

Front cover: The continuous annealing processing line (CAPL) at Port Talbot. At £121m this was British Steel's largest investment commissioned during 1998.

Chairman's statement



Sir Brian Moffat Chairman

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The past year was increasingly tough and challenging for British Steel due mainly to the disruptive effects of the economic crises in the Far East and the continuing strength of sterling. In my interim statement in November I said that if the trend of deteriorating selling prices continued it would lead to Group losses for the full year, particularly if pressures intensified on sales volume.

The subsequent period through to March 1999 saw further and rapid falls in selling prices coupled with significant reductions in volume. These factors combined with the adverse impact of the continuing and renewed strength of sterling resulted in a pre-tax loss of £142m for the year.

Avesta Sheffield, the Company's 51% owned stainless steel subsidiary, accounted for £90m of the Group's loss before tax. Rationalisation provisions were a major feature of the year, accompanied by the impact of significant price deterioration in both stainless steel and nickel.

Despite the very difficult trading conditions good cash management resulted in the Group's net cash funds increasing to £463m at the year end. The robust financial position of the Group underpins the Board's proposal to pay a final dividend of 7p which, with the interim dividend of 3p, makes a total for the year of 10p per share, the same level as last year.

During the year, British Steel continued to pursue vigorously its cost and efficiency improvement strategy. Excellent progress was made on the Company's manpower productivity programme, so that with the growth of team working and skill-enhancement programmes, accompanied by the implementation of simplified management structures and pay arrangements, further significant job reductions were obtained. Strengthening and improving the efficiency of our supply base continued during the year. This was facilitated by the successful introduction of networked purchasing hubs across the

Company, and in turn led to further substantial cost reductions being achieved. Finally, the initial projects of the business improvement programme were launched in Autumn 1998, benefits from which we expect to accelerate in the coming years.

Since the end of the financial year, I am pleased to report that we have obtained some increases in selling prices and the volume of business booked has improved. We hope that this indicates that the price recovery has begun. The strength of sterling, however, continues to more than offset the combined effect of these recent price increases and our cost and efficiency improvements and this means that the Group continues to incur losses, albeit at a lower rate than in the final quarter of the year ended 3 April 1999.

The competitive position of British Steel is seriously disadvantaged by the strength of sterling. Although there was some weakening during the latter months of 1998 as a result of reductions in interest rates, the renewed strength through 1999 to date is a matter of great concern to British Steel and the UK manufacturing sector.

British Steel supports the Government's aim for the UK to join the Economic and Monetary Union (EMU) and recognises the need for economic convergence if this is to happen. UK interest rates are however still more than double those of the members of EMU and, so far as manufacturing is concerned, UK inflation is negligible. Sterling is clearly too strong and further urgent action is required to ensure in the short term that exchange rates do not cause permanent and irrevocable damage to the UK manufacturing sector. It is imperative that if sterling joins the single currency it should be at a sensible rate.

In March of this year the Chancellor's budget contained proposals for new levies or taxes on energy-using companies, as part of the Government's strategy to meet the emission reduction target agreed at Kyoto. For many years British Steel has led a major

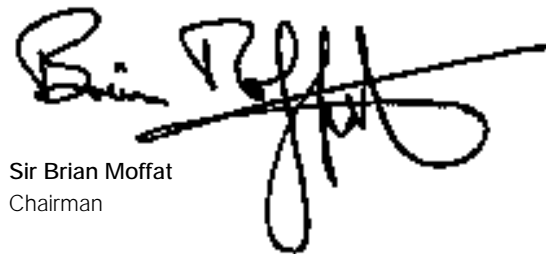
programme to improve progressively the energy efficiency of the UK steel industry. We lead the way with a 6% reduction in carbon dioxide emissions since 1990, already halfway to the Kyoto target. The application of an onerous levy or tax will effectively amount to a fine for making steel in the UK. It will place at risk thousands of jobs in the UK steel industry without reducing global carbon dioxide emissions, as a result of increased imports to the UK from less energy efficient producers. I believe that a negotiated and financially neutral agreement is the best route to address this issue and British Steel is actively consulting with Government for adoption of such an agreement.

British Steel's objective is to enhance shareholder value. We are constantly looking for growth opportunities in steel or steel related businesses, and fundamental changes in the European metals industry present new challenges and opportunities for all players. I am therefore extremely pleased that the Boards of British Steel and Hoogovens have agreed in principle to propose to our respective shareholders a merger to form a new group.

The proposed merger will encompass the carbon steel activities of the two companies as well as Hoogovens' aluminium activities and British Steel's interest in the stainless steel activities of Avesta Sheffield. The new group will be incorporated in the UK, headquartered in London and will seek listings on the London, Amsterdam and New York Stock Exchanges.

