

Howmet Limited

Annual report

for the year ended 31 December 2003

Registered Number 2659893



Howmet Limited

Annual report

for the year ended 31 December 2003

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# **Howmet Limited**

## **Directors and advisors for the year ended 31 December 2003**

### **Directors**

I T Faull

L M Fargas Mas

J R Lucot

### **Secretary and registered office**

J R Camino

Kestrel Way

Exeter

EX2 7LG

### **Auditors**

PricewaterhouseCoopers LLP

31 Great George Street

Bristol

BS1 5QD

### **Bankers**

Barclays Bank Plc

20 High Street

Exeter

EX4 3LL

# Howmet Limited

## Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of the company for the year ended 31 December 2003.

### Principal activities

The principal activity of the Company is the manufacture and sale of precision investment castings for gas turbines used in jet engines and power generation equipment, and the manufacture and sale of vacuum melted and air melted nickel and cobalt based super alloys.

### Review of business and future developments

Turnover dropped by 14.8% to £73.1 million compared with 2002 (£85.7million), largely driven by slow downs in both power generation and aerospace markets for the Castings business, but also reflecting the reversal of high metal prices seen in 2002. Gross profit of £18.9 million was 25.8% of sales (2002: £21.3 million, 24.8%). £1.6 million of new capital was invested in the business (2.2% of sales).

Due to the continued poor market conditions, the outlook for 2004 activity is flat compared with 2003.

### Results and dividends

The profit for the year and the financial position of the Company are shown in the accounts. The profit after tax of £7,154,000 was transferred to reserves, no dividend payment was recommended (2002: profit transferred to reserves was £5,376,000, no dividend payment was recommended).

### Directors and their interests

The directors of the Company who served during the year are set out on page 1. These directors held no interests in the share capital of the Company during the year.

### Market value of land and buildings

The Directors are of the opinion that the market values of the Company's land and buildings are in excess of their book value by approximately £21 million.

### Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and the promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the house newspaper and newsletters, briefing groups and the distribution of the annual report.

### Political and charitable donations

There were no political donations in the year. Charitable donations made amounted to £1,677 (2002: £4,816).

### Research and development

The Company's research and development activity is dedicated to improving the application of existing technology to meet customer requirements. No pure research or development work has been undertaken or planned in the year.

# Howmet Limited

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003. The directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on a going concern basis.

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

## Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

## By order of the Board



**I T Faull**  
**Director**

31 October 2004

# Howmet Limited

## Independent auditors' report to the members of Howmet Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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. The other information comprises only the directors' report.

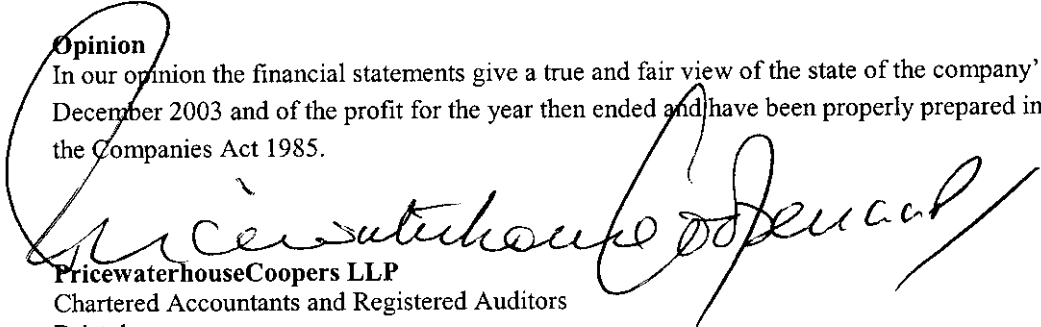
### Basis of audit opinion

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

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

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Bristol

31 October 2004

# Howmet Limited

## Profit and loss account for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
<b>Turnover</b>	2	<b>73,083</b>	85,743
Cost of sales		(54,206)	(64,445)
<b>Gross profit</b>		<b>18,877</b>	21,298
Distribution costs		(517)	(1,439)
Administration expenses		(5,707)	(8,009)
Other operating expenses		(1,736)	(2,007)
<b>Operating profit before exceptional items</b>		<b>10,917</b>	9,843
Exceptional items	6	(520)	(1,634)
<b>Operating profit</b>	3	<b>10,397</b>	8,209
Net interest payable	7	(239)	(716)
<b>Profit on ordinary activities before taxation</b>		<b>10,158</b>	7,493
Taxation on profit on ordinary activities	8	(3,004)	(2,117)
<b>Profit for the year</b>	15	<b>7,154</b>	5,376

