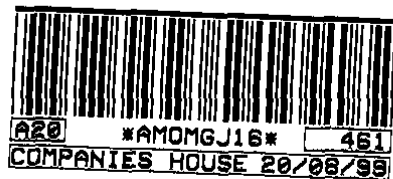


BRITISH STEEL (INDUSTRY) LIMITED
DIRECTOR'S REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 3 APRIL 1999

Registered number: 535960



BRITISH STEEL (INDUSTRY) LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 3 APRIL 1999

1. Financial Statements

The directors submit herewith the audited financial statements of the Company for the year ended 3 April 1999. The Company is a subsidiary of British Steel plc ("British Steel").

2. Principal Activities

The principal objective of the Company is to assist in the regeneration of those areas of the United Kingdom which have been affected by changes in the steel industry. The Company seeks to achieve this by encouraging the creation and growth of small and medium sized businesses which can provide new employment opportunities in these areas.

The principal activities of the Company are the provision of risk finance and premises to businesses which can demonstrate growth potential. The Company also provides support to selected business support agencies and initiatives.

3. Review of Operations

During the year the Company completed construction of new premises in Sheffield and the redevelopment of existing premises in Cardiff, adding to the quality of the managed workspace portfolio.

The Company suffered from a reduction in investment income and an increase in provisions against the loan and equity portfolios, as the manufacturing sector suffered from unfavourable economic conditions. Neither did the Company benefit from the significant gains on the sale of property and certain share investments achieved in the previous year.

The Company again benefited from grants received from the European Regional Development Fund (ERDF) and these enabled the Company to proceed with projects that it would otherwise have been unable to undertake.

4. Results and Dividends

The Company incurred a loss of £302,005 after tax as set out in the profit and loss account on page 6. Because of the nature of the Company's activities it is the Board's policy not to make distributions to shareholders. Accordingly the directors do not recommend the payment of a dividend (1998: £Nil).

5. Fixed Assets

In the opinion of the directors, the market value of freehold land and buildings exceeds the book value at which these properties are included in the balance sheet by £1,000,000.

6. **Directors**

The following directors all served throughout the year except where indicated.

Mr A J Johnston
Mr V J Smith
Lord Brookman
Mr A V Williams (appointed 1 April 1998)
Mr C D Gardner (appointed 31 March 1999)
Dr D Grieves (resigned 31 March 1998)
Mr W J Cain (resigned 31 March 1999)

7. **Directors' Interests in Shares of the Group**

The beneficial interest of the directors in the ordinary shares of British Steel plc at the end of the financial year and movements in their share options held under the British Steel Executive Share Option Scheme and the British Steel Sharesave Scheme were as follows.

	<u>Shares</u>		<u>Options</u>			
	<u>1999</u>	<u>1998</u>	<u>Outstanding at 28 Mar 1998</u>	<u>Lapsed</u>	<u>Exercised</u>	<u>Outstanding at 3 April 1999</u>
A Johnston	2,241	2,241	150,315	0	36,250	114,065
V Smith	9,465	2,215	52,526	0	7,250	45,276
Lord Brookman	0	0	0	0	0	0
AV Williams	22,000	22,000	100,076	100,076	0	0
C D Gardner	0	0	33,828	0	0	33,828

No options were granted to any of the directors during the year.

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

8. **Directors' Responsibilities**

The directors are required by UK company law to prepare financial statements for each financial year that 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.

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 3 April 1999. 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.

9. **Year 2000 issue**

With regard to the Year 2000 issue, the company has reviewed and tested all of its computer systems and taken such other actions necessary to establish that all systems used by the company are Year 2000 compliant. Although no guarantees can be given, the directors are satisfied that, in the worst case scenario, the impact of any failures will not have a significant effect on the operations of the Company or its financial position. The directors estimate that the costs of the Year 2000 investigations have not exceeded £5,000.

10. **Auditors**

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 and the directors appointed the new firm, PricewaterhouseCoopers, as auditors. A resolution to reappoint PricewaterhouseCoopers will be proposed at the Annual General Meeting.

