

BRITISH STEEL LARGE DIAMETER PIPES LIMITED
REPORT OF THE DIRECTORS
FOR THE PERIOD ENDED 3 APRIL 1999

The Directors present herewith their report and audited financial statements for the Company for the period ended 3 April 1999.

1 Principal Activities

The principal activities of the Company are the manufacture and sale of steel tube and ancillary products.

2 Review of Business and Future Developments

The level of business during the period and the period end financial position were both broadly in line with forecasts. The Directors expect that the level of activity in the coming period will reflect a decrease in the availability of large linepipe projects, both onshore and offshore, and anticipate intense competition from Far Eastern pipemakers. The proposed sale of the company to Europipe GmbH has not taken place, as the merger failed to receive the approval of the supervisory board of one of the parties.

3 Financial Results

The Company made a loss after taxation of £(626,000) in the period, and the details are set out in the Profit and Loss Account on page 7.

4 Dividend

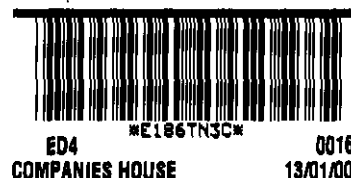
The Directors do not recommend the payment of a dividend. (1998: £Nil)

5 Directors

The Directors of the Company at 3 April 1999 are listed on page 1.

6 Employees

There are well established and effective arrangements at each business location for communication and consultation with both employees and trade union representatives. The Company recognises its responsibilities towards disabled people and employs them where suitable work can be found. Every effort is made to find alternative jobs for those who become disabled while working for the Company.



7 Directors' Interests in Shares in the Group

The interests of the Directors at 3 April 1999 in the ordinary shares of British Steel plc, the Company's ultimate holding company, were:

	Number of Shares					
	at 28 March 1998	Granted in Period	Acquired in Period	Exercised in Period	Disposed in Period	at 3 April 1999
Mr D.G. Glover						
Ordinary Shares	0		0		0	0
Options - Executive	10,100	0		0		10,100
Options - Sharesave	23,659	0		14,500		9,159
Mr T.G. Wheeler						
Ordinary Shares	12,000		0		0	12,000
Options - Executive	78,900	0		0		78,900
Options - Sharesave	11,496	0		0		11,496

The directors had no interest, as defined by the Companies Act 1985, in the shares of the Company or any other member of the Group during the period covered by these financial statements.

8 Holding of Share Capital

All the shares in the Company are held by British Steel plc or its nominees.

9 Payment to Creditors

It is the policy of the Company to establish terms of payment with suppliers when agreeing the terms of business transactions. The aim is to despatch cheques on the due date or, where other means of payment are adopted, to deliver funds to suppliers as if payment had been made by cheque. Trade creditors at the year end represented 25 days (1998: 126 days) of purchases.

10 Taxation Status

As far as the Directors are aware, the close Company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company. There has been no change in this respect since the end of the financial period.

11 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. In preparing those financial statements, the directors are required to :-

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.

- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- 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 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.

12 Millennium and European Monetary Union

The company is aware of the implications of the Millennium issue and European Monetary Union both for their information systems and other aspects of their operations. Local management is responsible for ensuring that any necessary systems modifications and other initiatives are planned and completed within the time available and this process is under way. In the context of ongoing systems development, it is not expected that significant incremental expenditure will be incurred to ensure compliance with the necessary requirements.

13 Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the annual general meeting.

By order of the Board.



AL SCANDRETT

Company Secretary

Date 22 December 1999

**REPORT OF THE AUDITORS TO THE MEMBERS OF
BRITISH STEEL LARGE DIAMETER PIPES LIMITED**

We have audited the financial statements on pages 7 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 to 11.

Respective responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including, as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of 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 mis-statement, 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 3 April 1999 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Central Milton Keynes

Date.....10 January 2000.....