All of the above results derive from continuing operations.

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

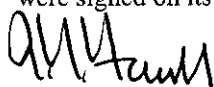
There is no difference between the profit on ordinary activities before taxation and retained profit for the year stated above and their historical cost equivalents.

# Howmet Limited

## Balance sheet as at 31 December 2003

	Note	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Tangible assets	9	25,633	27,213
<b>Current assets</b>			
Stocks	10	10,591	10,500
Debtors	11	18,157	20,081
Cash at bank and in hand		846	1,307
		29,594	31,888
<b>Creditors: amounts falling due within one year</b>	12	(12,112)	(24,413)
<b>Net current assets</b>		17,482	7,475
<b>Total assets less current liabilities</b>		43,115	34,688
<b>Provisions for liabilities and charges</b>	13	(3,848)	(2,575)
		39,267	32,113
<b>Capital and reserves</b>			
Called up share capital	14	1,000	1,000
Share premium account	15	23,920	23,920
Profit and loss account	15	14,347	7,193
<b>Equity shareholders' funds</b>	15	39,267	32,113

The financial statements on pages 5 to 16 were approved by the board of directors on 31 October 2004 and were signed on its behalf by:



**I T Faull**  
Director



# Howmet Limited

## Notes to the financial statements for the year ended 31 December 2003

### 1 Accounting policies

#### Basis of preparation

The accounts are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

#### Depreciation

All fixed assets are recorded at cost. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Freehold buildings	-	25 years
Plant and equipment	-	5-25 years
Computer equipment	-	4 years

The carrying values of fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### Stocks and work in progress

Stocks, including work in progress, are stated at the lower of cost (including all relevant overhead expenditure) and net realisable value. The valuation is not materially different from current replacement costs.

#### Leasing and hire purchase commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

#### Research and development

Research and development expenditure is written off as incurred.

#### Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at forward contracted rates where applicable.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are reflected in the operating profit for the year.

#### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and/or from which the future reversal of underlying timing differences can be deducted.

## Howmet Limited

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non discounted basis.

### Pension costs

The company operates both defined benefit and defined contribution pension schemes. Contributions to the pension funds are assessed in accordance with advice from independent qualified actuaries and charged to the profit and loss account so as to spread the cost over the expected service lives of the employees (see note 17). Company pension contributions are charged as incurred.

### Cashflow statement

The company has taken advantage of the exemption under FRS1 from preparing a cashflow statement. The exemption applies on the grounds that Howmet Limited is a wholly owned subsidiary of Alcoa Inc., whose consolidated accounts, which include Howmet Limited, are publicly available.

## 2 Turnover

Turnover is the net value of deliveries made and tooling work completed during the year, exclusive of Value Added Tax.

Turnover is solely attributable to the continuing activity and originates in the United Kingdom. An analysis of turnover by destination is provided below:

	2003 £'000	2002 £'000
United Kingdom	19,484	13,035
Continental Europe	47,660	33,090
USA and Canada	1,301	34,341
Middle East and Far East	4,638	5,277
	73,083	85,743

# Howmet Limited

## 3 Operating profit

Operating profit is stated after charging/(crediting) the items set out below:

	2003 £'000	2002 £'000
Loss on disposal of fixed assets	1	10
Depreciation of owned assets	3,322	3,337
Auditors' remuneration:		
- audit services	48	48
- non-audit services	13	29
Operating lease rentals:		
- plant and machinery	175	231
- land and buildings	310	328
Foreign exchange differences	(166)	473
Research and development	-	815

## 4 Directors' emoluments

The directors of the company are also directors of the holding company or fellow subsidiaries and receive remuneration in respect of their services to those companies. The directors do not believe that it is practicable to apportion their remuneration between their services as directors of the company and their services as directors of the parent and fellow subsidiary companies.