As was announced in last year's statement, John Bryant succeeded me as Chief Executive in January, and I am sure you will join me in wishing him every success for the future. In addition we welcomed Mr John Devaney to the Board during the year.

Finally, and on behalf of the Board, I thank all our employees for their continuing support and determination in an extremely tough environment and I am confident that we will be successful in meeting the challenges ahead of us.



Sir Brian Moffat
Chairman

Chief Executive's statement



John Bryant Chief Executive

The consequences of severe Asia-related turbulence and the adverse nature of the Group's exposure to exchange rates have led to significant losses being incurred by the Group since Autumn 1998. Although these factors are beyond the direct influence of British Steel, it is of vital importance that we pursue a rapid and effective strategy in order to minimise their very severe impact.

I believe that British Steel's determination in this regard continues to be amply demonstrated by the measures taken to restore our competitive advantage. The year ended 3 April 1999 was the second year of a programme to radically improve the Company's manpower productivity and create a more cost effective, reliable and innovative supplier base. Savings estimated at £200m were secured during the year from these initiatives, and the process will accelerate further in the coming year.

The IT outsourcing to Cap Gemini commenced in March 1998 and there was a smooth and effective transfer of staff and equipment, followed by rationalisation and concentration of data centres. The lessons learned from the initial projects of our business improvement programme, launched in Autumn 1998 in conjunction with Cap Gemini, are being extended to other parts of the Company in order to deliver significant commercial benefits in the future.

A co-ordinated and international approach across our production, commercial and distribution businesses has been of critical importance in ensuring that we are able to optimise production levels, and the product mix and geographical market spread of our sales. This was particularly evident in the second half year when trading pressures were at their most severe following the surge of imports into western markets which led to serious oversupply and excess stocks.

Capital expenditure was significantly below the level of recent years, with the focus on the progressing and completion of major schemes approved in previous years, with the continuous annealing line at Port Talbot being of major significance. At a capital cost of £121m, the new line started commissioning in July 1998 and is already providing improved product range and quality.

Cash flow is of paramount importance and the management team and workforce are to be particularly congratulated on achieving an excellent performance on working capital, which was the major factor in being able to achieve an increase in net funds during the year, despite the very difficult trading environment.

The proposed merger of British Steel and Hoogovens will create a leading metals group with a strong customer base and geographical spread, and proven strength in innovative applications, product quality, product efficiency and customer service. I believe that this will give us an opportunity to create a unique group which should provide long term benefits to British Steel, its customers and employees.

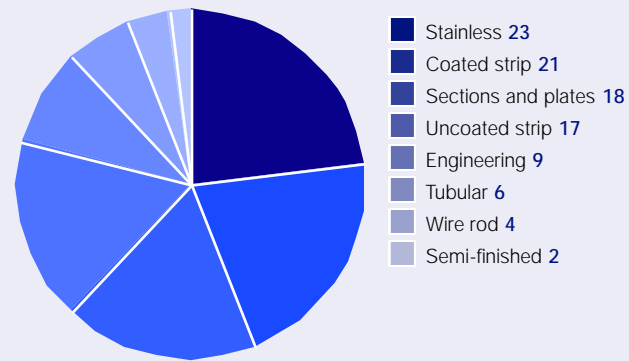
The following pages review the year in detail.