BRITISH STEEL LARGE DIAMETER PIPES LIMITED

PROFIT & LOSS ACCOUNT FOR THE PERIOD ENDED 3 APRIL 1999

	Notes	£000s	
		1999	1998
Turnover - continuing operations	2	91,524	87,059
Operating Costs - continuing operations	5	(92,489)	(86,260)
Trading (Loss)/Profit on Ordinary Activities before Taxation		(965)	799

Tax on (Loss)/Profit on Ordinary Activities	7	339	(242)
Retained (Loss)/Profit for the period		(626)	557

Retained Profit/(Loss) brought forward		1,508	951
Retained Profit/(Loss) carried forward		882	1,508

The Company has no recognised gains or losses other than those included in the profit above, and therefore no separate statement of total recognised gains and losses has been presented.

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

BRITISH STEEL LARGE DIAMETER PIPES LIMITED

BALANCE SHEET AT 3 APRIL 1999

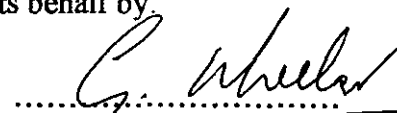
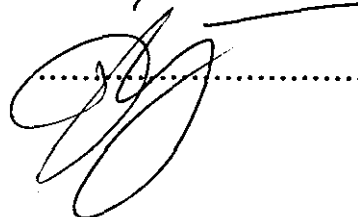
	Notes	£000s	
		1999	1998
Tangible Fixed Assets	8	34,913	36,844
Current Assets			
Stocks	9	8,717	24,147
Debtors	10	10,329	20,871
		19,046	45,018
Creditors Amounts falling due within one year	11	(3,103)	(30,380)
Net Current Assets		15,943	14,638
Total Assets less Current Liabilities		50,856	51,482
Provisions for liabilities and charges	12	(29)	(29)
NET ASSETS		50,827	51,453

Capital and Reserves			
Called up Share Capital	14	-	-
Share Premium Account	15	49,945	49,945
Profit and Loss Account	15	882	1,508
EQUITY SHAREHOLDERS' FUNDS	16	50,827	51,453

The financial statements on pages 7 to 16 were approved by the Board of Directors on 22 December 1999 and were signed on its behalf by:

T.G. Wheeler

D.G. Glover

BRITISH STEEL LARGE DIAMETER PIPES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED

3 April 1999

1 Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently is set out below.

(a) Accounting Convention

These financial statements have been prepared under the historical cost convention.

(b) Turnover

Sales to European Community member and Associate member countries represents the invoiced value of goods and services supplied, including delivery charges. Sales to other export customers are at Free on Board prices. VAT is excluded from turnover.

(c) Foreign Currency Translation

On receipt of a sales order, the value of which is to be invoiced in a foreign currency, it is Company policy to enter into a forward currency contract for the expected proceeds. Accordingly, sales invoices and debtors expressed in foreign currencies are translated into sterling at the relevant forward contract rates, except for inter company debtors which are translated at the period end rate. Foreign exchange differences are taken to the profit and loss account as incurred.

(d) Stocks and Work in Progress

Stocks are valued at the lower of cost and net realisable value. For the valuation of work in progress and finished goods, cost includes all direct production costs and an appropriate proportion of overheads. Where necessary, provision is made for obsolete, slow moving and defective stock.

(e) Tangible Fixed Assets and Depreciation

Tangible fixed assets are recorded at original cost less accumulated depreciation. In the case of assets constructed by the Company, related works and administrative overheads are included in the cost.

Commissioning costs and interest attributable to expenditure on assets in the course of construction are written off to revenue as incurred. Tangible fixed assets financed by leasing arrangements that approximate to the loan of money and in which the Company enjoys substantially all the risks and rewards of ownership (finance leases) are treated as if they have been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance cost; the capital element reducing the obligation to the lessor and the finance cost being written off to the profit and loss account over the period of the lease. Operating lease costs are charged to the profit and loss account as incurred.

Included in tangible fixed assets are loose plant and tools which are stated at cost less amounts written off related to their expected useful lives and estimated scrap value. Also included are spares, against which provisions are made where necessary to cover slow moving and obsolescent items.

Repairs and renewals are charged to the profit and loss account as incurred.

Depreciation is provided so as to write off, on a straight line basis, the net book value of tangible fixed assets including those held under finance leases. They are depreciated from the dates they are brought into use over their estimated useful lives or, in the case of leased assets, over the lease period if shorter. The estimated useful lives of assets are reviewed regularly and, when necessary, revised. Accelerated depreciation is provided where an asset is expected to become obsolete before the end of its normal useful life. No further depreciation is provided in respect of assets which are fully written down but are still in use.

