (1,778) | |
| | | | (2,005) | | (1,778) |
| **OPERATING (LOSS)/PROFIT** | | | (298) | | 438 |
| Interest receivable and similar income | 4 | | 282 | | 330 |
| Interest payable and similar charges | 5 | | (160) | | (27) |
| **(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | 3 | | (176) | | 741 |
| Tax on (loss)/profit on ordinary activities | 7 | | (1) | | (9) |
| **RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR (WITHDRAWN FROM) / TRANSFERRED TO RESERVES** | 15, 16 | | (177) | | 732 |

All results derive from continuing activities.

There have been no recognised gains and losses for the current and preceding financial years attributable other than those shown above. Accordingly, no statement of total recognised gains and losses is shown.

## BALANCE SHEET
## 31 December 2004

| | Note | 2004 £'000 | 2003 as restated £'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | 8 | 9,081 | 8,470 |
| **CURRENT ASSETS** | | | |
| Stocks and work in progress | 9 | 8,403 | 8,769 |
| Debtors | 10 | 5,943 | 6,994 |
| Pension asset | 13 | 1,920 | - |
| | | 16,266 | 15,763 |
| **CREDITORS: amounts falling due within one year** | 11 | (20,968) | (20,656) |
| **NET CURRENT LIABILITIES** | | (4,702) | (4,893) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 4,379 | 3,577 |
| **CREDITORS: amounts falling due after more than one year** | | | |
| Deferred income | 12 | (907) | (209) |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 13 | (1,523) | (1,242) |
| | | 1,949 | 2,126 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 14 | 60 | 60 |
| Share premium account | 15 | 3,205 | 3,205 |
| Revaluation reserve | 15 | 103 | 103 |
| Profit and loss account | 15 | (1,419) | (1,242) |
| **TOTAL EQUITY SHAREHOLDER'S FUNDS** | 15, 16 | 1,949 | 2,126 |

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

Director

31. 10. 2005.

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with United Kingdom applicable accounting standards, which have been applied consistently in both the current and prior year. The particular accounting policies adopted are described below.

**Accounting convention**

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain assets.

**Cash flow statement**

The company has taken advantage of the exemption under the rules of FRS1 (revised) not to produce a cash flow statement, as the accounts of the parent company, Ampco-Pittsburgh Corporation, of which it is a wholly owned subsidiary, are publicly available (see note 20).

**Foreign currencies**

Assets and liabilities are translated into sterling at the rates ruling at the year end except where rates of exchange are fixed under contractual arrangements, with differences taken to the profit and loss account. Transactions undertaken in foreign currencies are translated at the rate of exchange prevailing at the date of the transaction.

**Research and development**

Expenditure is charged to the profit and loss account in the year in which it is incurred.

**Taxation**

Current tax comprising UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or subsequently enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on the current tax rates and law. Timing differences arise 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. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Tangible Fixed Assets**

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows:

| | |
|---|---|
| Freehold and leasehold buildings | 50 years |
| Plant and machinery | 5 – 25 years |
| Motor vehicles | 4 years |
| Computer | 5 – 7 years |
| Office furniture, fixtures and fittings | 10 years |

# NOTES TO THE ACCOUNTS
# Year ended 31 December 2004

## 1. ACCOUNTING POLICIES (continued)

### Leases

Assets acquired under finance leases that give rights approximating to ownership are treated as if they have been purchased, and the fair value of the leased asset at the inception of the lease is included under tangible fixed assets. Depreciation is provided over the shorter of the period of the lease or useful economic life. Leasing payments are treated as consisting of capital and finance charge elements and the finance charge is charged to the profit and loss account. All other leases are operating leases and the annual rentals are charged wholly to the profit and loss account.

### Stocks and work in progress

Stocks have been valued at the lower of cost and net realisable value. Work in progress is stated at direct costs of materials and labour with the addition of all manufacturing overheads or at net realisable value if lower. Provision is made for obsolete, slow-moving or defective items where appropriate.

### Government grants

Government grants are generally comprised of regional development grants received which are released by equal instalments in line with the expected life of the assets to which they apply, and deducted from the depreciation charge in the profit and loss account.

Deferred credits in respect of grants are included in accruals and deferred income in the balance sheet.

### Revaluation reserve

Surpluses and deficits arising on the revaluation of tangible fixed assets are credited or debited to a non distributable reserve known as the revaluation reserve. In accordance with FRS3, the profit or loss on sale of tangible fixed assets is the difference between the disposal proceeds and the carrying value of the assets, including any revaluation. Any amount in the revaluation reserve relating to such an asset is transferred directly to the profit and loss reserve and is not included in the profit or loss for the financial year.