By Order of the Board



K S Williams
Secretary

The Innovation Centre
217 Portobello
Sheffield S1 4DP

**REPORT OF THE AUDITORS TO THE MEMBERS
OF
BRITISH STEEL (INDUSTRY) LIMITED**

We have audited the financial statements on pages 6 to 19, which have been prepared under the historical cost convention and the accounting policies set 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluate 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 3 April 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

SHEFFIELD

3 August 1999

BRITISH STEEL (INDUSTRY) LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 3 APRIL 1999**

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
		£	£ <u>as restated</u>
Turnover - continuing operations	1(h)		
• Rental income		1,009,178	895,024
• Other		<u>121,039</u>	<u>120,618</u>
		<u>1,130,217</u>	<u>1,015,642</u>
Operating (loss) profit - continuing operations	2	<u>(507,914)</u>	36,478
Profit on the sale of fixed assets		-	883,586
(Loss) profit on ordinary activities before taxation		<u>(507,914)</u>	<u>920,064</u>
Taxation on (loss) profit on ordinary activities	3	<u>205,909</u>	<u>138,818</u>
(Loss) profit for the financial year after taxation		<u><u>(302,005)</u></u>	<u><u>1,058,882</u></u>

BRITISH STEEL (INDUSTRY) LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 3 APRIL 1999**

	<u>1999</u>	<u>1998</u>
	£	<u>as restated</u> £
(Loss) profit for the financial year	<u>(302,005)</u>	<u>1,058,882</u>
Total recognised gains and losses relating to the year	<u>(302,005)</u>	<u>1,058,882</u>
Prior year adjustment (as explained in note 15)	<u>(1,095,257)</u>	
Total gains and losses recognised since last annual report	<u><u>(1,397,262)</u></u>	

BRITISH STEEL (INDUSTRY) LIMITED

BALANCE SHEET AS AT 3 APRIL 1999

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
		£	£
			<u>as restated</u>
FIXED ASSETS			
Tangible assets	6	<u>6,718,488</u>	<u>6,756,603</u>
INVESTMENTS	7	<u>727,260</u>	786,265
CURRENT ASSETS			
Debtors:			
amounts falling due after more than 1 year	8	1,067,504	1,028,569
amounts falling due within 1 year	8	7,559,186	9,094,002
Cash at bank in hand		<u>192,115</u>	53,158
		<u>9,546,065</u>	<u>10,961,994</u>
CREDITORS - Amounts falling due within one year	9	<u>(598,213)</u>	<u>(424,317)</u>
NET CURRENT ASSETS		<u>8,947,852</u>	<u>10,537,677</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>15,666,340</u>	<u>17,294,280</u>
ACCRUALS AND DEFERRED INCOME	10	<u>(404,340)</u>	<u>(1,600,275)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	11	-	<u>(130,000)</u>
		<u>15,262,000</u>	<u>15,564,005</u>
CAPITAL RESERVES			
Called up share capital	12	10,000,100	10,000,100
Profit and loss account	13	5,261,900	5,563,905
EQUITY SHAREHOLDER'S FUNDS	14	<u>15,262,000</u>	<u>15,564,005</u>

The financial statements on pages 6 to 19 were approved by the board of directors on 29 July 1999 and were signed on its behalf by:-


V. J. Smith
Director

BRITISH STEEL (INDUSTRY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 3 APRIL 1999

1. NOTES TO THE FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

A summary of the more important accounting policies which have been applied consistently is set out below:-

(a) **Basis of Preparation of the Financial Statements**

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom.

(b) **Financial Year**

These financial statements have been prepared for the 53 weeks from 29 March 1998 to 3 April 1999.

(c) **Tangible Fixed Assets**

The Company has chosen to adopt the terms of Financial Reporting Standard (FRS) 15 'Tangible Fixed Assets' early. In accordance with the transitional arrangements contained within FRS15, the Company has opted to restate at historical cost those land and buildings which had previously been stated at valuation. A prior year adjustment has been processed to reflect this change in accounting policy.

All fixed assets are recorded at cost less accumulated depreciation. Cost is purchase cost together with any incidental expenses of acquisition less certain capital grants (see (e) below).

(d) **Depreciation**

Depreciation is provided so as to write off the cost or valuation of tangible fixed assets on a straight line basis, over their estimated remaining useful lives.

