

IRELAND ALLOYS LIMITED
REPORTS AND FINANCIAL STATEMENTS
YEAR ENDED 31st AUGUST 2002



Hamilton

December 2002

Company Number 40892

IRELAND ALLOYS LIMITED

DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS

Robert P. Cochrane
Allan C Addie

SECRETARY

Allan C. Addie F.C.C.A.

REGISTERED OFFICE

P O Box 18,
Craighead,
Hamilton ML3 0EL, Scotland

HEAD OFFICE

Craighead,
Hamilton,
Scotland

AUDITORS

KPMG LLP, Chartered Accountants,
24 Blythswood Square,
Glasgow,
G2 4QS
Scotland

SOLICITORS

Dundas & Wilson,
Edinburgh,
Scotland

BANKERS

Bank of Scotland,
Edinburgh,
Scotland

IRELAND ALLOYS LIMITED

REPORT OF THE DIRECTORS

The Directors present their Annual Report together with the Financial Statements and Auditors' Report for the year ended 31st August 2002.

RESULTS AND DIVIDENDS

The loss for the year attributable to Shareholders after all charges, depreciation and taxation amounted to £176,000 (2001, Loss of £221,000).

The Directors do not recommend payment of a dividend (2001, £nil).

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company has been trading in the United Kingdom and internationally in complex alloy scrap containing nickel, tungsten, titanium, chromium, cobalt, molybdenum and vanadium. The activities involve buying, sorting, processing and selling alloy secondary material.

Over the course of the year the world economic recession showed little sign of recovery in line with our expectation. The aerospace sector, on which the Company is partially reliant, has gone through major upheaval and experienced a significant fall in demand following the events of September 11th, 2001. Therefore, despite the Nickel price rising by approximately 33% during the year the generally subdued market climate has prevented the Company moving back into profit on a sustainable basis. We envisage that demand for stainless steel should remain reasonable for the short to medium term. Overall, we anticipate that market demand and commodity prices will remain generally unpredictable for the foreseeable future.

DIRECTORS

The names of the Directors are as follows:-

Robert P. Cochrane
Allan C Addie

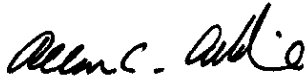
The interests of Directors in the share capital of Ireland Alloys (Holdings) Limited, the ultimate holding company, were as follows: -

	<u>Ordinary Shares of 10p each</u>	
	<u>2002</u>	<u>2001</u>
Allan C Addie	1,250	1,250
Robert P Cochrane	-	-

In accordance with the Company's Articles of Association, R. P. Cochrane retires as a director and hereby presents himself for re-election

AUDITORS

KPMG were re-appointed auditors at the last Annual General Meeting. However, since that date their business was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors, simultaneous with submitting their statutory statement under Section 394 of the Companies Act 1985 confirming that there were no circumstances connected with their resignation which should be brought to the attention of either the Company's members or creditors, and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.



BY ORDER OF THE BOARD

ALLAN C. ADDIE F.C.C.A.
Company Secretary

P O Box 18
Craighead
Hamilton

5th December, 2002

IRELAND ALLOYS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements 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 for that period. In preparing those financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**REPORT OF THE AUDITORS TO THE MEMBERS
OF IRELAND ALLOYS LIMITED**

We have audited the financial statements on pages 7 to 16.

Respective responsibilities of directors and auditors:

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 with the company is not disclosed.

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 evaluated the overall adequacy of the presentation of information in the financial statements.

Contingent liability relating to the sale of the Company's former US operations

In forming our opinion, we have considered the adequacy of the disclosures made in note 19 of the financial statements concerning the uncertainty over the level of the Company's financial exposure in respect of warranty claims relating to the sale of its US operations. In view of the significance of this matter we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion:

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31st August 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP,
Chartered Accountants
Registered Auditors

24 Blythswood Square
Glasgow G2 4QS
18th December, 2002

IRELAND ALLOYS LIMITED

PROFIT AND LOSS ACCOUNT

FOR YEAR ENDED 31st AUGUST 2002

	<u>Notes</u>	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
TURNOVER	2	8,328	9,390
Cost of Sales		<u>7,992</u>	<u>8,960</u>
GROSS PROFIT		336	430
Distribution costs		347	449
Administration expenses		<u>219</u>	<u>237</u>
OPERATING (LOSS)	3	(230)	(256)
Profit on Sale of Fixed Assets		197	168
Interest Payable	6	<u>(143)</u>	<u>(133)</u>
(LOSS) ON ORDINARY ACTIVITIES		<u>(176)</u>	<u>(221)</u>
BEFORE TAX AND FOR THE FINANCIAL YEAR			

Historical cost profit/losses are not materially different from those stated above.

No gains or losses have been recognised in the year other than the retained loss for the year.