### Turnover

Turnover represents amounts invoiced (excluding VAT) to external customers. Turnover is recognised on transfer of title to the customer.

### Pensions

The expected cost to the company of pensions in respect of the contributory defined benefit pension scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme.

For the defined contribution pension scheme, the amount charged to the profit and loss account is the contributions payable in the year.

## 2. TURNOVER

All turnover arose from the company's principal activity, and is continuing. In the opinion of the directors there is only one business segment being the manufacture and sale of steel rolling mills.

An analysis of turnover by geographical segment has not been given. The company has taken advantage of the exemption under S55(5) Schedule 4 Companies act 1985, as, in the opinion of the directors this information could be seriously prejudicial to the interests of the company.

## NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

### 3. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):** | | |
| Auditors' remuneration | 35 | 34 |
| Depreciation: owned assets | 706 | 655 |
| Government grant released | (49) | (25) |
| Operating lease payments: | | |
| Motor vehicles | 34 | 29 |
| Office equipment | 12 | 11 |

The exceptional credits to cost of sales and administrative expenses in 2004 totalling £2,013,000 represent a reduction in the future liabilities of the pension scheme, as a result of closing the scheme to future accrual of benefits on 31 December 2004 (see note 19).

### 4. INTEREST RECEIVABLE

| | 2004 £'000 | 2003 as restated £'000 |
|---|---|---|
| Bank interest receivable | 49 | 33 |
| Exchange gains on foreign currency borrowings | 233 | 297 |
| | 282 | 330 |

### 5. INTEREST PAYABLE

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Interest on loans from ultimate parent | 160 | 27 |

### 6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Directors' remuneration** | | |
| Emoluments | 134 | 124 |
| Highest paid director | 75 | 67 |
| | **No.** | **No.** |
| Number of directors who are members of the defined benefit pension scheme | 2 | 2 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

6. **INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Average number of persons employed** | | |
| Management and administration | 13 | 13 |
| Technical | 16 | 14 |
| Manufacturing | 221 | 210 |
| | 250 | 237 |

| | £'000 | £'000 |
|---|---|---|
| **Staff costs during the year (including directors)** | | |
| Wages and salaries | 7,280 | 6,338 |
| Social security costs | 598 | 501 |
| Pension costs | 804 | 388 |
| Pension - exceptional credit for curtailments (see note 19 ) | (2,013) | - |
| | 6,669 | 7,227 |

7. **TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES**

(i) Analysis of tax charge on ordinary activities

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| United Kingdom corporation tax at 30% based *on the (loss)/profit for the year* | - | (9) |
| Adjustment in respect of prior years | (1) | - |
| Total current tax | (1) | (9) |

(ii) Factors affecting tax charge for the current period

The tax assessed for the period is higher than (2003: lower than) that resulting from applying the standard rate of corporation tax in the UK: 30% (2003: 30%). The differences are explained below:

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (176) | 732 |
| Tax at 30% thereon | 53 | (220) |
| Effect of prior year restatement (note 22) | - | 87 |
| Expenses not deductible for tax purposes | (32) | (65) |
| Capital allowances in excess of depreciation | - | 88 |
| Utilisation of tax losses | - | 14 |
| Group relief surrendered | - | 1 |
| Movement in short term timing differences | - | 86 |
| Other deferred tax movement not provided | (21) | - |
| Prior period adjustments | (1) | - |
| | (1) | (9) |

A deferred tax asset has not been recognised in respect of timing differences relating to trading losses carried forward as there is insufficient evidence that the asset will be recovered within 12 months. The amount of the asset not recognised is £340,000 (2003: £360,000).

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

## 8. TANGIBLE FIXED ASSETS

| | Land and buildings £'000 | Plant and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2004 | 1,864 | 18,767 | 20,631 |
| Additions | - | 1,370 | 1,370 |
| Disposals | - | (135) | (135) |
| At 31 December 2004 | 1,864 | 20,002 | 21,866 |
| **Accumulated depreciation** | | | |
| At 1 January 2004 | 115 | 12,046 | 12,161 |
| Charge for the year | 34 | 672 | 706 |
| Disposals | - | (82) | (82) |
| At 31 December 2004 | 149 | 12,636 | 12,785 |
| **Net book value** | | | |
| At 31 December 2004 | 1,715 | 7,366 | 9,081 |
| At 31 December 2003 | 1,749 | 6,721 | 8,470 |

There are no leased assets within tangible fixed assets.

