

Avesta Sheffield Precision Strip Limited

Annual Report

for the year ended 31 March 1997

Registered no. 2925979



Avesta Sheffield Precision Strip Limited
Annual Report
for the year ended 31 March 1997

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Avesta Sheffield Precision Strip Limited
Directors and advisers

Directors

L Granas
Chairman

E W L Williams
Managing Director

B D Batey
Director

T Wagstaff
Director

P S Robinson
Director

D S Young
Director

S Malm
Director

J Newborn
Director

Secretary and Registered Office

G J Spencer
PO Box 402
Stocksbridge
Sheffield
S36 2JY

Solicitors

Irwin Mitchell & Co
St Peter's House
Hartshead
Sheffield
S1 2EL

Dibb Lupton Alsop
Fountain Precinct
Balm Green
Sheffield
S1 2RZ

Registered Auditors

Coopers & Lybrand
1 East Parade
Sheffield
S1 2ET

Bankers

Midland Bank plc
2 Fargate
Sheffield
S1 2JS

Avesta Sheffield Precision Strip Limited
Directors' Report
for the year ended 31 March 1997

The directors present their report and audited financial statements for the year ended 31 March 1997.

Principal activities

The profit and loss account for the period is shown on page 6. The principal activity of the company is the manufacture and distribution of precision stainless steel strip products.

Review of business and future developments

Although not yet totally completed the ongoing rationalisation of facilities and the establishment of a one site facility at Stocksbridge has continued to promote commercial and financial awareness and commitment at local level.

The creation of a highly specialised, highly focused yet very diverse but flexible facility founded upon a very competitive cost base as a consequence of continuous growth in productivity has served well in the face of adverse exchange rates around the world.

Recent investments have not only enhanced our product reliability and competitive strength but further promoted customer confidence. Customer confidence has also benefited from improved levels of dialogue and the pursuit of longer term partnerships.

Greater market penetration has been achieved from the increased regularity of sales into the former Eastern Bloc countries of Russia, Poland and the Czech Republic. Many markets are also clearly going thinner placing an even greater demand for precision tolerances and our latest investment strategies are being geared accordingly.

Both the current and anticipated forward level of business are regarded as satisfactory.

Dividends

The directors do not recommend the payment of a dividend.

Research and development

Management recognises the emphasis which needs to be placed on research and development activities to enhance the competitive position of the company's products and processes in their respective market places. For this reason, significant research and development is undertaken by the company.

Directors

The directors of the company, all of whom have served throughout the period of this report, are set out on page 1.

Avesta Sheffield Precision Strip Limited
Directors' Report
for the year ended 31 March 1997

Directors' interests

According to the register required to be kept by section 325 of the Companies Act 1985, the directors hold no beneficial interests in the shares of the company or the immediate parent company, Avesta Sheffield Holdings Limited, at 31st March 1997, or at any time during the year.

At 31 March 1997, the following directors had interests in the shares of Avesta Sheffield AB, a company incorporated in Sweden, and British Steel plc, the ultimate parent company:

Avesta Sheffield AB Shares of 10 SEK each	31 March 1997	1 April 1996
S Malm	5,000	10,000
British Steel plc Ordinary Shares of 50p each		
E W L Williams	1,486	1,486
B D Batey	2,006	2,006
P S Robinson	132	132

At 31 March 1997, J Newborn was a director of the parent company, Avesta Sheffield Holdings Limited, and his interests in the shares of British Steel plc are disclosed in the financial statements of that company.

None of the other directors of the company held, or exercised, options over the shares of any group company during the period.

Suppliers

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.

The average creditors payment days for the company as at 31 March 1997 is 60.

Employees

Numbers of employees are given in note 4. There are well established and effective arrangements for communication and consultation both with trade union representatives and with employees, particularly in association with the ongoing development of productivity bonus and profit related pay schemes.

Avesta Sheffield Precision Strip Limited
Directors' Report
for the year ended 31 March 1997

The company recognises its responsibilities towards disabled people and employs them where suitable work can be found. Every effort is made to find appropriate alternative jobs for those who become disabled while working for the company. Training, career development and promotion of disabled persons are, as far as possible, identical to that of other employees who are not disabled.

Charitable donations

The company accepts its responsibilities to the community in which it operates. During the period charitable donations amounted to £1,282 (1996: £1,255). The company also supports community projects by sponsorships, gifts of materials and secondments.

No political donations were made.

Taxation status

The company was not a close company within the meaning of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of the affairs of the company as at the end of the financial period and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the Board.



G J Spencer
Company Secretary
21 May 1997

**Report of the auditors to the members of
Avesta Sheffield Precision Strip Limited**

We have audited the financial statements on pages 6 to 18.

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.

