Special Metals Wiggin Limited

Report and Accounts

31 December 2001

Registered No: 36721



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Special Metals Wiggin Limited

Registered No. 36721

DIRECTORS
E Duval
A J L Glover
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

DIRECTORS' REPORT

The directors submit their report with the audited financial statements for the year ended 31 December 2001.

RESULTS

The profit and loss account on page 6 shows that the profit for the year amounted to £1,171,000 (2000 - £2,695,000). A dividend of £ nil (2000 - £15,000,000) has been paid during the year, and a profit of £1,171,000 (2000 – loss of £12,305,000) has been transferred to reserves. A dividend of £3,000,000 was declared on 15th January 2002 and has subsequently been paid.

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.

SPECIAL METALS CORPORATION

On 27th March 2002 Special Metals Corporation, the Company's ultimate parent, announced that, together with its U.S. subsidiaries, it had filed voluntary petitions for reorganisation under Chapter 11 of the United States Bankruptcy Code. The petitions do not include the Company or any of its European affiliates. The directors monitor the progress of the Chapter 11 petitions in the U.S.A. and are satisfied that they do not significantly affect the Company and that the Company has sufficient independent financial resources.

BUSINESS REVIEW

Sales volumes were fairly constant throughout the year at levels similar to 2000. Nickel prices gradually reduced during the first half, levelled out and began a gradual increase in the final quarter. Cobalt prices fell gradually throughout the year. A good year for Aerospace billings was offset by a poor performance in Oil & Gas with a pick up in market share of Automotive related Wire business in quarter 4 bookings. Margins remained under pressure due to the continued strength of Sterling against the Euro.

For 2002 the first half Aerospace activity is expected to suffer as a result of September 11th followed by only a gradual pick-up in the second half of the year. To help mitigate the effects of this a 10% Fixed Cost reduction program took place early in the year. Further market share growth is expected in the Automotive Wire products together with increased activity forecast in the Oil & Gas business sector.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year ended 31 December 2001 were:

P Choppin de Janvry	(resigned 3 October 2002)
E Duval	
A J L Glover	
T G John	
R P McLellan	(appointed 26 January 2001)
G B Nairn	(resigned 1 March 2002)

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.

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.

DIRECTORS' REPORT

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.

EMPLOYEE INVOLVEMENT

The company operated a Profit Related Pay Scheme, effective from 1 January 2001.

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

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
22 October 2002

DRAFT

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 31 December 2001 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, 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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

Dated 30 October 2002.

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2001

	Notes	*2001* *£'000*	*2000* *£'000*
TURNOVER	2	114,029	101,280
Cost of sales		(101,156)	(88,689)
GROSS PROFIT		12,873	12,591
Distribution costs		(2,213)	(2,086)
Administrative expenses		(7,843)	(6,073)
Other operating income		153	197
OPERATING PROFIT		2,970	4,629
Interest receivable and similar income		133	238
Interest payable and similar charges	6	(1,115)	(933)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	1,988	3,934
Taxation on profit on ordinary activities	7	(817)	(1,239)
PROFIT FOR THE FINANCIAL YEAR		1,171	2,695
Dividends	8	-	(15,000)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR TRANSFERRED TO/FROM RESERVES	15	1,171	(12,305)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2001

	2001 *£'000*	*2000* *£'000*
PROFIT FOR THE FINANCIAL YEAR	1,171	2,695
Currency translation differences on foreign investments	(48)	(55)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	1,123	2,640

BALANCE SHEET
at 31 December 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	9	18,777	20,043
Investments	10	3,821	4,138
		22,598	24,181
CURRENT ASSETS			
Stocks	11	33,279	32,528
Debtors - falling due within one year	12	30,569	27,672
- falling due after one year	12	14,484	13,762
		78,332	73,962
CREDITORS: amounts falling due within one year	13	(29,125)	(27,461)
NET CURRENT ASSETS		49,207	46,501
TOTAL ASSETS LESS CURRENT LIABILITIES		71,805	70,682
CAPITAL AND RESERVES			
Called up share capital	14	757	757
Share Premium account	15	49,924	49,924
Profit and loss account	15	21,124	20,001
EQUITY SHAREHOLDERS' FUNDS		71,805	70,682

Notes 1 to 20 form part of these accounts.

The accounts were approved by the Board of Directors on 18 October 2002.

R.P. McLellan.

R P McLellan
Director

NOTES TO THE ACCOUNTS
at 31 December 2001

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 2001

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.