**Cost or valuation**

Land and buildings, which are all freehold, were valued on 30 September 1995 at an open market existing use value by Messrs Herring Son and Daw, Chartered Surveyors as follows:

| | £'000 |
|---|---|
| Buildings | 775 |
| Land | 325 |
| | 1,100 |
| The comparable amounts on a historic basis are as follows: | 997 |

## 9. STOCKS AND WORK IN PROGRESS

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Raw materials and consumables | 3,516 | 2,914 |
| Work in progress | 4,887 | 5,106 |
| Goods held for resale | - | 749 |
| | 8,403 | 8,769 |

## NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

### 10. DEBTORS

| | 2004 | 2003 |
|---|---|---|
| | £'000 | £'000 |
| **Amounts falling due within one year:** | | |
| Trade debtors | 5,618 | 5,187 |
| Prepayments and accrued income | 325 | 1,807 |
| | 5,943 | 6,994 |

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

| | 2004 | 2003 as restated |
|---|---|---|
| | £'000 | £'000 |
| Amounts owed to ultimate parent company | 3,195 | 5,018 |
| Amounts owed to immediate parent company | 7,915 | 7,915 |
| Amounts owed to other group companies | 3,930 | 3,984 |
| Bank overdraft | 1,427 | 33 |
| Trade creditors | 2,558 | 1,624 |
| Other creditors including taxes | 235 | 163 |
| Pension contributions | 395 | 390 |
| Accruals and deferred income | 1,303 | 1,520 |
| Corporation tax | 10 | 9 |
| | 20,968 | 20,656 |

The company is party to a banking facility, which covers companies controlled by the shareholders of the immediate parent company (note 20).

Included within amounts owed to ultimate parent company is a USD denominated loan of $5,772,910 (2003 restated: $8,933,760). The sterling equivalent at 31 December 2004 is £3,008,291 (2003 restated: £4,990,927). This loan bears interest at 4% per annum, and is repayable on demand.

### 12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2004 | 2003 |
|---|---|---|
| | £'000 | £'000 |
| Deferred income | 907 | 209 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

### 13. PROVISIONS FOR LIABILITIES AND CHARGES

| | Adverse Contracts £'000 | Pension £'000 | Warranty claims £'000 | Total £'000 |
|---|---|---|---|---|
| Balance at 1 January 2004 | - | (56) | 1,298 | 1,242 |
| Profit and loss account charges- normal | 196 | 787 | 585 | 1,568 |
| - exceptional | - | (2,013) | - | (2,013) |
| Applied | - | (638) | (556) | (1,194) |
| | 196 | (1,920) | 1,327 | (397) |
| Transferred to Prepayments | - | 1,920 | - | 1,920 |
| Balance at 31 December 2004 | 196 | - | 1,327 | 1,523 |

The provision for product warranties is expected to be utilised over the next 2-3 years.

The adverse contracts provision covers unavoidable losses which have arisen on fixed price contracts due to the impact of significant cost increases. The provision is expected to be utilised over the next 12 months.

### 14. CALLED UP SHARE CAPITAL

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Authorised** | | |
| 60,000 ordinary shares of £1 each | 60 | 60 |
| **Called up, allotted and fully paid** | | |
| 60,000 ordinary shares of £1 each | 60 | 60 |

### 15. MOVEMENT ON RESERVES

| | Share Capital £'000 | Share Premium £'000 | Revaluation Reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| 1 January 2004 (as restated) | 60 | 3,205 | 103 | (1,242) | 2,126 |
| Loss for the financial year | - | - | - | (177) | (177) |
| 31 December 2004 | 60 | 3,205 | 103 | (1,419) | 1,949 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

## 16. RECONCILIATION OF MOVEMENTS IN TOTAL EQUITY SHAREHOLDER'S FUNDS

| | 2004<br>£'000 | 2003<br>as restated<br>£'000 |
|---|---|---|
| (Loss)/profit for the financial year | (177) | 732 |
| Dividends | - | - |
| **Net (reduction)/increase in equity shareholder's funds** | (177) | 732 |
| Opening equity shareholder's funds | 2,126 | 1,394 |
| **Closing equity shareholder's funds** | 1,949 | 2,126 |

## 17. OPERATING LEASES

| | 2004<br>£'000 | 2003<br>£'000 |
|---|---|---|
| In respect of leases expiring: | | |
| Within one year | 20 | 20 |
| Between two and five years | 26 | 20 |
| | 46 | 40 |

None of the operating leases are in respect of land and buildings.

## 18. CAPITAL COMMITMENTS

There were capital commitments at 31 December 2004 of £65,000 in relation to new plant and machinery (2003 - £321,000).