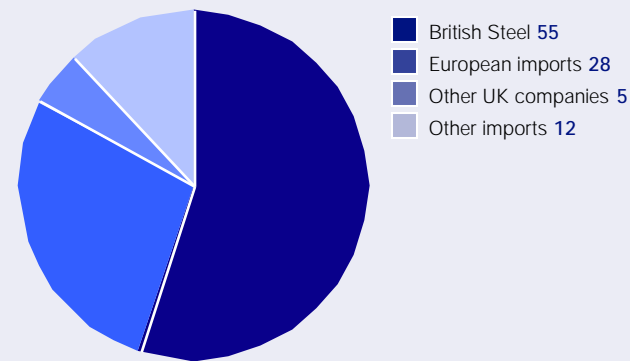
John Bryant
Chief Executive

Review of the year

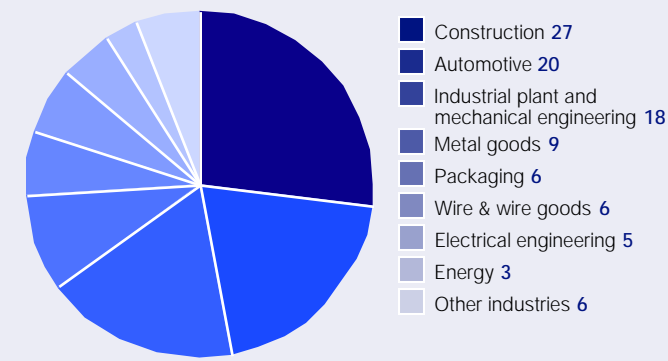
Turnover by product (%) 1998/99



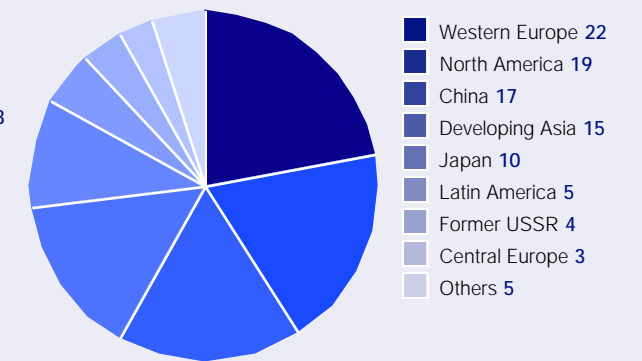
Share of UKmarket (%) 1998/99



UK steel using industries (%) 1998 (estimate)



World steel consumption (%) 1998



Operating results for the period

Summary

The Group operating loss was £174m (1998: profit of £265m; 1997: profit of £376m). The result reflected severe price pressure particularly in the second half year in Europe caused by oversupply in most product areas, with a large increase in imports directly or indirectly related to the financial crises in Asia. The adverse effects of the continued strength of sterling exacerbated the position.

The result of Avesta Sheffield AB, the Company's 51% owned stainless steel subsidiary, was badly affected by rationalisation provisions, including the mothballing of its Baltimore operation in the USA, and the impact of significant price deterioration in both stainless steel and nickel.

The decline in the Group result followed the fall in profit between 1997 and 1998 which was a consequence of the strength of sterling.

Average revenue per tonne reduced further by 6% following the reduction of 7% last year, with prices for most products showing significant reductions year on year.

After net interest and the Company's share of the results of joint ventures and associated undertakings, there was a loss before tax of £142m (1998: profit of £315m; 1997: profit of £451m) and the loss per share was 4.09p (1998: earnings of 11.44p; 1997: earnings of 15.22p).

Turnover, deliveries and prices

Total Group turnover was £6,259m (1998: £6,947m; 1997: £7,224m). This was a 10% reduction from the previous year, reflecting the much lower average revenues arising from the sharp reduction in prices over all main products and markets, particularly in the second half year. This followed a reduction between 1997 and 1998 of 4% due to the exchange rate effect on prices.

	Turnover			Deliveries		
	1999 £m	1998 £m	1997 £m	1999 mt	1998 mt	1997 mt
Uncoated strip products	919	1,140	1,191	3.9	4.4	4.3
Coated strip products	1,128	1,218	1,179	2.8	2.9	2.7
Sections and plates	945	1,014	1,082	3.3	3.4	3.5
Tubular products	321	347	418	0.8	0.9	0.9
Wire rod	199	227	220	1.0	1.0	1.0
Semi-finished						
carbon steel products	102	121	140	0.6	0.7	0.7
Engineering steels	450	528	516	1.1	1.4	1.2
Stainless steel products	1,215	1,473	1,581	0.9	0.9	0.9
Total steel industry products (a)	5,279	6,068	6,327	14.4	15.6	15.2
Distribution and further processing (b)	870	779	805			
Others	110	100	92			
Total	6,259	6,947	7,224			
UK	2,663	3,010	3,111			
Other European	2,532	2,687	2,772			
North America	657	654	673			
Other areas	407	596	668			

(a) The above analysis by product type comprises deliveries by British Steel's UK and overseas mills, including transfers to British Steel's stockholders, service centres and similar activities.

(b) 'Distribution and further processing' includes the sales value of products sourced by British Steel's stockholders, service centres and similar activities from outside British Steel and the value added to products sourced from within the Group.

UK market

British Steel's 1998/99 deliveries to the UK market totalled 7.0mt, of which 6.2mt were in the Company's main carbon and engineering steel finished products. Demand for this range of finished products, at 11.4mt, fell by 5% in 1998/99 following the similar increase in the previous year, and the Company's market share fell to 55% (1998: 57%; 1997: 58%).

Overall demand for strip products remained broadly unchanged, but the substitution of uncoated strip by coated strip continued. After strong growth in the previous year, demand fell for sections and plates by 12% and for engineering steels by 13%. This resulted from a downturn in UK steel consuming sectors, particularly in the offshore, shipbuilding and general engineering sectors, which was exacerbated by significant stock reductions.