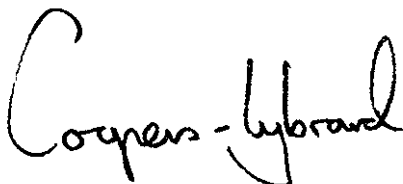
Base of opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script that reads "Coopers - Lybrand".

**Coopers & Lybrand
Chartered Accountants and Registered Auditors
Sheffield**

21 May 1997

Avesta Sheffield Precision Strip Limited
Profit and loss account for the year ended
31 March 1997

	Notes	31 March 1997 (year) £'000	31 March 1996 (65 weeks) £'000
Turnover	2	40,002	54,626
Operating costs	5	(36,111)	(47,916)
Operating profit		<u>3,891</u>	<u>6,710</u>
Interest payable	6	(153)	(67)
Profit on ordinary activities before taxation		<u>3,738</u>	<u>6,643</u>
Tax on profit on ordinary activities	7	50	(2,187)
Profit on ordinary activities after taxation		<u>3,788</u>	<u>4,456</u>
Dividends	8	-	(1,800)
Retained profit for the period		<u><u>3,788</u></u>	<u><u>2,656</u></u>

All results above relate to continuing operations.

The company has no recognised gains and losses other than 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.

Avesta Sheffield Precision Strip Limited
Balance Sheet at 31 March 1997

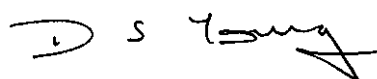
		31 March 1997 £'000	31 March 1996 £'000
	Notes		
Fixed Assets			
Tangible assets	9	5,401	4,565
		<hr/>	<hr/>
Current Assets			
Stocks	10	7,241	9,962
Debtors	11	10,465	11,007
		<hr/>	<hr/>
		17,706	20,969
Creditors:			
Amounts falling due within one year	12	(4,231)	(10,458)
		<hr/>	<hr/>
Net current assets		13,475	10,511
		<hr/>	<hr/>
Total assets less current liabilities		18,876	15,076
		<hr/>	<hr/>
Creditors:			
Amounts falling due after more than one year	13	(5,581)	(5,581)
Provisions for liabilities and charges	14	(283)	(271)
		<hr/>	<hr/>
		(5,864)	(5,852)
		<hr/>	<hr/>
Net assets		13,012	9,224
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	15	6,000	6,000
Profit and loss account	16	7,012	3,224
		<hr/>	<hr/>
Equity shareholders' funds	17	13,012	9,224
		<hr/>	<hr/>

The financial statements on pages 6 to 18 were approved by the board of directors on 21st May 1997 and signed on its behalf by:

E W L Williams



D S Young



Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

1 Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and 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:

Turnover

Sales to export customers other than those to member and associate member countries of the European Coal and Steel Community are recorded at the F.O.B. price of the products sold and services rendered. All other sales represent the invoice value (which include delivery charges) of products sold and services rendered less trade discounts. Sales exclude VAT and similar taxes.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions.

Foreign currencies

With effect from 1 April 1996, the company changed its method of accounting for foreign currency transactions.

The company now translates assets and liabilities in foreign currencies into sterling at the spot rate ruling at the balance sheet date. In cases where forward exchange contracts have been entered into the difference between the forward covered rate and the spot rate at the inception of the contract is recognised in the profit and loss account over the life of the contract. Any unrealised gains or losses on foreign currency contracts held at the balance sheet date as a result of exchange rate movements between the spot rate at the date of inception of the contract and the spot rate at the balance sheet date are also taken to the profit and loss account.

Previously the company translated assets and liabilities in foreign currencies where forward cover had been obtained into sterling at the contracted rate.

The accounting policy was changed in order to coincide with the accounting policy applied by the parent company, Avesta Sheffield AB.

The effect on the current year's results is not significant.

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

Fixed assets

The cost of fixed assets is their purchase cost together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned.

The principal annual rates of depreciation are:

	%
Freehold land	nil
Freehold and long leasehold buildings housing plant	4
Other freehold and long leasehold buildings	2.5
Heavy plant	5
Other plant	6.7
Office equipment and furniture	10
Motor vehicle	20

Research and development expenditure

Research and development expenditure is written off as incurred.

Stocks and work in progress

Stocks are valued at the lower of cost and net replacement value. Cost is determined using the 'first in first out' method. Stocks of partly processed materials, finished products and stores are valued at the lower of cost and net realisable value. Cost of partly processed and finished products comprises all direct costs of production including works overheads based on the normal level of activity. Net realisable value is the price at which the stocks can be realised in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and cost of disposal. Where necessary, provision is made for slow moving and obsolete items.

Pensions

Employees of the company are entitled to be members of the British Steel Pension Scheme (1990) ("the scheme"). This scheme is a defined benefits scheme operated under trust and invested independently of the British Steel plc group. The scheme is valued every three years by independent qualified actuaries. 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 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.