The notes on pages 9 to 16 form part of these financial statements.

IRELAND ALLOYS LIMITED

BALANCE SHEET AT 31ST AUGUST, 2002

	Notes	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
<u>FIXED ASSETS</u>			
Tangible assets	9	<u>798</u>	<u>917</u>
<u>CURRENT ASSETS</u>			
Stock	10	865	1,298
Debtors	11	4,047	3,877
Cash at bank and on hand – Escrow	19	<u>1,373</u>	<u>1,440</u>
		<u>6,285</u>	<u>6,615</u>
<u>CURRENT LIABILITIES</u>			
Creditors - Falling due within one year	12	<u>(6,441)</u>	<u>(6,710)</u>
<u>NET CURRENT (LIABILITIES)</u>		<u>(156)</u>	<u>(95)</u>
<u>TOTAL ASSETS LESS CURRENT LIABILITIES</u>		<u>642</u>	<u>822</u>
<u>CREDITORS</u> - Falling due after more than one year	14	<u>(1)</u>	<u>(5)</u>
<u>NET ASSETS</u>		<u>641</u>	<u>817</u>
<u>CAPITAL AND RESERVES</u>			
Called up share capital	15	61	61
Profit & Loss Account	16	<u>580</u>	<u>756</u>
<u>EQUITY SHAREHOLDERS' FUNDS</u>	17	<u>641</u>	<u>817</u>

Approved by the Board on 5th December, 2002



ALLAN C. ADDIE
DIRECTOR



ROBERT P. COCHRANE
DIRECTOR

The notes on pages 9 to 16 form part of these financial statements

IRELAND ALLOYS LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

a) Accounting Convention

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention, modified to include the revaluation of certain properties.

b) Depreciation

Depreciation is provided on fixed assets at the following rates in order to reduce the net cost of the assets to estimated net residual value over the anticipated useful life of the assets.

Freehold Buildings	- 4% straight line
Leasehold property	- in equal annual instalments over the lease period (max. 50 years)
Plant and machinery	- 20% reducing balance
Office equipment	- 20% straight line

Freehold land is not depreciated.

On adoption of FRS15 "Accounting for Tangible Assets", the Group has followed the transitional provisions to retain the book value of Land and Buildings which were revalued in 1998 and has decided not to adopt a policy of revaluation in the future.

c) Stock

Stock is stated at the lower of cost and net realisable value at the Balance Sheet date.

d) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are included in the Profit and Loss Account.

e) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes. The impact of implementing FRS19 is not material on the Company Financial Statements as a result of accumulated tax losses brought forward from prior years.

f) Finance and Operating Leases

Assets under finance leases are capitalised and the commitment shown under the appropriate Payables. Costs in respect of operating leases are charged through the Profit and Loss Account.

g) Pensions

The company participates in a defined benefit pension scheme. Contributions to the scheme are charged to the profit and loss account over the employees' working lives.

h) Cash Flow

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

2. TURNOVER

Turnover represents the invoiced amount of goods sold net of value added tax.

The Directors do not feel it is in the Company's interest to reveal the geographical analysis of the turnover in the body of these financial statements.

3. OPERATING (LOSS)

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Operating (loss) is stated after charging:		
Depreciation	59	74
Auditors' remuneration	10	12
Leasing	73	91
Exchange (gains)/losses	<u>(37)</u>	<u>38</u>

4. DIRECTORS' EMOLUMENTS

Directors' emoluments	<u>73</u>	<u>67</u>
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Both Directors are members of the Company's Defined Benefits Pension Plan.

5. EMPLOYEE INFORMATION

a) The average number of persons employed during the year, inclusive of Directors, is analysed below:-

	<u>2002</u> <u>Number</u>	<u>2001</u> <u>Number</u>
Office and management	12	16
Production	<u>28</u>	<u>33</u>
	<u>40</u>	<u>49</u>

b) Staff costs during the year amounted to:-

	<u>£'000</u>	<u>£'000</u>
Wages and salaries	754	824
Social Security costs	54	60
Other Pension Costs	<u>43</u>	<u>46</u>
	<u>851</u>	<u>930</u>

6. INTEREST PAYABLE

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Bank loans and overdrafts.	160	132
Finance charges payable under finance leases and hire purchase contracts	1	1
Interest Receivable	<u>(18)</u>	<u>-</u>
	<u>143</u>	<u>133</u>

7. **TAX CHARGE ON LOSS ON ORDINARY ACTIVITIES**

	2002 £'000	2001 £'000
Corporation tax at 30%	—	—

The differences between the Corporation tax charge and the standard UK corporation tax rate are explained below.