The estimated useful lives for the main categories of fixed assets are:

Plant, Equipment and Machinery Maximum 15 years

(f) Deferred Taxation

Deferred taxation is accounted for, using the liability method, in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

(g) Pension Scheme Arrangements

The Company contributes to a group pension scheme operated by British Steel plc. Contributions and pension costs are based on pension costs across the Group as a whole. The expected cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the expected average remaining service lives of the employees.

Differences between the amounts funded and amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

(h) Cash Flow Statement

The Company is a wholly owned subsidiary of British Steel plc and the cash flows of the Company are included in the consolidated group cash flow statement of British Steel plc. Consequently, the Company is exempt under the terms of Financial Reporting Standard number 1 from publishing a cash flow statement.

2 Turnover

The geographical market analysis of turnover by destination is set out below :

	£000s	
	1999	1998
United Kingdom (incl. UK Continental Shelf)	69,155	76,471
European Union (excluding UK)	2,832	699
Europe (excluding EU)	345	1,402
North America	12,612	1,065
South America	297	90
Africa	1,277	309
Asia	5,006	7,023
TOTAL	91,524	87,059

The directors consider that the Company's activities constitute a single class of business.

3 Directors Emoluments

No Director received any emoluments in respect of services to this Company.

4 Employee Information

The average weekly number of persons employed during the period was 315.(1998: 314)

		1999	1998
		Number	Number
By Activity	Production	315	314

		£000s	£000s
Staff Costs	Wages and Salaries	5920	5974
(for the above persons)	Social Security Costs	515	477
	Other Pension Costs	206	198
TOTAL		6641	6649

5 Operating Costs

		£000s	
		1999	1998
Raw Materials and Consumables		54,078	77,630
Maintenance Costs (excluding own labour)		3,406	3,851
Other External Charges		4,473	5,154
Employment Costs (note 4)		6,641	6,649
Depreciation		2,249	2,321
Other Operating Costs		6,542	5,969
Changes in Stock of Finished Goods and Work in Progress		15,100	(15,314)
TOTAL		92,489	86,260

6 Trading (Loss)/Profit on Ordinary Activities before Taxation

The trading profit/(loss) on ordinary activities before taxation is stated after charging:

		£000s	
		1999	1998
Auditors' Remuneration		25	20

Depreciation on tangible owned fixed Assets was £2,249,000. (1998: £2,321,000).

7 Tax on (Loss)/Profit on Ordinary Activities

The tax charge/(credit) is based on the loss on ordinary activities for the period and comprises :

	£000s	
	1999	1998
United Kingdom Corporation Tax at 31%	(232)	267
Prior Year Taxation Credit	(107)	(24)
Deferred Taxation	0	(1)
TOTAL	(339)	242

8 Tangible Fixed Assets

	£000's			
	Land and Buildings Freehold	Plant and Machinery	Assets in Course of construction	TOTAL
Cost at 28 March 1998	0	52,925	0	52,925
Transfers from Group Companies	0	0	0	0
Additions	0	0	45	45
Disposals	0	(4,011)	0	(4,011)
Transfers/Other Movements	0	45	(45)	0
Cost at 3 April 1999	0	48,959	0	48,959
Depreciation at 28 March 1998	0	18,485	0	18,485
Transfers from Group Companies	0	0	0	0
Charge for Period	0	2,249	0	2,249
Disposals	0	(4,011)	0	(4,011)
Depreciation at 3 April 1999	0	16,723	0	16,723
Net Book Value at 3 April 1999	(1998: £34,440,000)			32,236
Loose Plant, Tools & Spares (NBV)	(1998: £2,404,000)			2,677
TOTAL FIXED ASSETS	(1998: £36,844,000)			34,913

Loose plant and spares are shown at net book value. Due to the substantial number and many variations in their useful lives, it is impractical to give the details of movements normally disclosed in respect of tangible fixed assets.

There was no capital expenditure contracted for at 3 April 1999. (1998: £Nil).