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

Cash flow statement

A cash flow statement has not been prepared on the grounds that the company is a wholly owned subsidiary of Avesta Sheffield Holdings Limited, which presents a consolidated cash flow statement in its financial statements in accordance with Financial Reporting Standard No. 1.

2 Turnover

The directors consider that the company operates in one industrial segment.

The geographical markets supplied by the company are as follows:

	1997 (year) £'000	1996 (65 weeks) £'000
United Kingdom	17,167	23,138
Rest of Europe	2,197	5,468
North America	7,261	10,627
Rest of the World	13,377	15,393
	<u>40,002</u>	<u>54,626</u>

3 Directors' emoluments

	1997 (year) £'000	1996 (65 weeks) £'000
Aggregate of emoluments	<u>219,081</u>	<u>251,470</u>
Highest paid director		
Aggregate of emoluments	81,787	83,406
Defined benefit pension scheme: Accrued pension as at 31 March	<u>34,234</u>	<u>27,404</u>

Retirement benefits are accruing to 5 directors under a defined benefit scheme.

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

4 Employee information

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

	1997	1996
	Number	Number
Manual	167	158
Staff	50	50
	<u>217</u>	<u>208</u>
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	5,206	7,242
Social security costs	425	551
Other pension costs (note 20)	185	445
	<u>5,816</u>	<u>8,238</u>

5 Operating Costs

	1997	1996
	(year)	(65 weeks)
	£'000	£'000
Raw materials and consumables	16,942	28,104
Maintenance costs (excluding own labour)	3,382	3,873
Other external charges	2,374	3,737
Employment costs	5,816	8,238
Depreciation	478	581
Regional development grants and other grants released	-	(41)
Release of rationalisation provision	-	(195)
Other operating costs	6,184	6,357
Changes in stock of finished goods and work in progress	935	(2,738)
	<u>36,111</u>	<u>47,916</u>

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

	£'000	£'000
The above costs are stated after charging:		
Research and development expenditure	129	155
Auditors remuneration	13	13

Remuneration of the company's auditors for the provision of non-audit services to the company was £9,500 (1996: £16,500).

6 Interest payable

	1997 (year) £'000	1996 (65 weeks) £'000
Amounts payable to Avesta Sheffield Limited	153	67

7 Tax on profit on ordinary activities

	£'000	£'000
UK Corporation tax (credit)/charge at 33%	-	2,186
Over provision in prior years	(62)	-
Deferred tax (Note 14)	12	1
	(50)	2,187

There is no current year corporation tax charge due to losses surrendered from other group companies without charge.

8 Dividends

	£'000	£'000
Ordinary interim dividend paid of £nil per share (1996: £0.3 paid per share)	-	1,800

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

9 Tangible fixed assets

	Land and buildings Freehold £'000	Plant and machinery £'000	Assets in Course of Construction	Total £'000
Cost				
At 1 April 1996	2,473	13,990	1,326	17,789
Additions	-	-	298	298
Transfer from Assets in Course of construction	16	1,530	(1,546)	-
Disposals	-	(15)	-	(15)
At 31 March 1997	<u>2,489</u>	<u>15,505</u>	<u>78</u>	<u>18,072</u>
Depreciation				
At 1 April 1996	2,214	11,849	-	14,063
Charge for the year	33	445	-	478
Disposals	-	(9)	-	(9)
At 31 March 1997	<u>2,247</u>	<u>12,285</u>	<u>-</u>	<u>14,532</u>
Net book value at 31 March 1997	<u>242</u> =====	<u>3,220</u> =====	<u>78</u> =====	<u>3,540</u> =====
Loose plant, tools & spares				1,861
				<u>5,401</u> =====
Net book value at 31 March 1996	<u>259</u>	<u>2,141</u>	<u>1,326</u>	<u>3,726</u>
Loose plant, tools & spares				839
				<u>4,565</u> =====

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

Loose plant, tools and spares are shown at net book value, which comprises:		31 March	31 March
		1997	1996
		£'000	£'000
Cost		2,632	1,581
Provisions		(771)	(742)
		<u>1,861</u>	<u>839</u>
10 Stocks		1997	1996
		£'000	£'000
Raw materials and consumables		992	2,778
Work in progress		3,395	3,924
Finished goods and goods for resale		2,854	3,260
		<u>7,241</u>	<u>9,962</u>
11 Debtors		1997	1996
		£'000	£'000
Amounts falling due within one year			
Trade debtors		8,971	9,966
Amounts owed by parent company and fellow subsidiary group undertakings		1,038	681
Other debtors		72	96
		<u>10,081</u>	<u>10,743</u>
Amounts falling due after more than one year:			
Pre-paid pension costs (Note 20)		384	264
		<u>10,465</u>	<u>11,007</u>