	2001	*2000*
	£'000	*£'000*
Geographical market:		
Europe	96,305	82,399
Americas	8,795	11,680
Rest of the world	8,929	7,201
	114,029	101,280

NOTES TO THE ACCOUNTS
at 31 December 2001

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging/(crediting):

	2001 £'000	*2000* £'000
Research and development	2	(66)
Hire of plant and equipment	40	60
Operating lease rentals - plant and machinery	709	789
Depreciation of tangible fixed assets	3,087	3,325
Provision against investment	317	-
Auditors' remuneration	48	107
Redundancy costs	211	12
Loss/(Profit) on sale of tangible fixed assets	4	(5)
(Profit) on foreign exchange	(118)	(685)

4. DIRECTORS' EMOLUMENTS

	2001 £'000	*2000* £'000
Aggregate emoluments	237	168

	2001 No.	*2000* No.
Directors accruing benefits under defined benefit pension schemes	3	2

	2001 £'000	*2000* £'000
The amounts in respect of the highest paid director are as follows:		
Emoluments	103	98
Accrued pension	46	44

5. STAFF COSTS

	2001 £'000	*2000* £'000
Staff costs:		
Wages and salaries	17,503	16,293
Social security costs	1,665	1,590
Other pension costs	532	(782)
	19,700	17,101

NOTES TO THE ACCOUNTS
at 31 December 2001

5. STAFF COSTS (continued)

	2001	*2000*
	No.	*No.*
The average number of employees during the year was	885	882

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2001	*2000*
	£'000	*£'000*
Interest Payable	1,115	933

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2001	*2000*
	£'000	*£'000*
UK Corporation Tax at 30% (2000: 30%)	864	1,228
Adjustment in respect of prior years	(47)	11
	817	1,239

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 £114,000 (2000 - increase of £748,000).

The full potential amounts of deferred taxation as at 31 December 2001 and 2000 for all timing differences calculated at 30% (2000 - 30%) are as follows:

	2001	*2000*
	£'000	*£'000*
Accelerated capital allowances	2,336	2,624
Pension prepayment	4,346	4,129
Other timing differences	(926)	(883)
Deferred capital gains	827	827
	6,583	6,697

8. DIVIDENDS

	2001	*2000*
	£'000	*£'000*
Dividends paid	-	15,000

NOTES TO THE ACCOUNTS
at 31 December 2001

9. TANGIBLE FIXED ASSETS

	Freehold properties £'000	*Plant and machinery £'000*	*Capital leases £'000*	*Total £'000*
Cost:				
At 1 January 2001	12,750	76,018	346	89,114
Additions	99	1,729	-	1,828
Transfers	-	112	-	112
Disposals	-	(841)	-	(841)
At 31 December 2001	12,849	77,018	346	90,213
Accumulated depreciation:				
At 1 January 2001	7,752	60,973	346	69,071
Charge for the year	439	2,648	-	3,087
Transfers	-	112	-	112
Disposals	-	(834)	-	(834)
At 31 December 2001	8,191	62,899	346	71,436
Net book value:				
At 31 December 2001	4,658	14,119	-	18,777
At 31 December 2000	4,998	15,045	-	20,043

10. INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

	Subsidiaries £'000	*Associate £'000*	*Total £'000*
Cost:			
At 1 January 2000 and 2001	5,996	50	6,046
Provisions:			
At 1 January 2001	1,908	-	1,908
Charge for the year	317		
At 31 December 2001	2,225	-	2,225
Net book value:			
At 31 December 2001	3,771	50	3,821
At 31 December 2000	4,088	50	4,138

NOTES TO THE ACCOUNTS
at 31 December 2001

10. INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS (continued)

Subsidiary undertakings	*Business*	*Country of incorporation and operation*	*Proportion of nominal value of shares held and voting rights*
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	Marketing	Holland	100%
Greengrove Welding Wires Limited	Dormant	England	100%
Incotherm Limited	Dormant	England	100%
Special Metals Services Limited	Sales liaison Office	England/ India	100%
Special Metals Wiggin Trustees Limited	Pension fund trustee	England	100%
Associated undertakings			
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

	2001 £'000	*2000* £'000
Raw materials and consumables	2,620	2,331
Work-in-progress	20,192	21,627
Finished goods	10,467	8,570
	33,279	32,528

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

NOTES TO THE ACCOUNTS
at 31 December 2001

12. DEBTORS

	2001	*2000*
	£'000	*£'000*
Falling due within one year:		
Trade debtors	20,686	18,052
Amounts owed by group undertakings	8,766	8,735
Corporation tax receivable	513	317
Other debtors	256	192
Prepayments and accrued income	348	376
	30,569	27,672
Falling due after one year:		
Other debtors - pension prepayment	14,484	13,762