The principal annual rates used for this purpose are:

	%
Freehold land	-
Freehold buildings	4
Leasehold property	4
Fixtures and fittings	10
Motor vehicles	25

(e) **Government and European Grants**

In accordance with SSAP 4 (Revised) Regional Development Grants and other capital grants received and receivable are credited to deferred income and are released to the profit and loss account over the estimated useful lives of the assets to which they relate. In the exceptional circumstances where grant funding is made available, usually from European Union funds, to enable a project to proceed which otherwise would not be commercially viable, the grant is deducted from the purchase price or production cost of the related fixed asset to the extent that the market value of the fixed asset is lower than its purchase price or production cost .

(f) **Debtors**

Debtors include amounts loaned (normally for a period of three to five years) at varying repayment terms. Income from these loans comprises interest up to the balance sheet date, except where loans have been fully provided against, in which case loan interest is recognised when received.

Provisions against loans are made as a result of a detailed periodic review of the loan portfolio. Although recoverability of individual loans remains difficult to assess, the directors consider that a prudent provision has been made against the overall total of loans.

(g) **Pensions**

The Company contributes to a group pension scheme operated by British Steel. 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) **Turnover**

Turnover comprises amounts invoiced to workshop tenants for property rentals, licence fees and services provided (gas, electricity, rates etc).

(i) **Investments**

Investments are valued at the lower of cost and estimated net realisable value. Provisions against investments are made as a result of a detailed periodic review of the investment portfolio.

(j) **Deferred Taxation**

Deferred taxation is accounted for, using the liability method, in respect of 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.

(k) **Operating Leases**

Rentals paid in respect of operating leases are charged to the profit and loss account as incurred. The Company does not have any finance leases.

(l) **Cash Flow Statement**

A cash flow statement has not been prepared on the grounds that the Company is a wholly owned subsidiary of British Steel, which presents a consolidated cash flow statement in its financial statements in accordance with Financial Reporting Standard Number 1.

(m) **Related Party Transactions**

In accordance with the exception allowed by FRS8 "Related Party Transactions" transactions with British Steel plc and fellow subsidiary undertakings are not disclosed.

2. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is made up as follows.

	<u>1999</u>	<u>1998</u>
	£	as restated £
Turnover		
• Rental income	1,009,178	895,024
• Other	121,039	120,618
Other operating income		
Share dividends and interest receivable on loans	446,201	558,591
Profit on realisation of shares	264,228	405,760
Interest receivable from British Steel	408,594	523,417
ERDF grant income (note 10)	316,735	235,178
Other income	4,431	892
	<u>2,570,406</u>	<u>2,739,480</u>
Staff costs		
Wages and salaries	(871,845)	(867,634)
Social security costs	(71,561)	(69,951)
Other pension costs (note 16)	(37,993)	(36,728)
Redundancy Costs	-	(31,577)
Depreciation	(279,378)	(208,995)
Regional Development Grant release	25,867	85,985
Auditors' remuneration - audit	(12,000)	(12,000)
- other services	(2,000)	(1,750)
Profit (Loss) on sale of tangible fixed assets	1,131	10,470
Operating lease rentals - land and buildings	(46,643)	(70,678)
- motor vehicles	(4,908)	-
Other operating charges	(1,778,990)	(1,500,144)
	<u>(507,914)</u>	<u>36,478</u>

The whole of the operating (loss)/profit relates to continuing operations.

3. **TAXATION**

The taxation credit comprises:

	<u>1999</u> £	<u>1998</u> £
Group relief receivable	228,000	213,601
Taxation attributable to franked investment income	(28,657)	(73,643)
Adjustments in respect of prior years:		
Group relief received	6,566	(1,140)
	<u>205,909</u>	<u>138,818</u>

4. **DIRECTORS' EMOLUMENTS**

	<u>1999</u> £	<u>1998</u> £
Aggregate emoluments	<u>98,529</u>	<u>127,804</u>

Two directors exercised share options in the year as declared in note 7 to the report of the Directors.

5. **EMPLOYEES**

An analysis of employments costs, which include emoluments of executive directors, appears in note 2. Excluding non-executive directors, the average number of persons engaged on the company's activities during the year was 30 (1998: 32).