Manufacturing output growth remained weak in the UK during 1998 at 0.3% as exports came under pressure and domestic demand growth eased. Among the major steel using industries, output stagnated in electrical and mechanical engineering. Relatively strong growth in the latter for the first half of the year gave way to contraction in the second half as exports were hit by the strength of sterling and the Asian crises. The weakest steel using sector during 1998 was metal goods with output down 5.5% as producers strove to reduce excess stocks of finished goods. UK car production increased 3% as production for export more than offset declining home market share. Construction activity expanded for the third year in succession as private commercial output rose 12% supported by strong growth in the office and entertainment sub-sectors. However, infrastructure suffered a downturn in activity and private industrial output grew only 3% as a significant weakening of new orders contributed to a fall in the second half of the year.

Other European markets

Deliveries by British Steel to mainland Europe reduced and, at 5.3mt, were 3% down on 1997/98 levels following two successive years of increase. This was in spite of steel demand in Europe improving through 1998 primarily on the back of very strong growth in the automotive sector. By contrast construction demand was flat and other sectors grew only modestly. However, the market was distorted by a surge of imports, particularly in the first half year, leading to oversupply. The excess stocks which accumulated as a result restricted British Steel's ability to sell to the continental

European market. The surge in imports, together with a sharp fall in exports from the EU due to the depressed state of world markets, meant that for the first time in its history the EU was a net importer of ECSC steel products. Normally the EU achieves a trade surplus of over 10mt.

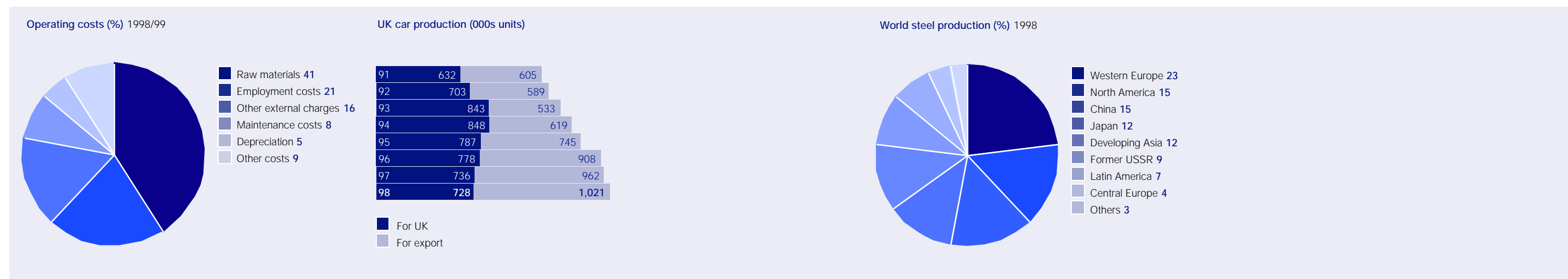
Other markets

British Steel's deliveries to markets outside Europe were 2.1mt, some 14% down on 1997/98 levels, continuing the decline in the previous year. The USA economy continued to grow strongly while markets in Asia remained affected by last year's slowdown. However, towards the end of the year there were some signs of recovery in some regions of Asia. The relative strength of the USA market, like that of the EU, attracted a large volume of imports of material diverted from Asia. This inflow of cheap imports into the USA resulted in antidumping actions being instituted. Other destabilising factors in the world economy were the currency crisis in Brazil and the devaluation of the Russian rouble. Overall, the world steel market was little changed, with world demand easing back from 699mt to 692mt. Nevertheless, there was a large increase in the excess of steel making capacity especially in Eastern Europe and Asia, and the disruptions to traditional trade flows brought about by these dramatic changes contributed to a severe fall in steel prices through the year.

Prices

British Steel's average revenue per tonne in 1998/99 fell back further following two years of decline from the peak of 1995/96. For products other than stainless steel, average sterling revenues were 4% lower, 5% down in the UK and 4% in overseas markets.

With sterling remaining strong against EU currencies and stable against the US dollar, sterling prices reflected the general market movements. British Steel's average realised prices fell sharply through 1998/99 and by the end of the year were some 10% below



late 1997 levels. The collapse was most pronounced in North American and Asian markets. In continental European markets the fall in prices came about somewhat later but accelerated through the second half year. By the end of 1998/99 there were some signs that the production cutbacks instituted in the autumn and winter were restoring balance to the market, leading to stabilisation of prices and some product areas started to see increases.

The average spot exchange rate for the financial year was DM2.88 (1998: DM2.91; 1997: DM2.46) which is equivalent to euro1.47.