## 5 Staff costs

	2003 £'000	2002 £'000
Wages and salaries	17,762	23,023
Social security costs	1,863	1,877
Other pensions costs	845	970
	20,470	25,870

# Howmet Limited

## 5 Staff costs (continued)

The average number of employees during the year was as follows:

	2003	2002
Development and production	686	862
Selling and marketing	5	4
Administration	58	66
	749	932

## 6 Exceptional Items

Included within the profit and loss account is an exceptional cost amounting to £519,934 (2002: £1,634,000) relating to restructuring costs. For further details see note 13.

## 7 Net interest payable

	2003 £'000	2002 £'000
Interest receivable on short term deposits	24	10
Interest payable on bank overdrafts	(2)	(4)
Interest payable to group companies	(261)	(722)
	(239)	(716)

# Howmet Limited

## 8 Taxation on profit on ordinary activities

### (a) Analysis of charge in year

	2003 £'000	2002 £'000
<b>Corporation tax</b>		
UK corporation tax on operating activities	2,989	2,697
UK corporation tax on exceptional items	(156)	(490)
UK corporation tax on ordinary profits for the year	2,833	2,207
Adjustment in respect of previous periods	(257)	(81)
Total current tax	2,576	2,126
<b>Deferred tax (note 13)</b>		
Original and reversal of timing differences	428	(9)
<b>Tax on profit on ordinary activities</b>	<b>3,004</b>	<b>2,117</b>

### (b) Factors affecting tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	10,158	7,493
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	3,047	2,248
Effects of:		
- expenses not deductible for tax purposes	9	9
- accelerated capital allowances/other timing differences	(223)	(50)
- adjustments in respect of previous periods	(257)	(81)
<b>Current tax charge for the year (note 8a)</b>	<b>2,576</b>	<b>2,126</b>

### (c) Factors that may affect future tax charges

The directors consider that there are no factors which may materially affect future tax charges.

# Howmet Limited

## 9 Tangible assets

	Freehold land and buildings £'000	Plant and equipment £'000	Construction in progress £'000	Total £'000
<b>Cost</b>				
At 1 January 2003	8,175	45,188	3,609	56,972
Additions	-	238	1,338	1,576
Disposals	-	(3)	-	(3)
Inter group additions and transfers	-	167	-	167
Transfers between categories	-	533	(533)	-
<b>At 31 December 2003</b>	<b>8,175</b>	<b>46,123</b>	<b>4,414</b>	<b>58,712</b>
<b>Depreciation</b>				
At 1 January 2003	4,250	25,509	-	29,759
Charge for the year	296	3,026	-	3,322
Disposals	-	(2)	-	(2)
<b>At 31 December 2003</b>	<b>4,546</b>	<b>28,533</b>	<b>-</b>	<b>33,079</b>
<b>Net book value</b>				
<b>At 31 December 2003</b>	<b>3,629</b>	<b>17,590</b>	<b>4,414</b>	<b>25,633</b>
At 31 December 2002	3,925	19,679	3,609	27,213

## 10 Stocks

	2003 £'000	2002 £'000
Raw materials	3,620	3,792
Work in progress	4,764	5,106
Finished goods	2,207	1,602
	<b>10,591</b>	<b>10,500</b>

# Howmet Limited

## 11 Debtors

	2003 £'000	2002 £'000
Trade debtors	14,058	19,564
Amounts owed by fellow subsidiary undertaking	3,657	473
Other debtors	290	19
Prepayments and accrued income	152	25
	<b>18,157</b>	<b>20,081</b>

## 12 Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	3,323	4,066
Amounts owed to fellow subsidiary undertaking	503	14,525
Group relief payable	-	2,207
Corporation tax	4,801	138
Taxation and social security	619	591
Accruals and deferred income	2,866	2,886
	<b>12,112</b>	<b>24,413</b>