6. **TANGIBLE FIXED ASSETS**

	Long Leasehold Buildings £	Freehold Land and Buildings £	Assets under construction £	Motor Vehicles and Equipment £	Total £
<u>COST</u>					
At 28 March 1998 as previously stated	-	4,406,551	3,742,256	284,084	8,432,891
Prior year adjustment (see note 15)	-	(425,247)	-	-	(425,247)
At 28 March 1998 restated	-	3,981,304	3,742,256	284,084	8,007,644
Additions	-	13,075	2,193,901	33,783	2,240,759
Capital grant	-	-	(1,977,766)	-	(1,977,766)
Transfer on completion	2,319,693	1,602,831	(3,922,524)	-	-
Disposals	-	-	-	(71,430)	(71,430)
At 3 April 1999	2,319,693	5,597,210	35,867	246,437	8,199,207
<u>DEPRECIATION</u>					
At 28 March 1998 as previously stated	-	(474,483)	-	(106,548)	(581,031)
Prior year adjustment (see note 15)	-	(670,010)	-	-	(670,010)
At 28 March 1998 restated	-	(1,144,493)	-	(106,548)	(1,251,041)
Charge for year	(79,035)	(140,257)	-	(60,086)	(279,378)
Disposals	-	-	-	49,700	49,700
At 3 April 1999	(79,035)	(1,284,750)	-	(116,934)	(1,480,719)
<u>NET BOOK VALUE</u>					
At 3 April 1999	2,240,658	4,312,460	35,867	129,503	6,718,488
At 28 March 1998 as restated	-	2,836,811	3,742,256	177,536	6,756,603

7. **INVESTMENTS**

Investments represent ordinary, preferred ordinary and preference shares in unlisted companies. At the year end there were 47 different companies in which the Company held a share investment.

The directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 of the Companies Act 1985 is such that compliance would result in information of excessive length being given. In accordance with section 231 of that Act all such information will be annexed to the Company's next annual return.

8. **DEBTORS**

	<u>1999</u>	<u>1998</u>
	£	£
Amounts falling due after more than one year		
Loans (note 1(f))	993,383	954,448
Prepayments (note 16)	74,121	74,121
	<u>1,067,504</u>	<u>1,028,569</u>
Amounts falling due within one year		
Loans (note 1(f))	658,206	865,000
Amounts owed by group undertakings	6,032,497	7,655,503
Group relief receivable	228,000	214,571
Prepayments (note 16)	472,912	68,765
Other debtors (including interest on loans (note 1(f)))	167,571	290,163
	<u>7,559,186</u>	<u>9,094,002</u>
	<u>8,626,690</u>	<u>10,122,571</u>

Under the terms of the British Steel treasury policy, the Company's principal bank account is cleared on a daily basis with the funds then managed centrally by the Group. The balance shown within debtors as amounts owed by group undertakings represents these funds.

9.	<u>CREDITORS - Amounts falling due within one year</u>	<u>1999</u> £	<u>1998</u> £
	Bank: unpresented cheques	15,138	29,876
	Trade creditors	70,399	69,770
	Amounts owed to group undertakings	280	-
	Deposits held	198,880	144,791
	Other creditors	313,516	179,880
		<u>598,213</u>	<u>424,317</u>
10.	<u>ACCRUALS AND DEFERRED INCOME</u>	<u>1999</u> £	<u>1998</u> £
	Regional Development and other capital grants		
	At 28 March 1998	1,600,275	364,942
	Additions	1,035,058	1,368,536
	Transfer to profit and loss account (note 2)	(25,867)	(85,985)
	Transfer to ERDF income below	(227,360)	-
	Transfer to fixed assets (note 6)	(1,977,766)	(47,218)
		<u>404,340</u>	<u>1,600,275</u>
	ERDF grants credited to the profit and loss account (note 2)		
	Yorkshire and Humberside Enterprise Fund		
	- release of deferred grant	227,360	-
	- income grant received in year	65,577	209,465
		<u>292,937</u>	<u>209,465</u>
	Welsh Office SME monitoring and support	-	25,713
	Scottish Office grant for Brown Street Units	23,798	-
		<u>316,735</u>	<u>235,178</u>

11. **PROVISIONS FOR LIABILITIES AND CHARGES**

	<u>1999</u> £	<u>1998</u> £
Other provisions (see (a) below)	-	130,000
	<u> </u>	<u> </u>
(a) Other Provisions		Enterprise Agencies and Trusts
		£
At 28 March 1998		130,000
Expenditure during year		(171,281)
Charge to profit and loss account		41,281
At 3 April 1999		<u> </u> <u> </u> -
		<u> </u>
(b) Deferred Taxation		

