

Special Metals Wiggin Limited

Report and Accounts

31 December 2000

Registered No: 36721



Special Metals Wiggin Limited

Registered No. 36721

DIRECTORS

G B Nairn
A J L Glover
E Duval
P Choppin de Janvry
T G John
R P McLellan

SECRETARY

A J L Glover

AUDITORS

Ernst & Young LLP
One Colmore Row
Birmingham
B3 2DB

BANKERS

HSBC Bank plc
PO Box 360
100 King Street
Manchester
M60 2HD

SOLICITORS

Martineau Johnson
St Philips House
St Philips Place
Birmingham
B3 2PP

REGISTERED OFFICE

Holmer Road
Hereford
HR4 9SL

Special Metals Wiggin Limited

DIRECTORS' REPORT

The directors submit their report with the audited financial statements for the year ended 31 December 2000.

RESULTS

The profit and loss account on page 6 shows that the profit for the year amounted to £2,695,000 (1999 - £2,130,000). A dividend of £15,000,000 (1999 - £13,500,000) has been paid during the year, and a loss of £12,305,000 (1999 - loss of £11,370,000) has been transferred from reserves.

PRINCIPAL ACTIVITIES

There was no change during the year in the principal activities of the company, which are the manufacture and sale of nickel alloys.

BUSINESS REVIEW

Sales volumes remained fairly constant throughout the year. Nickel prices increased significantly in the first half of the year, levelled out and then reduced during the final quarter. Some fixed contracts had nickel hedged but in all other areas alloy prices moved in line with nickel cost changes. With the FIFO method of accounting and a twice year stock turn, profits were therefore weighted towards the first half of the year. Aerospace activity was good with a sign of increased bookings in oil and gas and other areas towards the end of the year. Margins remained under pressure due to the continued strength of sterling against the euro.

For 2002, we expect that forecast improvements in the Oil and Gas sector, plus secured positions which increase market share across other sectors, together with the 10% fixed cost reduction program already underway, should go some way towards offsetting the negative effect of 11 September on the Aerospace sector of the business.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year ended 31 December 2000 were:

P Choppin de Janvry (appointed 20 September 2000)
E Duval
A J L Glover
T G John
D R Muzyka (resigned 1 September 2000)
G B Nairn
D W Ohl (resigned 3 April 2000)

In accordance with the provisions of Article 17(a) of the Articles of Association, all the directors retire at the Annual General Meeting and, being eligible, offer themselves for re-election.

P Choppin de Janvry, E Duval, and T G John are directors of the ultimate parent undertaking and their interest in shares of Special Metals Corporation are disclosed in the financial statements of that company.

RESEARCH AND DEVELOPMENT

During the year, the company supported research projects at several Universities, and collaborative research with specific customers. Development of new alloys, products and process routes continued at Hereford.

Special Metals Wiggin Limited

DIRECTORS' REPORT

EMPLOYEE INVOLVEMENT

The company operated a Profit Related Pay Scheme, effective from 1 January 2000.

Bi-monthly employee team briefs continue to be used for the dissemination of information to all employees.

There are also the following arrangements for consultation:

- (1) The Factory Affairs Panel is available to discuss particular issues as and when required and consult employees annually concerning the scheduling of holidays.
- (2) The Safety Committee covering the whole plant holds regular meetings and conducts regular inspections.

DISABLED PERSONS

It is the policy of the group to give full and fair consideration to applications for employment made by disabled persons and to continue whenever possible the employment of staff who have become disabled, and to provide opportunities for the training and career development of disabled employees.

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By Order of the Board



A J L Glover
Secretary
15 January 2002

Special Metals Wiggin Limited

STATEMENTS OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which 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 accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SPECIAL METALS WIGGIN LIMITED

We have audited the company's financial statements for the year ended 30 December 2000 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

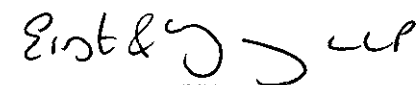
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
Birmingham

Dated 18 Jan 2002

Special Metals Wiggin Limited

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
TURNOVER	2	101,280	92,825
Cost of sales		(88,689)	(80,987)
GROSS PROFIT		12,591	11,838
Distribution costs		(2,086)	(1,970)
Administrative expenses		(6,073)	(6,577)
Other operating income		197	173
OPERATING PROFIT		4,629	3,464
Interest receivable and similar income		238	452
Interest payable and similar charges	6	(933)	(1,058)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	3,934	2,858
Taxation on profit on ordinary activities	7	(1,239)	(728)
PROFIT FOR THE FINANCIAL YEAR		2,695	2,130
Dividends	8	(15,000)	(13,500)
LOSS FOR THE FINANCIAL YEAR			
TRANSFERRED FROM RESERVES	15	(12,305)	(11,370)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2000