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

12 Creditors: amounts falling due within one year

	1997	1996
	£'000	£'000
Trade creditors	155	1,957
Amounts owed to parent company and fellow subsidiary group undertakings	3,345	5,490
Corporation tax	-	2,224
Accruals	731	787
	<u>4,231</u>	<u>10,458</u>

13 Creditors: amounts falling due after one year

	1997	1996
	£'000	£'000
Amounts owed to parent company	5,581	5,581
	<u>5,581</u>	<u>5,581</u>

The above amount represents a loan from Avesta Sheffield Holdings Ltd which is repayable on 30 June 2004 and bears interest at 1% over Midland Bank plc base rate being paid quarterly in arrears having commenced 30 September 1994. The parent company has agreed to waive interest for the whole period to 31 March 1997.

14 Provisions for liabilities and charges

	Deferred taxation (see below) £'000
At 1 April 1996	271
Profit and loss account	12
At 31 March 1997	<u>283</u>

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

Deferred taxation

Deferred taxation provided in the financial statements in accordance with the accounting policy in note 1, and the amount unprovided of the total potential liability, are as follows:

	1997		1996	
	Amount provided £'000	Amount unprovided £'000	Amount provided £'000	Amount unprovided £'000
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	156	545	184	606
Pensions	127	-	87	-
	<u>283</u>	<u>545</u>	<u>271</u>	<u>606</u>

15 Called up share capital

	1997 £	1996 £
Authorised		
6,000,002 ordinary shares of £1 each	6,000,002	6,000,002
Allotted, called up and fully paid		
6,000,002 ordinary shares of £1 each	6,000,002	6,000,002

16 Profit and loss account

	£'000
At 1 April 1996	3,224
Retained profit for the year	3,788
At 31 March 1997	<u>7,012</u>

Avesta Sheffield Precision Strip Limited
Notes to the financial statements
for the year ended 31 March 1997

17 Reconciliation of movements in shareholders' funds

	31 March 1997 (year) £	31 March 1996 (65 weeks) £
Opening shareholders' funds	9,224	6,568
Profit on ordinary activities after taxation	3,788	4,456
Dividends	-	(1,800)
	<hr/>	<hr/>
Closing shareholders funds	13,012	9,224
	<hr/>	<hr/>

18 Capital commitments

	1997 £'000	1996 £'000
Contracted but not provided for in these financial statements	322	170
	<hr/>	<hr/>

19 Financial commitments

The company has no annual commitments under non-cancellable operating leases.

At 31 March 1997, the company, in the ordinary course of business has entered into forward exchange contract commitments. In the opinion of the directors, no loss will arise as a result of these arrangements.

20 Pension Schemes

The pension scheme to which the company is a party is the British Steel Pension Scheme (1990) ("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 British Steel plc group.

Avesta Sheffield Precision Strip Limited
Notes to the financial statement
for the year ended 31 March 1997

The total pension costs of the company for the period were £185,000 (1996: 445,000). The costs of the scheme were assessed in accordance with the advice of independent qualified actuaries and have been based on an actuarial valuation of the Scheme as at 31 March 1996. For this valuation, the actuarial method adopted was the projected unit method and the main actuarial assumptions used were that wages and salaries would increase on average by 5.75% per annum, that the return on investments would be 8.5% per annum and that pension increases would be 4% per annum.

The valuation showed the actuarial value of the assets to be sufficient to cover 112% of the actuarial value of the accrued benefits after allowing for expected future increases in pay and pensions. The market value of the Scheme's assets at 31 March 1996 was £6,427 million.

A prepayment of £384,000 due after more than one year is included in debtors, which represents the excess of the amounts funded over the pension charge for the prior periods.

21 Related Party Transactions

During the year, the company purchased goods to the value of £10,748,000 from British Steel plc. The balance outstanding for these goods at 31 March 1997 is £2,312,000.

During the year, the company sold goods to the value of £33,000 to British Steel plc. The balance outstanding for these goods at 31 March 1997 is £10,000.

All transactions with British Steel plc were undertaken on normal commercial trade terms.

In accordance with the exemption allowed by Financial Report Standard No. 8 transactions with Avesta Sheffield AB and subsidiaries of Avesta Sheffield AB are not disclosed.

22 Ultimate parent company

The company is a wholly owned subsidiary of Avesta Sheffield Holdings Limited, registered in England and Wales which is itself ultimately owned by Avesta Sheffield AB, a company incorporated in Sweden. The directors regard British Steel plc as the ultimate holding company and controlling party.

Copies of the financial statements of Avesta Sheffield AB maybe obtained from Avesta Sheffield AB, P O Box 16377, S-103 27 Stockholm, Sweden.

Copies of the financial statements of British Steel plc may be obtained from British Steel plc, 9 Albert Embankment, London SE1 7SN.