Operating costs

Operating costs at £6,433m were 4% lower than in the previous year despite being a 53 week period rather than the normal 52. The reduction reflected the reduced sales level, a fall of 3% in employment costs (prior to redundancy costs) as average numbers of employees reduced from 50,000 to 46,500, and further benefits from the 'suppliers' initiative' discussed in the 'Supplies' section on page 10. This followed a reduction of 2% between 1997 and 1998 also due to reduced manning and the benefits of the 'suppliers' initiative'.

Operating costs included a net charge of £65m (1998: £53m; 1997: £61m) in respect of items of a non-recurring nature predominantly, in the current year, provisions for rationalisation in respect of major cost and efficiency initiatives, accelerated depreciation and costs associated with Year 2000 compliance, partially offset by realised gains and provision reductions in Crucible Insurance Company Limited. These items are detailed in Note 2 to the Accounts.

Joint ventures and associated undertakings

The share of operating losses of joint ventures and associated undertakings at £3m (1998: Nil; 1997: profit of £15m) worsened from the previous year in spite of the latter being adversely affected

by the commissioning and build-up costs of Trico, British Steel's 25% joint venture with LTV Corporation and Sumitomo Metal Industries Limited. During the year Trico was affected by both the high level of imports into the USA, which reduced volume and average selling price, and production equipment problems, including two separate transformer failures which caused a temporary suspension of operations in January 1999. The year on year movement was largely attributable to the worsening performance of the Group's Scandinavian joint ventures and associated undertakings.

Net interest and investment income

The Group net credit of £30m (1998: £41m; 1997: £44m) comprised income from fixed asset investments of £4m, interest earned of £92m on average deposits and loans of £1,261m (excluding investment income and investments held by Crucible Insurance Company Limited – see the 'Business risk management' section on page 11) less interest incurred of £66m on average borrowings and leases of £932m.

Avesta Sheffield AB

The 1998/99 financial year was a difficult one for Avesta Sheffield. Net exports to the Asian region more than halved because of the financial turmoil in that area, resulting in a surplus of stainless steel in Europe. Prices fell sharply and the competitive climate forced Avesta Sheffield to increase the pace of its cost reduction programme. Other important decisions taken during the year were the mothballing of the Baltimore melt shop, the transfer of quarto plate production from Sheffield to Degerfors and the offer for sale of the Canadian distribution operation.

Deliveries of 0.9mt were down by 6% on the previous year with turnover of £1,215m down by 18% as a result of the volume drop and significant reductions in selling prices. The cost of restructuring reduced profits by £43m and the effect of price changes on

inventory values was also particularly adverse because of falling nickel prices. The loss before tax included in the Group accounts in respect of Avesta Sheffield amounted to £90m (1998: profit of £14m; 1997: loss of £7m).

Demand for stainless steel followed the same pattern as major economies. Overall, worldwide consumption rose slightly but strong growth in Europe and North America was almost offset by declining consumption in Japan and the rest of Asia (excluding China). The European coil market, 45% of Avesta Sheffield sales, grew by 8% reflecting expansion in industrial output and continued substitution by stainless steel fuelled by falling prices. Hot rolled plate demand fell away as project based consumption was cut back. The availability of cheaper Asian material, lower European exports and falling alloy prices contributed to price pressures within the stainless steel market. Coil prices fell through the year and in January 1999 were 30% below March 1998 levels. Since then good European coil demand has supported some price recovery but prices remain very low by historical standards. Selling prices for other products also fell but to a lesser extent than for coil. Trading conditions are expected to gradually improve in 1999/2000. European steel demand seems set to recover from the growth pause seen at the end of 1998 and it is reasonable to expect increases in stainless steel prices through the new financial year.

Raw material prices fell through the 1998 calendar year as a result of changes in the supply/demand balance and reduced industry production costs. Nickel represents 16% of Avesta Sheffield's costs and prices for nickel fell by 32% from March 1998 to December 1998, but have since recovered to March 1998 levels. To compensate for such ferro alloy volatility, Avesta Sheffield uses an alloy cost recovery mechanism when calculating selling prices.

Dynamics of the business

In 1998/99, Europe accounted for 83% of British Steel's total turnover, the UK being 43%. The principal factors influencing the Group's financial performance are, therefore, the economic climate in the UK and mainland Europe and sterling exchange rate relativities, particularly to the euro/deutschmark and US dollar.

Steel is a capital intensive industry and changes in demand in one region often lead to a rapid change in geographical sales patterns as producers seek to maintain high capacity utilisation. As a result, changes in the global market for steel also influence British Steel's financial performance. These are considered below, together with the main operational drivers of the Group's success and information on plans and progress in preparing for Economic and Monetary Union and Year 2000.