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

### 19. PENSIONS

**Pensions arrangements**

The pension cost figures used in these accounts comply with the current accounting standard SSAP 24 *Accounting for pension costs.* A new accounting standard, FRS 17 *Retirement benefits*, has been issued with transitional requirements applying this year.

The company operated and contributed to a defined benefit pension scheme for eligible employees up to 31 December 2004. From 1 January 2005, the defined benefit scheme was closed to future accrual of pensionable service and therefore all benefits became deferred benefits. From 1 January 2005, all active members of the defined benefits scheme transferred to the Roll Group Pension Scheme Money Purchase Section which was originally set up at 1 January 2003. The assets of the scheme are held in separate trustee administered funds.

**SSAP 24 *Accounting for pension costs***

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. The contributions are determined by an independent, qualified actuary on the basis of triennial valuations using the projected unit method. The most recent triennial valuation was carried out as at 6 April 2004 and has been updated to 31 December 2004. The following were the principal actuarial assumptions applied :-

| | | |
|---|---|---|
| Investment returns | - pre retirement | 7.85% per annum |
| | - post retirement | 5.11% per annum |
| Salary growth | | N/A |
| Pension increases | | 2.50% per annum |

At the most recent actuarial valuation date, the actuarial value of the assets of the defined benefit section of the scheme was £13,576,000 and, in the opinion of the actuary, this value was sufficient to cover 81.9% of the benefits which had accrued to members. The employer's contribution rate over the average remaining service lives of the members of the scheme takes account of the funding deficit disclosed by the valuation.

The total pension cost for the company for the year ended 31 December 2004 was £1,226,000 credit (2003 - £388,000 charge). The current year credit is comprised of:-

| | £'000 |
|---|---|
| Normal pension cost for the year | 787 |
| Credit to reflect a reduction in future liabilities due to the closure of the scheme to future accrual of benefits from 31 December 2004 | (2,013) |
| | (1,226) |

A prepayment of £1,920,000 (2003 - £56,000) is included within current assets (2003 - provisions for liabilities and charges), being the excess of amounts funded over the accumulated pension costs.

The next actuarial valuation will be carried out as at 6 April 2007.

**FRS 17 *Retirement benefits***

Under the transitional arrangements of FRS 17, the company is required to disclose the following information about the scheme and the figures that would have been shown in the company balance sheet if FRS 17 applied in full today.

The full actuarial valuation at 6 April 2004 was updated to 31 December 2004 by a qualified actuary and showed that the market value of the scheme's assets was £14,721,269 and that the actuarial value of these assets represented 65.26% of the benefits that had accrued to members.

## NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

**19. PENSIONS (continued)**

The assets in the scheme and the expected rates of return at 31 December were:

| | 2004 Long term rate of return expected | 2004 Value £'000 | 2003 Long term rate of return expected | 2003 Value £'000 | 2002 Long term rate of return expected | 2002 Value £'000 |
|---|---|---|---|---|---|---|
| Equities | 7.80% | 10,798 | 7.85% | 9,710 | 8.79% | 8,077 |
| Bonds | 4.62% | 3,531 | 5.50% | 2,980 | 5.75% | 2,617 |
| Other | 4.75% | 392 | 2.75% | 340 | 4.00% | 118 |
| Total market value of assets | | 14,721 | | 13,030 | | 10,812 |
| Present value of scheme liabilities | | (22,557) | | (18,550) | | (14,501) |
| Deficit in scheme | | (7,836) | | (5,520) | | (3,689) |
| Related deferred tax asset | | 2,351 | | 1,656 | | 1,107 |
| Net pension liability | | (5,485) | | (3,864) | | (2,582) |

If the above pension liability were recognised in the financial statements at 31 December, the company's profit and loss reserve would be as follows:

| | 2004 £'000 | 2003 as restated £'000 |
|---|---|---|
| Profit and loss reserve | (1,419) | (1,242) |
| Reverse SSAP 24 pension prepayment | (1,920) | (56) |
| Recognise FRS 17 pension provision | (5,485) | (3,864) |
| Profit and loss reserve including pension liability | (8,824) | (5,162) |

The figures shown above were calculated on the basis of the following assumptions:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Discount rate | 5.25% | 5.50% | 5.75% |
| Rate of increase in salaries | N/A | 3.25% | 2.75% |
| Investment returns | 6.96% | 7.18% | 8.00% |
| Rate of increase in pensions in payment | 2.50% | 2.50% | 2.25% |
| Inflation assumption | 2.75% | 2.75% | 2.25% |

## NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

**19. PENSIONS (continued)**

| **Analysis of the movement in the scheme surplus/deficit during the year** | **2004 £'000** | **2003 £'000** |
|---|---|---|
| Opening deficit in the scheme | (5,520) | (3,689) |
| Current service cost | (551) | (452) |
| Contributions | 638 | 676 |
| Other finance (expense)/ income | (28) | 23 |
| Curtailments | 1,317 | - |
| Actuarial losses | (3,692) | (2,078) |
| Closing deficit in the scheme | (7,836) | (5,520) |

Amounts that would have been included within the financial statements for the year ended 31 December 2004 had FRS 17 been applied are as follows:

| **Amounts included within operating profit:** | **2004 £'000** | **2003 £'000** |
|---|---|---|
| Current service cost | 551 | 452 |
| Past service costs | - | - |
| Curtailments | (1,317) | - |
| Total included within operating profit | (766) | 452 |

| **Amounts included as other finance costs:** | **2004 £'000** | **2003 £'000** |
|---|---|---|
| Expected return on scheme assets | 948 | 877 |
| Interest on scheme liabilities | (1,048) | (854) |
| Interest on liabilities from curtailment | 72 | - |
| Net finance return | (28) | 23 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

**19. PENSIONS (continued)**

**Amounts included with the statement of total recognised gains and losses:**

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Actual return less expected return on pension scheme assets | 392 | 1,039 |
| Experience gains and losses arising on the scheme liabilities | (1,309) | (1,056) |
| Changes in assumptions underlying the present value of scheme liabilities | (2,775) | (2,061) |
| Actuarial loss recognised in the STRGL | (3,692) | (2,078) |

**History of experience gains and losses:**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Difference between actual and expected return on scheme assets (£'000) | 392 | 1,039 | (3,296) |
| As a percentage of scheme assets | 2.7% | 8.0% | (30.5%) |
| Experience gains and losses on scheme liabilities (£'000) | (1,309) | (1,056) | 1,448 |
| As a percentage of the present value of scheme liabilities | (5.8%) | (5.7%) | 10.0% |
| Total amount recognised in STRGL (£'000) | (3,692) | (2,078) | (2,192) |
| As a percentage of the present value of scheme liabilities | (16.4%) | (11.2%) | (15.1%) |

**20. ULTIMATE PARENT UNDERTAKING**

Union Electric Steel (UK) Limited heads the smallest group in which the results of the company are consolidated. A copy of the accounts of Union Electric Steel (UK) Limited are available from Companies House, Crown Way, Cardiff, CF4 3UZ.

The ultimate parent company and controlling party is Ampco-Pittsburgh Corporation, which is incorporated in USA and heads the largest group in which the results of the company are consolidated. Copies of the ultimate parent company financial statements can be obtained from Ampco-Pittsburgh Corporation, 600 Grant Street, Pittsburgh, PA 15219, USA.

**21. RELATED PARTY TRANSACTIONS**

Under FRS 8, *"Related party disclosures"*, the company is exempt from the requirements to provide details of transactions with other members of the group headed by Ampco-Pittsburgh Corporation.

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2004

### 22. RESTATEMENT OF PRIOR YEAR BALANCES

During the year, the company reconsidered its accounting policy in respect of valuation of foreign currency denominated loans. Such amounts had previously not been retranslated to the exchange rate prevailing at the balance sheet date. The directors have now concluded that the most appropriate presentation would be for such loans to be retranslated, and the resulting exchange gain or loss to be disclosed within interest receivable or payable as appropriate. Accordingly, the comparative figures have been restated as follows:

**Profit and loss account for the year ended 31 December 2003:**

| | previously stated £'000 | restatement £'000 | as restated £'000 |
|---|---|---|---|
| **Interest receivable** | | | |
| Bank interest | 33 | - | 33 |
| Exchange gains on foreign currency borrowings | - | 297 | 297 |
| | 33 | 297 | 330 |

**Balance sheet as at 31 December 2003:**

| | previously stated £'000 | restatement £'000 | as restated £'000 |
|---|---|---|---|
| **Creditors: amounts falling due within one year** | | | |
| Amounts owed to ultimate parent company | 5,315 | (297) | 5,018 |
| Amounts owed to immediate parent company | 7,915 | - | 7,915 |
| Amounts owed to other group companies | 3,984 | - | 3,984 |
| Bank overdraft | 33 | - | 33 |
| Trade creditors | 1,624 | - | 1,624 |
| Other creditors including taxes | 163 | - | 163 |
| Pension contributions | 390 | - | 390 |
| Accruals and deferred income | 1,520 | - | 1,520 |
| Corporation tax | 9 | - | 9 |
| | 20,953 | (297) | 20,656 |