	2000 £'000	1999 £'000
PROFIT FOR THE FINANCIAL YEAR	2,695	2,130
Currency translation differences on foreign investments	(55)	102
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	2,640	2,232

Special Metals Wiggin Limited

BALANCE SHEET

at 31 December 2000

	Notes	2000 £'000	1999 £'000
FIXED ASSETS			
Tangible assets	9	20,043	22,106
Investments	10	4,138	3,142
		<u>24,181</u>	<u>25,248</u>
CURRENT ASSETS			
Stocks	11	32,528	25,820
Debtors - falling due within one year	12	27,672	36,382
- falling due after one year	12	13,762	12,850
Cash at bank and in hand		-	2,097
		<u>73,962</u>	<u>77,149</u>
CREDITORS: amounts falling due within one year	13	(27,461)	(19,355)
NET CURRENT ASSETS		<u>46,501</u>	<u>57,794</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>70,682</u>	<u>83,042</u>
CAPITAL AND RESERVES			
Called up share capital	14	757	757
Share Premium account	15	49,924	49,924
Profit and loss account	15	20,001	32,361
EQUITY SHAREHOLDERS' FUNDS		<u>70,682</u>	<u>83,042</u>

The notes on pages 8 to 16 form part of these accounts.

The accounts were approved by the Board of directors on 15 January 2002.


G B Nairn
Director

NOTES TO THE ACCOUNTS

at 31 December 2000

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention.

The company is a wholly-owned subsidiary of SMW Holdings Limited, a company registered in England and Wales. Accordingly, consolidated accounts have not been prepared as permitted by S.228 of the Companies Act 1985. The accounts therefore present information about the company as an individual undertaking and not about its group.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated using the straight-line method based on the estimated economic lives of the assets. Such lives are generally limited to a maximum of twenty years and are subject to periodic review by management. No depreciation has been provided on freehold land. Estimated useful lives are principally:

Freehold buildings	-	20 years
Plant and equipment	-	5 to 20 years
Long leasehold property	-	20 years

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

Pension costs

The company operates a defined benefit pension scheme which requires contribution to be made to a separately administered fund. The expected cost of providing pensions for employees is charged to the profit and loss account over the average working life of employees in accordance with recommendations of independent qualified actuaries. Differences between amounts funded and amounts charged to the profit and loss account are treated as assets or liabilities in the balance sheet.

Post-retirement benefits other than pensions

The company has agreed to provide additional post-retirement benefits to certain employees. The estimated cost of providing such benefits is charged against profits on a systematic basis over the employees' working lives within the company.

Government grants

Government capital grants receivable are released to revenue over the useful lives of the assets to which they relate.

Stocks

Stocks are stated at the lower of production or purchase cost on a FIFO cost basis and net realisable value. Costs include an appropriate share of production overheads.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

NOTES TO THE ACCOUNTS

at 31 December 2000

1. ACCOUNTING POLICIES (*continued*)

Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract date. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Research and technical development

Research and development expenditure is charged to the profit and loss account when incurred except for expenditure on buildings and equipment which is written off over the estimated useful lives of the assets.

Deferred taxation

Deferred taxation relating to capital allowances and other timing differences is provided for using the liability method, to the extent it is probable that a liability will crystallise.

Leases

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

Cash flow statement

The cash flows of the company for the year are included within the consolidated cash flow statement disclosed in the accounts of Special Metals Corporation, incorporated in the US. In accordance with the provisions of FRS 1 (Revised), no cash flow statement is required in these accounts.

Related party transactions

The company has taken advantage of the exemption not to disclose related party transactions with other members of the group under FRS8 (Related Party Disclosures) as it is a wholly owned subsidiary.

2. TURNOVER

Turnover represents the invoiced amounts of goods and services provided after deducting discounts and net of value added tax.