Economic climate

UK GDP growth in 1999 is forecast to slow to under 1% as unemployment rises, manufacturing output contracts and net trade continues to reduce growth. While the economy as a whole is forecast to escape recession manufacturing industries will not. The steel using sectors are expected to show continued weakness especially in the first half of the year as inventories are run down and investment expenditure weakens. Manufacturing output, particularly mechanical engineering and other sectors dependent on exports, will continue to be hampered by the strength of sterling and weak overseas demand during 1999.

In mainland Europe, GDP growth is expected to slow in 1999 as industrial production growth eases and there is a weakening in net exports. The expectation is for industrial production to stagnate in the first half of the year with a recovery in activity in the second half boosted by the weakness in the euro. However, robust consumer confidence due to lower unemployment and relatively favourable

Review of the year

monetary and fiscal policy is expected to support growth in consumption.

The USA economy has performed exceptionally well for the last two years but a slowdown in growth is expected. If consumers attempt to restore some measure of savings and companies reduce investment expenditure following the recent falls in company profitability, then growth could dip quite sharply.

Asia presents a rather mixed picture. China, India and Taiwan were not too severely affected by the 1997 economic collapse and are expected to continue growing at reasonable rates. Of those countries where the collapse was most severe, Korea and Thailand appear to be recovering but other ASEAN countries are still in recession. The Japanese economy was in severe recession in 1998 and there is little sign of any immediate recovery.

Exchange rates

Exchange rates remain very important to British Steel's competitiveness and results. With 83% of British Steel's turnover accounted for by sales to Europe, the euro/sterling exchange rate is of critical importance to sales revenues. Turnover in other export markets and major supplies purchases, including iron ore and coal, are mainly influenced by the US dollar.

In general, a substantial strengthening of sterling adversely affects British Steel's results in three ways. First, it directly reduces export revenues. This exposure is hedged by forward currency sales to the extent of the Company's contractual commitments, but such hedge is effective for only that defined time. Second, it improves the relative competitiveness of steel producers in countries with weaker currencies enabling them to discount prices in British Steel's domestic market. It is not practicable perpetually to hedge this competitive exposure. Third, it exposes British Steel's UK customers to similar pressures leading to a reduction in demand for steel in the UK.

Global steel market

As previously stated, steel producers seek to maintain high capacity utilisation. If demand levels in one region of the world are not sufficient to sustain this utilisation, producers tend to increase sales to other regions to achieve desired outputs. There is a well developed international trade in steel which facilitates rapid changes in trading levels, leading to an equally rapid movement in price levels.

In 1998 the world surplus of effective steel making capacity increased by 30mt, with the increase fairly evenly spread between Japan, the developing Asian countries and the Former Soviet Union. In developing Asia steel demand fell by 20mt (15%) but, with local capacity expanding, the main effect of the demand shortfall was to reduce net imports into the region. This impacted both on the traditional suppliers to the region, who saw their export markets shrink, and on those regions to which the developing Asian steel makers increased their exports; mainly the USA and the EU. World capacity utilisation fell from 78% to 75% and this led to sharp falls in price around the world. Utilisation is expected to fall further in 1999. This deterioration comes about through a combination of

declining demand in the developed world and increasing capacity in the developing world, especially in Asia. However, the impact of this deterioration on steel prices will be muted as many producers are voluntarily cutting back production in the face of the current low level of price. The combination of production cutbacks and reductions in trade flows following the various trade actions which are being taken may allow some increases in price to be achieved through 1999.

Marketing and technology

The Company continues to place great importance on having strong links between marketing and technology, with a focus on three main areas: provision of technical support to customers to promote the use of steel, development of new and improved products and services which make customers' manufacturing processes easier and more reliable, and complete engineered steel intensive systems solutions to their problems. An example of this market focus is the recent formation of the Construction Centre where all businesses in the Company provide a common interface to this important market. It covers a wide range of services and product combinations that will allow the Company to participate in, and influence, the impending changes in the industry.

Working closely with customers in developing new products ensures that the Company focuses on performance improvements that really make a difference. For example, in partnership with a major forging company, an improved steel for a new fracture splitting process for manufacturing connecting rods was developed which also offers significantly improved machinability. The combination means that the customer can deliver an improved product at a lower cost. In a different area developments with customers have enabled the Company to increase sales of sophisticated grades of steel for the most demanding types of steel cord used for reinforcement of radial tyres. This has been made possible through significant advances in process and product technology accompanied by precise delivery performance.

Two new coated strip steel products for the building cladding market were introduced during the year. 'Colorcoat HPS200' is a breakthrough in paint and substrate technology combined with a unique surface finish promising major improvements in cut edge corrosion, durability and colour fade resistance. 'Celestia' is a bright metallic finish which offers architects a new range of exciting colours.