	2002 £'000	2001 £'000
(Loss) on ordinary activities before tax	<u>(176)</u>	<u>(221)</u>
(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(53)	(66)
Effects of:		
Items not subject to corporation tax	(58)	(61)
Corporation tax losses carried forward	<u>111</u>	<u>127</u>
Corporation tax for the period	—	—

8. **PENSION**

The Company operates a defined benefit pension scheme. The assets are held in separate trustee administered funds. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at 1st October 1999 using the Projected Unit funding method. At the valuation date, the market value of the assets of the scheme was approximately £4,888,000. At the valuation date, the actuarial value of the assets represented 103% of the value of the accrued liabilities, after allowing for future salary increases.

The assumptions which have the most significant effect on the results of the valuation at 1st October 1999 were as follows:-

Investment returns	9% per annum
Salary increases	7% per annum
Dividend increases	5% per annum

Under transitional arrangements the Company is required to disclose the following information about the Scheme and the figures that would be shown under FRS17 "Retirement Benefits" in the current Balance Sheet and Profit and Loss Account had FRS17 been fully implemented at 31st August, 2002.

The valuation as at 1st October 1999 was updated on an FRS17 basis using the following assumptions: -

	<u>31st August 2002</u>	<u>31st August 2001</u>
- Rate of increase in salaries	4.0%	4.35%
- Discount rate	5.5%	5.80%
- Inflation	2.5%	2.60%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the Scheme's Assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised and the present value of the Scheme's Liabilities, which are derived from cash flow projections over long periods and thus are inherently uncertain, were:

	Long-term rate of return expected at 31 st August <u>2002</u>	Value at 31 st August <u>2002</u> £'000	Long-term rate of return expected at 31 st August <u>2001</u>	Value at 31 st August <u>2001</u> £'000
Equities	8.75%	1,892	7.5%	2,982
Bonds	5.25%	1,633	5.5%	1,453
Other	4.0%	88	4.0%	23
Total market value of assets		<u>3,613*</u>		<u>4,458*</u>
Present value of Scheme liabilities		<u>(4,657)</u>		<u>(4,385)</u>
(Deficit)/surplus in scheme at end of year		<u>(1,044)</u>		<u>73</u>
Related deferred tax asset/(liability)		<u>150</u>		<u>(21)</u>
Net Pension (liability)/asset		<u>(894)</u>		<u>52</u>

*Excludes the value of secured annuities.

An analysis of the amount which would be included as a charge against operating profit is: -

	Year ending on 31 st August 2002 £'000
Current service cost	111
Past service cost	0
Gains and losses on any settlements or curtailments	0
Total operating charge	<u>111</u>

The current service cost shown above includes an allowance for death in service insurance premiums and administration expenses.

An analysis of the amount which would be credited to financing is as follows: -

	Year ending on 31 st August 2002 £'000
Expected return on pension scheme assets	288
Interest on pension scheme liabilities	(254)
Net Return	<u>34</u>

An analysis of the amount which would be recognised in the statement of recognised gains and losses ('STRGL') is as follows: -

	Year ending on 31 st August 2002 £'000
Actual return less expected return on pension scheme assets	(753)
Experience gains and losses arising on the scheme liabilities	(241)
Changes in assumptions underlying the present value of the scheme liabilities	(114)
Actuarial gain recognised in the STRGL	<u>(1,108)</u>

The movement in the scheme surplus/(deficit) during the year is analysed as follows: -

	Year ending on 31 st August 2002 £'000
Surplus in scheme at beginning of year	73
Movement in year:	
Current service cost	(111)
Cash Contributions	68
Past service cost	0
Gains and losses on any settlements or curtailments	0
Other finance income	34
Actuarial (loss)	(1,108)
(Deficit) in scheme at end of year	<u>(1,044)</u>

Following a contributions review carried out by the scheme actuary in February 2002, the Company agreed with the Trustees that, with effect from February 2002, its contributions would equal a combination of 13.8% of Pensionable Salaries, Death in Service insurance premiums and administration expenses, less employee contributions.

9. TANGIBLE FIXED ASSETS

	<u>Freehold Land and Buildings</u> £'000	<u>Plant and Equipment</u> £'000	<u>Total</u> £'000
<u>Cost or Valuation</u>			
Cost or valuation 1st September 2001	735	2,176	2,911
Additions	-	10	10
Disposals	(70)	(18)	(88)
	<u>665</u>	<u>2,168</u>	<u>2,833</u>
<u>Depreciation</u>			
At 1st September 2001	34	1,960	1,994
Charge for year	11	48	59
Disposals	(3)	(15)	(18)
	<u>42</u>	<u>1,993</u>	<u>2,035</u>
<u>Net Book Values</u>			
At 31st August 2002	<u>623</u>	<u>175</u>	<u>798</u>
At 31st August 2001	<u>701</u>	<u>216</u>	<u>917</u>

During 1998 the Freehold Land & Buildings at Hamilton were valued by Lambert Smith Hampton, Chartered Surveyors. The valuation was carried out on an "existing use" basis and conducted in accordance with the RICS Statements of Asset Valuation Practice and Guidance Notes.