9 **Stocks**

	£000s	
	1999	1998
Raw Materials and Consumables	924	1254
Work in Progress	1231	9906
Finished Goods and Goods for Resale	6562	12987
TOTAL STOCKS	8717	24147

10 **Debtors**

	£000s	
	1999	1998
<u>Amounts falling due after one year:</u>		
Prepaid Pension Costs	97	93
<u>Amounts falling due within one year:</u>		
Trade Debtors	7423	18287
UK Corporation Tax	256	0
Other Debtors	30	12
Amounts due from fellow subsidiary undertakings	2096	0
Other taxation and social security payable	427	2479
TOTAL DEBTORS	10329	20871

11 **Creditors**

	£000s	
	1999	1998
<u>Amounts falling due within one year:</u>		
Trade Creditors	2,689	18,953
Amounts owed to fellow subsidiary undertakings	0	10,485
UK Corporation Tax	0	243
Other Creditors	414	699
TOTAL CREDITORS	3,103	30,380

12 Provision for Liabilities and Charges

Deferred taxation in the financial statements, and the amount unprovided of the total potential liability are as follows:

	£000's			
	Amount Provided		Amount Unprovided	
	1999	1998	1999	1998
Tax effect of timing differences due to:-				
Accelerated Capital Allowances	-	-	(7,896)	(8,272)
Other timing differences	(29)	(29)	-	-
TOTAL	(29)	(29)	(7,896)	(8,272)

Deferred tax at 30% (1998: 31%) has been provided under other timing differences in respect of prepayments of pension contributions of £96,944. (1998: £92,306). The Company anticipates transferring its trade and assets to British Steel plc no later than 30 December 2000, and no material liability to deferred taxation in respect of accelerated capital allowances is foreseen to crystallise prior to that date.

13 Pension Obligations

The Company participates in a group pension scheme operated by British Steel plc - "The Scheme". This is a defined benefit scheme providing benefits based on final pay and service at retirement. The Scheme is operated under trust and its assets are invested independently of the Group. The Scheme was established on 1 October 1990 and members of the previous Scheme transferred their benefits into it. The cost of the Scheme was assessed in accordance with the advice based on an actuarial valuation of the scheme as at 31st March 1996.

Particulars of the valuations are contained in the financial statements of British Steel plc.

The pension costs to the Company for the period ended 3 April 1999 amounted to £206,183. (1998: £198,135)

A prepayment of £96,944 (1998: £92,306) is included in debtors. This represents the excess of the amounts funded over the pension charge to date.

14 Share Capital

Authorised

1,000 Deferred Shares of £1 each
20 'A' Ordinary Shares of DM1 each
80 'B' Ordinary Shares of DM 1 each

£s	
1999	1998
1,000	1,000
9.08	9.08
34.92	34.92
1,044	1,044

Allotted, called up and fully paid

2 Deferred Shares of £1 each
10 'A' Ordinary Shares of DM1 each
80 'B' Ordinary Shares of DM1 each

£s	
1999	1998
2.00	2.00
4.54	4.54
34.92	34.92
41.46	41.46

The deferred shares are non voting, and are redeemable at their par value at any time at the company's option.

15 **Share Premium Account and Reserves**

	Share Premium Account £000's	Profit & Loss Account £000's
At 28 March 1998	49,945	1,508
Retained (Loss) for period	-	(626)
At 3 April 1999	49,945	882

16 **Reconciliation of movement in shareholders' funds.**

	£000s	
	1999	1998
Opening Shareholders' Funds	51,453	50,896
(Loss)/Profit for the Financial Period	(626)	557
Closing Shareholders' Funds	50,827	51,453

17 **Related Party Transactions**

Disclosure of related party transactions is not included, as the Company is a wholly owned subsidiary of a Company, which prepares consolidated financial statements, whose accounts are publicly available, and therefore exempt under the terms of FRS 8.

18 **Ultimate Holding Company**

The Company is a wholly owned subsidiary of British Steel plc, a company registered in England and incorporated in England and Wales. Copies of the parents consolidated financial statements may be obtained from :

The Secretary's office,
British Steel plc,
15, Marylebone Road
London NW1 5JD.