Deferred taxation is provided in the financial statements in accordance with the Company's accounting policy described in note 1(j) and the amounts unprovided of the total potential liability are set out below:

	Amounts provided		Amounts unprovided	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u> as restated
	£	£	£	£
Short term timing differences	23,910	24,707	-	-
Accelerated capital allowances	-	-	336,587	315,559
Excess management expenses	(23,910)	(24,707)	(336,587)	(315,559)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

12. **SHARE CAPITAL**

	<u>1999</u> £	<u>1998</u> £
Authorised:		
Ordinary shares of £1 each	<u>12,000,000</u>	<u>12,000,000</u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>10,000,100</u>	<u>10,000,100</u>

13. **RESERVES**

	Profit & Loss Account £	Revaluation Reserve £	Total £
At 28 March 1998 as previously stated	5,621,348	1,037,814	6,659,162
Prior year adjustment (see note 15)	(57,443)	(1,037,814)	(1,095,257)
	<hr/>	<hr/>	<hr/>
At 28 March 1998 restated	5,563,905	-	5,563,905
Retained (loss) for the year	(302,005)	-	(302,005)
	<hr/>	<hr/>	<hr/>
At 3 April 1999	<u>5,261,900</u>	<u>-</u>	<u>5,261,900</u>

14. **RECONCILIATION OF MOVEMENTS IN SHAREHOLDER FUNDS**

	<u>1999</u> £	<u>1998</u> <u>as restated</u> £
(Loss) Profit for the financial year	(302,005)	1,058,882
	<hr/>	<hr/>
Net (decrease) increase to shareholders' funds	(302,005)	1,058,882
Opening shareholders' funds (originally £16,659,262 before deducting prior year adjustment of £1,095,257)	15,564,005	14,505,123
	<hr/>	<hr/>
Closing shareholders' funds	15,262,000	15,564,005
	<hr/> <hr/>	<hr/> <hr/>

15. **PRIOR YEAR ADJUSTMENT**

Following the change of accounting policy brought about by the implementation of FRS 15 (as per note 1(c)) a prior year adjustment has been made to restate at historical cost less accumulated depreciation those freehold land and buildings which had previously been shown at valuation. This change in policy has had the effect of increasing the depreciation charge for the year by £16,447 (1998 £15,838).

16. **PENSIONS**

The Company participates in a group pension scheme operated by British Steel. 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 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 at 31 March 1996. Particulars of the valuation are contained in the financial statements of British Steel. The pension costs to the Company for the year ended 3 April 1999, which are based on contributions to the whole group scheme, amounted to £37,993 (1998: £36,728). A prepayment of £79,700 (1998: £79,700) is included in debtors, of which £74,121 (1998: £74,121) falls due after more than one year, representing the excess of the amounts funded over the pension charge for the year.

17. **CONTINGENT LIABILITIES AND COMMITMENTS**

	<u>1999</u> £	<u>1998</u> £
(a) Loans and investments in share capital committed but not paid	<u>870,000</u>	<u>1,125,000</u>
(b) Leasing commitments		
The annual commitments under operating leases are analysed according to the period in which each lease expires, as follows:		
Motor vehicles, leases expiring within two to five years	10,552	-
Land and buildings, leases expiring within:		
One to two years	-	11,225
Two to five years	-	11,160
	<u>10,552</u>	<u>22,385</u>
(c) Capital expenditure		
Capital expenditure contracted but not provided for	-	<u>1,056,000</u>

18. **RING-FENCED FUNDS**

Within current assets is an amount of £200,131 which represents 30% of the receipts from the European Regional Development Fund (ERDF) grant assisted investments under the Yorkshire and Humberside Enterprise Fund. In accordance with the conditions of this scheme this amount has been ring-fenced for reinvestment on a similar basis.

19. **RELATED PARTY TRANSACTIONS**

During the year Dr Grieves purchased a car for the sum of £11,500 from the Company whilst acting as a director of the Company. The price paid for the car was the market value at that time.

20. **ULTIMATE HOLDING COMPANY**

The company is a subsidiary of British Steel plc, which is a company registered in England and Wales. A copy of the ultimate holding company's financial statements can be obtained from the Company Secretary, British Steel plc, 15 Marylebone Road, London, NW1 5JD.