	2000	1999
	£'000	£'000
Geographical market:		
Europe	82,399	79,850
Americas	11,680	7,739
Rest of the world	7,201	5,236
	<u>101,280</u>	<u>92,825</u>

Special Metals Wiggin Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	2000 £'000	1999 £'000
Research and development	(66)	(20)
Hire of plant and equipment	60	48
Operating lease rentals - plant and machinery	789	885
Depreciation of tangible fixed assets	3,325	3,383
Auditors' remuneration	107	90
Redundancy costs	12	407
(Profit) on disposal of tangible fixed assets	(5)	(7)
(Profit)/Loss on foreign exchange	(685)	125

4. DIRECTORS' EMOLUMENTS

	2000 £'000	1999 £'000
Aggregate emoluments	168	191

	2000 No.	1999 No.
Directors accruing benefits under defined benefit pension schemes	2	2

5. STAFF COSTS

	2000 £'000	1999 £'000
Staff costs:		
Wages and salaries	16,293	16,624
Social security costs	1,590	1,675
Other pension costs	(782)	(290)
	17,101	18,009

The average number of employees during the year was	882	927
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Special Metals Wiggin Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £'000	1999 £'000
Other	933	1,058

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2000 £'000	1999 £'000
UK Corporation Tax at 30% (1999: 30.25%)	1,228	847
Adjustment in respect of prior years	11	(119)
	<u>1,239</u>	<u>728</u>

No provision has been made in the accounts for deferred taxation with respect to accelerated capital allowances and all other timing differences. Had full provision been made for additional deferred taxation on all timing differences there would have been a decrease in the charge for taxation of £748,000 (1999 - increase of £723,000).

The full potential amounts of deferred taxation as at 31 December 2000 and 1999 for all timing differences calculated at 30% (1999 - 30%) are as follows:

	2000 £'000	1999 £'000
Accelerated capital allowances	2,624	2,951
Pension prepayment	4,129	3,855
Other timing differences	(883)	(188)
Deferred capital gains	827	827
	<u>6,697</u>	<u>7,445</u>

8. DIVIDENDS

	2000 £'000	1999 £'000
Dividends paid	15,000	13,500

Special Metals Wiggin Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

9. TANGIBLE FIXED ASSETS

	<i>Freehold properties £'000</i>	<i>Plant and machinery £'000</i>	<i>Capital leases £'000</i>	<i>Total £'000</i>
Cost:				
At 1 January 2000	12,586	75,289	346	88,221
Additions	164	1,105	-	1,269
Disposals	-	(376)	-	(376)
At 31 December 2000	12,750	76,018	346	89,114
Accumulated depreciation:				
At 1 January 2000	7,324	58,445	346	66,115
Charge for the year	428	2,897	-	3,325
Disposals	-	(369)	-	(369)
At 31 December 2000	7,752	60,973	346	69,071
Net book value:				
At 31 December 2000	4,998	15,045	-	20,043
At 31 December 1999	5,262	16,844	-	22,106

10. INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

	<i>Subsidiaries £'000</i>	<i>Associate £'000</i>	<i>Total £'000</i>
Cost:			
At 1 January 2000	5,000	50	5,050
Additions	996	-	996
At 31 December 2000	5,996	50	6,046
Provisions:			
At 1 January 2000 and 31 December 2000	1,908	-	1,908
Net book value:			
At 31 December 2000	4,088	50	4,138
At 31 December 1999	3,092	50	3,142

Special Metals Wiggin Limited

NOTES TO THE ACCOUNTS at 31 December 2000

10. INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (continued)

<i>Subsidiary undertakings</i>	<i>Business</i>	<i>Country of incorporation and operation</i>	<i>Proportion of nominal value of shares held and voting rights</i>
Special Metals Services SpA Italy	Distribution of nickel alloys	Italy	100%
Special Metals Services SA France	Distribution of nickel alloys	France	100%
Special Metals Services BV Holland	Distribution of nickel alloys	Holland	100%
Greengrove Welding Wires Limited	Dormant	England	100%
Incotherm Limited	Dormant	England	100%
Special Metals Services Limited	Sales liaison office	England	100%
Special Metals Wiggin Trustees Limited	Pension fund trustee	England	100%
<i>Associated undertakings</i>			
Wiggin Alloy Products Limited	Marketing	England	50%

Note: All holdings are in respect of the ordinary share capital of the undertaking concerned.

In the opinion of the directors, the aggregate value of the company's investments in undertakings is not less than the aggregate amount at which they are stated in the balance sheet.

11. STOCKS

	<i>2000</i>	<i>1999</i>
	<i>£'000</i>	<i>£'000</i>
Raw materials and consumables	2,331	2,919
Work-in-progress	21,627	16,564
Finished goods	8,570	6,337
	<u>32,528</u>	<u>25,820</u>

In the opinion of the directors the replacement cost of the above stock is not significantly different from the values stated.