The figures stated above include Plant and Equipment under finance leases and similar hire purchase contracts with a net value of £12,000 (2001, £19,000). Depreciation charged in the year on such assets amounted to £4,000 (2001, £4,000)

Particulars relating to revalued assets are given below:-

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Freehold Land and Buildings		
At open market valuation	665	731
Aggregate depreciation thereon	(41)	(34)
Net Book Value	<u>624</u>	<u>697</u>
Historical cost of revalued assets	846	912
Aggregate depreciation thereon	(56)	(49)
Historical cost net book value	<u>790</u>	<u>863</u>

10. STOCKS

The amounts attributable to the various categories are as follows:-

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Raw materials	847	1,280
Consumables	18	18
	<u>865</u>	<u>1,298</u>

11. DEBTORS

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
All amounts falling within one year:-		
Trade debtors	2,656	2,361
Other debtors	3	133
Group companies	1,265	1,287
Prepayments	123	96
	<u>4,047</u>	<u>3,877</u>

12. CREDITORS - Falling due within one year

	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Current instalments due on loans (Note 14)	-	240
Bank overdrafts (Note 13)	2,770	3,036
Trade creditors	1,531	1,281
Group companies	2,061	2,064
Accruals	70	72
Other Creditors	5	12
Hire Purchase creditors	4	5
	<u>6,441</u>	<u>6,710</u>

13. BANK OVERDRAFTS AND HIRE PURCHASE AGREEMENTS

The bank overdrafts and loans are secured by general floating charges, specific charges over the Company's Freehold Land and Buildings and certain trade assets. Various cross guarantees also exist between parent and subsidiaries and among individual subsidiaries. Liabilities under hire purchase are secured on the appropriate assets.

14. <u>CREDITORS - Falling due after more than one year</u>	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
<u>Bank Long Term Loan</u>	-	240
<u>Hire Purchase Creditors</u>	<u>5</u>	<u>10</u>
	<u>5</u>	<u>250</u>
<u>Current Portion</u>		
Long term loans (see note 12 above)	-	(240)
Hire Purchase Creditors	<u>(4)</u>	<u>(5)</u>
	<u>1</u>	<u>(245)</u>
Due within two years	<u>1</u>	<u>5</u>

15. <u>CALLED UP SHARE CAPITAL</u>	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
Authorised:- 100,000 Ordinary Shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid:- 61,000 Ordinary Shares of £1 each	<u>61</u>	<u>61</u>

16. RESERVES

	<u>Profit & Loss Account</u> <u>£000</u>
Balance at 1st September 2001	756
(Loss) for year	<u>(176)</u>
Balance at 31st August 2002	<u>580</u>

17. MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
<u>Year Ended 31st August 2002</u>		
(Loss) for Financial Year	(176)	(221)
Shareholders' Funds as at 31 st August 2001	<u>817</u>	<u>1,038</u>
Shareholders' Funds as at 31 st August 2002	<u>641</u>	<u>817</u>

18. COMMITMENTS

a) Forward Foreign Currency Contracts

At 31st August 2002 the Company had forward currency contracts in respect of \$750,000 (2001: \$nil) due from overseas debtors.

	<u>2002</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>
b) Capital		
Contracted for	—	—
c) Operating Leases		
Expiring within one year	19	21
Expiring within two to five years	<u>21</u>	<u>7</u>

19. SALE OF FORMER US OPERATIONS

With effect from 30th June, 1998 the Company sold its former US operations. During the pre-purchase investigations significant environmental problems came to light, for which Ireland Alloys Limited provided the purchaser with relevant environmental warranties in addition to certain general warranties.

In May 2000, a settlement agreement was entered into with ELG under which the original sale and purchase agreement was terminated. Simultaneously, a payment was made from escrow to ELG in settlement of all warranty and other claims under this original agreement, with the exception of two environmentally related issues at Houston. During November 2000, one of the environmental issues was resolved and, as a consequence, a sum was immediately released to the Company from Escrow leaving \$2.0 million, the Company's maximum liability, in Escrow at 31st August 2002.

The remaining issue, remediation at the Houston site, is the subject of continuing discussion between ELG and the Texas Natural Resources Conservation Commission who will determine how and when this matter will be finally settled. As a result a contingent liability of \$2.0 million (£1.29 million) exists at 31st August 2002 (2001: £1.37 million).

20. ULTIMATE HOLDING COMPANY

The Ultimate Holding Company of Ireland Alloys Limited is Ireland Alloys (Holdings) Limited, a company registered in the United Kingdom.