13. CREDITORS: amounts falling due within one year

	2001	*2000*
	£'000	*£'000*
Trade creditors	6,610	6,773
Amounts owed to group undertakings	6,727	7,207
Other taxes and social security costs	412	442
Accruals and deferred income	11,303	9,781
Bank overdraft	4,073	3,258
	29,125	27,461

14. SHARE CAPITAL

	Authorised	*Authorised*
	2001	*2000*
	£'000	*£'000*
80,000 Ordinary shares of £10 each	800	800

	Allotted, called up and fully paid	
	2001	*2000*
	£'000	*£'000*
75,695 Ordinary shares of £10 each	757	757

NOTES TO THE ACCOUNTS
at 31 December 2001

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share Capital £'000	*Share Premium Account £'000*	*Profit and loss account £'000*	*Total shareholders' funds £'000*
At 1 January 2000	757	49,924	32,361	83,042
Loss for the year	-	-	(12,305)	(12,305)
Currency translation	-	-	(55)	(55)
At 31 December 2000	757	49,924	20,001	70,682
At 1 January 2001	757	49,924	20,001	70,682
Profit for the year	-	-	1,171	1,171
Currency translation	-	-	(48)	(48)
At 31 December 2001	757	49,924	21,124	71,805

16. CAPITAL COMMITMENTS

At 31 December 2001 amounts contracted for but not provided in the accounts amounted to £1,446,000 (2000: £466,000).

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. This defined benefit plan was closed to new entrants with effect from July 31, 2002. A defined contribution plan has been set up for employees joining the company after that date.

An actuarial review of the pension plan was carried out by a professionally qualified actuary as at 31 December 2001. 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 2001, the Fund's assets had a market value of £74.8 million (31 December 2000 £82.6 million) which represents 96 % (31 December 2000 - 111%) of liabilities. This deficit/excess is amortised over the average estimated residual working life of the employees.

The regular cost of pension benefits for the period amounted to £1,820,000 offset by a credit of £1,288,000 in respect of amortisation of funding differences resulting in a net charge of £532,000. These costs were calculated using the actuarial assumptions used in the review as at 31 December 2001 other than to use a uniform rate of investment return of 6.75% per annum. During the year Special Metals Wiggin Limited made contributions to the Pension Plan, in accordance with the Schedule of Contributions agreed with the Actuary, totalling £1,119,000. At 31 December 2001, there was a funding prepayment of £14,484,000 included in other debtors due after more than one year.

17. PENSION COMMITMENTS (continued)

Additional Disclosures Required by FRS 17

The Special Metals Wiggin Pension Plan is a defined benefit pension plan covering substantially all employees. Calculations performed by an independent qualified actuary, based on an actuarial valuation as at 31 December 2001, have been undertaken to provide the information required for FRS 17. The major assumptions used by the actuary in producing these calculations were:

Financial assumptions	**31 December 2001**
Salary increases	3.5% pa
Pension increases (on pensions accrued since April 1997)	2.5% pa
Discount rate	6.0% pa
RPI	2.5% pa

The assets of the Plan and the expected rate of return were

	Long term rate of return expected as at 31 December 2001	**Market value as at 31 December 2001** *£000*
Equities	8%	33,344
Gilts	5%	18,368
Bonds	6%	22,240
Cash	5%	870
Total		74,822

	£000
The assets of the Scheme	74,822
Actuarial liabilities	71,339
Surplus/(Deficit)	3,483
Related deferred tax liability	(2,065)
Net pension asset	1,418

NOTES TO THE ACCOUNTS
at 31 December 2001

17. PENSION COMMITMENTS (continued)

If the above amounts had been recognised in the financial statements, the company's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	£000
Net assets excluding pension asset	57,321
Pension asset	1,418
Net assets including pension asset	58,739
Profit and loss reserve excluding pension asset	6,640
Pension reserve	1,418
Profit and loss reserve	8,058

During the year, the Company paid contributions totalling £1,119,000. The Company has agreed a Contribution Schedule from July 2001 to April 2007 at a rate of 20.5% of Pensionable Earnings.

18. OTHER FINANCIAL COMMITMENTS

The company has annual commitments under operating leases as follows:

	Land and buildings 2001 £'000	*Other 2001 £'000*	*Total 2001 £'000*	*Land and buildings 2000 £'000*	*Other 2000 £'000*	*Total 2000 £'000*
Operating leases which expire:						
Within one year	-	11	11	-	14	14
In two to five years	-	88	88	-	86	86
	-	99	99	-	100	100

19. CONTINGENT LIABILITIES

At 31 December 2001 the company had contingent liabilities of £597,000 (2000 - £896,000) 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 2001.