Special Metals Wiggin Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

12. DEBTORS

	2000 £'000	1999 £'000
Falling due within one year:		
Trade debtors	18,052	14,065
Amounts owed by group undertakings	8,735	20,876
Corporation tax receivable	317	389
Other debtors	192	737
Prepayments and accrued income	376	315
	<u>27,672</u>	<u>36,382</u>
Falling due after one year:		
Other debtors - pension prepayment	13,762	12,850
	<u>13,762</u>	<u>12,850</u>

13. CREDITORS: amounts falling due within one year

	2000 £'000	1999 £'000
Trade creditors	6,773	5,865
Amounts owed to group undertakings	7,207	2,892
Corporation tax payable	-	920
Other taxes and social security costs	442	446
Accruals and deferred income	9,781	9,232
Bank overdraft	3,258	-
	<u>27,461</u>	<u>19,355</u>

Special Metals Wiggin Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

14. SHARE CAPITAL

	<i>Authorised 2000 £'000</i>	<i>Authorised 1999 £'000</i>
80,000 (1999: 80,000) Ordinary shares of £10 each	800	800
	<u>800</u>	<u>800</u>
	<i>Allotted, called up and fully paid</i>	
	<i>2000 £'000</i>	<i>1999 £'000</i>
75,695 (1999: 75,695) Ordinary shares of £10 each	757	757
	<u>757</u>	<u>757</u>

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share Capital £'000</i>	<i>Share Premium Account £'000</i>	<i>Profit and loss account £'000</i>	<i>Total shareholders' funds £'000</i>
At 1 January 2000	757	49,924	32,361	83,042
Loss for the year	-	-	(12,305)	(12,305)
Currency translation	-	-	(55)	(55)
	<u>757</u>	<u>49,924</u>	<u>20,001</u>	<u>70,682</u>
At 31 December 2000	757	49,924	20,001	70,682

16. CAPITAL COMMITMENTS

At 31 December 2000 amounts contracted for but not provided in the accounts amounted to £466,000 (1999: £497,000).

Special Metals Wiggin Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

17. PENSION COMMITMENTS

The Special Metals Wiggin Pension Plan is a defined benefit pension plan covering substantially all employees. Plan assets are held separately from those of the company, in funds administered by Trustees and invested by independent fund managers.

An actuarial review of the pension plan was carried out by a professionally qualified actuary as at 31 December 2000. It used the projected unit method and assumed a pre-retirement investment return of 6.5% per annum, a post-retirement investment return of 5.5% per annum, earnings growth of 4.5% per annum and pension increases for service after 6 April 1997 of 3% per annum. At 31 December 2000, the Fund's assets had a market value of £82.6 million (31 December 1999: £87.7 million) which represents 111% (31 December 1999 - 121%) of liabilities. This excess is amortised over the average estimated residual working life of the employees.

The regular cost of pension benefits for the period amounted to £2,045,000 offset by a credit of £2,827,000 in respect of amortisation of funding differences resulting in a net credit of £782,000. These costs were calculated using the actuarial assumptions used in the review as at 31 December 2000 other than to use a uniform rate of investment return of 7.25% per annum. At 31 December 2000, there was a funding prepayment of £13,762,000 included in other debtors due after more than one year.

18. OTHER FINANCIAL COMMITMENTS

The company has annual commitments under operating leases as follows:

	<i>Land and buildings</i>	<i>Other</i>	<i>Total</i>	<i>Land and buildings</i>	<i>Other</i>	<i>Total</i>
	<i>2000</i>	<i>2000</i>	<i>2000</i>	<i>1999</i>	<i>1999</i>	<i>1999</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating leases which expire:						
Within one year	-	14	14	-	17	17
In two to five years	-	86	86	-	143	143
	-	100	100	-	160	160

19. CONTINGENT LIABILITIES

At 31 December 2000 the company had contingent liabilities of £896,000 (1999 - £731,000) in respect of bank guarantees given in the normal course of business.

20. PARENT UNDERTAKING AND CONTROLLING PARTY

Special Metals Corporation, which is incorporated in the USA, is the ultimate holding company. Group Financial Statements can be obtained from Special Metals Corporation at the following address, The Secretary, Special Metals Corporation, 4317 Middle Settlement Road, New Hartford, NY 13413, USA.

The company's immediate parent undertaking is SMW Holdings Limited, which was established after the acquisition by Special Metals Corporation and has produced group accounts for the period ended 31 December 2000.