As customers start to use new manufacturing processes a close dialogue enables the Company to be aware of their evolving needs and to adapt products accordingly. The introduction of new laser friendly steels is an example of this, where the flatness tolerance is much tighter and the steel remains flat after cutting and slitting. This makes the material easier to handle and simplifies the set up for laser welding, a service increasingly being provided for car companies.

The systems approach to solving customers' problems can be seen in the development of a unique marketing concept of the 'Steel Intensive Track System' to carry the message that steel delivers a total solution to the overall railway infrastructure

requirement. By addressing the interaction between all the components (rail, fastener, sleeper and ballast) a solution comprising steel sleepers has been engineered which offers direct cost savings compared to concrete sleepers. A substantial part of these cost savings arises because of the significantly reduced ballast requirement which also has environmental benefits. The systems approach is also illustrated in a different market sector by a new concrete-steel composite system. 'Bi-Steel' is ideal for structures which would traditionally have been built from reinforced concrete or heavily stiffened steel such as barrages, caissons, bridges, tunnels and those applications where energy or shock absorption is required.

British Steel's techno-marketing activities are established in each of the principal market sectors in which the Company operates, and will increasingly enable customers to use the wide range of properties inherent in steel to the greatest possible effect, unlocking the potential of the world's most recycled material.

Manufacturing and technology

During the Company's continuous drive to reduce costs and improve quality, process technology development has been aimed at controlling and improving steel making, rolling and finishing. A recent example has involved major improvements in yield and product quality of the galvanising line at Llanwern Works. These have been achieved through detailed physical and mathematical modelling carried out by the Company's Technology Centres.

In addition, the Company has developed and is using new technologies and operating practices with the objective of extending the lives of existing investments to world record levels, particularly for iron and steel making. It is also applying improved process control to reduce product variability and to offer tighter dimensional tolerances for rolled and finished products. Finally it is investing in new technologies to produce new and improved products. A good example is the new high capacity continuous annealing line at Port Talbot Works which is aimed at high strength steels for the new generation of light weight car bodies.

People

Ground breaking agreements have been negotiated across the Company for the introduction of team working and management structures have been simplified to support the drive for greater efficiency in operations. Employees now enjoy a core of common employment conditions and simplified pay arrangements which underpin radically new working practices and give a platform for further improvements.

The Company's excellent record in training and developing its employees is evidenced by the £60m invested in training in 1998/99, involving an average of 11 days for each UK employee. It is expected that even higher levels of investment will be made in this area over at least the next year or two.

47% of the Company's employees are now working in businesses with Investor in People accreditation and, reinforcing the approach to training and development, a further National Training Award was received during the year raising the Company's total to 27 National

and 24 Regional awards since the scheme's inception – the best performance of any UK company.

Employment levels in 1998/99 further declined and the average numbers employed by the Group for the year at 46,500 compared to 50,000 for the previous year. At the year end the number of employees was 44,200 compared with 48,400 at the end of March 1998. These reductions led to cost savings in 1998/99 estimated at around £100m. Further reductions in employment levels are planned in 1999/2000.

In September 1998 the previous divisional structure of Avesta Sheffield AB was discarded and nine new business areas created. This simplified the management structure and created a more market oriented organisation with clear areas of responsibility. An additional programme of personnel cutbacks was announced. By introducing new working practices, reducing levels of supervision, and streamlining central and support functions, the Avesta Sheffield work force will be reduced by 1,400 in the two years to March 2000.

A moving average improvement in lost time injury frequency rate of 10% has been achieved over the last five years with a greater improvement in the rate of all injuries over the same period. However, whilst the numbers of lost time and all injuries have fallen again this year, the lost time injury frequency rate has worsened, reflecting the significant reduction in employee numbers.

Most regrettably two employees were fatally injured in the year, one as a result of a road traffic accident and the other from a fall. Overall the emphasis upon continuous improvement in terms of the control of risk, prevention of accident and work related illness amongst employees and contractor employees alike has proved fruitful where, in particular for contractors, arrangements and performance have been very significantly streamlined and enhanced.

The Company Joint Accident Prevention Advisory Committee Award went to Strip Products, Port Talbot and Llanwern Works for their progress with behavioural observation with teams, whilst the Company award for initiative and endeavour in health and safety amongst contractor employees was presented to Hekett MultiServ (UK) Limited for their accident free performance at Rotherham.

The British Steel Pension Scheme (1990) is the main pension scheme of the Group and members contribute to the Scheme at the rate of 5% of pensionable earnings. Following the actuarial valuation of the Scheme as at 31 March 1996, the Actuary certified that the Company's contributions to meet the cost of future service benefits should be reduced from 7% to 5% with effect from 1 April 1997. This rate has been in force since that date and will be subject to review at future actuarial valuations. The next formal valuation of the Scheme is being undertaken as at 31 March 1999 and the Actuary's report is expected later in the year. The main features of the 1996 valuation of the Scheme and information about other pension schemes operated within the Group are provided in Note 31 to the Accounts.