## 13 Provisions for liabilities and charges

	Dilapidations £'000	Restructuring £'000	Deferred taxation £'000	Total £'000
At 1 January 2003	-	-	2,575	2,575
Charge to the profit and loss for the year	460	385	428	1,273
At 31 December 2003	<b>460</b>	<b>385</b>	<b>3,003</b>	<b>3,848</b>

### Restructuring

The £385,000 provision arises in respect of a fundamental restructuring of the business, including redundancies, to which an agreement was reached on 5 January 2004. The costs relate to the severance and redundancy payments to be made to specific employees.

# Howmet Limited

## 13 Provisions for liabilities and charges (continued)

### Dilapidations

The majority of the provision relates to the maintenance costs required at the leased premises at the Marsh Barton site, where the lease expires in 2004.

### Deferred Taxation

Deferred taxation provided in the accounts is as follows:

	2003 £'000	2002 £'000
Accelerated capital allowances	3,025	2,644
Short term timing differences	(22)	(69)
	<b>3,003</b>	<b>2,575</b>

## 14 Share capital

	2003 £'000	2002 £'000
<b>Authorised</b>		
Ordinary shares of £1 each	2,000	2,000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £1 each	1,000	1,000

## 15 Reconciliation of movement in shareholders' funds and movements on reserves

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 1 January 2003	1,000	23,920	7,193	32,113
Retained profit for the year	-	-	7,154	7,154
<b>At 31 December 2003</b>	<b>1,000</b>	<b>23,920</b>	<b>14,347</b>	<b>39,267</b>



# Howmet Limited

## 16 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £249,673 (2002: £323,000).

## 17 Pensions

### Defined benefits scheme

The Alcoa Britain Pension (ABP) Scheme is a defined benefit scheme. However, the contributions paid by the company are accounted for as if the scheme were a defined contribution scheme, as the company is unable to identify its share of the underlying assets of liabilities in the scheme. The cost of contributions to the group scheme amounted to £304,000 (2002: £380,000), being 9.8% of pensionable salary, and are based on pension costs of the group as a whole. An actuarial valuation review of the ABP Scheme was undertaken on 31 December 2003 and a deficit of £55.4 million was identified. Following a full actuarial valuation at 5 April 2003, the company has agreed to increase the rate of employer contribution to 12% with effect from 1 January 2004. This will increase further by 2% a year from 1 January 2005 if required to bring the scheme's finances back into line. Details of the ABP Scheme are included in the financial statements of Alcoa UK Holdings Limited.

The outstanding contributions to the scheme amounted to £nil at 31 December 2003 (2002: £nil).

### Money purchase scheme

The company also operates a money purchase scheme. The contributions to this defined contribution plan charged to the profit and loss account in 2003 amounted to £541,000 (2002: £590,000).

## 18 Other financial commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings £'000	2003 Other £'000	2002 Land and buildings £'000	2002 Other £'000
<b>Operating leases which expire:</b>				
Within one year	63	40	32	32
Within two to five years	-	65	58	118
In over 5 years	228	-	228	2
	<b>291</b>	<b>105</b>	<b>318</b>	<b>152</b>

## 19 Related party transactions

The company has taken advantage of the exemption in FRS8 from disclosing transactions and balances with other wholly owned subsidiaries of Alcoa Inc.

# **Howmet Limited**

## **20 Parent undertaking**

Alcoa Inc, a company incorporated in the United States of America, is regarded by the directors as the company's ultimate parent company. The largest group in which the results of the company are consolidated is that of which Alcoa Inc is the parent company. The consolidated accounts of Alcoa Inc may be obtained from Alcoa Corporate Office, 201 Isabella Street, Pittsburgh, PA 15212-5828, USA.

The company's immediate parent company is Alcoa Extruded Products (UK) Limited.

The smallest group in which the results of the company are consolidated is that of which Alcoa UK Holdings Limited, a company incorporated in England and Wales, is the parent company.