The Company encourages employees to have a financial interest in its future and the British Steel Sharesave Scheme is one of the ways in which it can effectively promote such an interest. Over 16,000 employees are currently participating in the Scheme.

Supplies

The principal raw materials in the carbon and engineering steel making process are iron ore and coal, purchased on international markets, and steel scrap. In 1998/99 British Steel imported approximately 19mt of iron ore and 8mt of coal, about one third of the total in its own ships and all through the three deep-water terminals at or near its integrated steelworks. Iron ore is imported principally from Australia, Canada, South Africa and Brazil. Coal, for conversion into coke and direct injection into blast furnaces, is imported from Australia, USA and Canada. Although British Steel buys most of its UK scrap requirements of some 2mt per annum in the UK, there is also a large international market for scrap.

Avesta Sheffield's raw material requirements are met by scrap and both virgin and recycled alloying metals, with nickel being the most significant cost item. Other important alloying metals are chromium and molybdenum. The most significant purchases for British Steel's USA operations are natural gas and ores for direct reduction at Mobile.

A focused programme trialling ores and coals from non traditional sources has brought benefits in 1998/99 and will result in greater gains in 1999/2000. This opportunity has arisen because of the drive to innovate and the greater availability of raw materials than in recent years.

British Steel spends around £150m each year in the UK on electricity and remains concerned about the high level of prices paid by large industrial users. The Company, therefore, welcomes the Government's decision to reform the trading arrangements by abolishing the electricity pool. British Steel is contributing to the consultation process defining the new market structure.

The efficiency of the Company's purchasing has been increased by the successful introduction of networked supply hubs across the main businesses. This team has delivered substantial cost reductions and the proportion of supplies bought by specialist teams will continue to increase in the short and medium term.

The number of suppliers to the major manufacturing sites has been reduced by two thirds since the inception of the Company's 'suppliers' initiative' in March 1997 and work is underway to rationalise to below 5,000 suppliers for the largest businesses. Priority has been given to the segmentation and tiering of retained suppliers to enable procurement specialists to focus on the development of expertise in individual expenditure areas. This has resulted in improved value in use from purchases and the building of knowledge of potential suppliers often outside the traditional supplier base.

The process of purchasing is another area where significant benefits will be obtained. Electronic commerce and electronic data

interchange will be developed during 1999/2000 in order to improve information quality and reduce transaction costs.

In 1998/99 benefits from the 'suppliers' initiative' are estimated at around £100m bringing total savings since inception to more than £150m.

A hub and spoke network was also introduced during 1998/99 to create centres of excellence in transport management. An integral part of this reorganisation was the transfer of shipping operations from Liverpool to Teesside which was successfully completed at the year end. British Steel has determined to reduce exposure to the marine risk accruing from the ownership of bulk carriers and the Company's four oldest ships of the fleet of eight have now been sold. Delivery has been taken on a long term time charter of a new, larger vessel, the MV Berge Atlantic designed to maximise raw material cargoes into Company terminals.

Information systems

The first year of the ten year information technology outsourcing agreement with Cap Gemini was completed in March 1999. There was a smooth transfer of staff and equipment and the new arrangements are operating successfully. During the year, as part of the drive for efficiency, the data centres were rationalised and concentrated at Teesside (IBM) and Rotherham (ICL) resulting in the closure of the data centres at Port Talbot and Wednesbury. The transfer was achieved without any adverse effect on operations and service from the enlarged centres.

The business improvement programme commenced in 1998 in conjunction with Cap Gemini is beginning to deliver benefits from the projects started during the year. The lessons learned in these initial projects are being extended to other parts of the Company and these will deliver additional benefits in the future. In support of these initiatives new supply chain and distribution planning systems are being identified and introduced across the Company.

The British Steel website address is given on page 62.

Environment and the community

The Company recognises that climate change is one of the major challenges the world faces today. British Steel supports the emission reduction target agreed by the Government at Kyoto and will play its part in helping to achieve this. For some time now the UK steel industry has proposed that the commitment should be delivered through a negotiated agreement with clear measurement criteria and full sanction, thus avoiding the need for a carbon emissions tax. Accordingly British Steel welcomes the Government's response by indicating that it is prepared to negotiate agreements with business sectors within the scope of the EU's Integrated Pollution Prevention and Control Directive. The Company will participate in the consultation process but it needs to retain its competitiveness and will seek for the effects of the tax to be neutral to the steel industry.

For many years the Company has had a programme to improve its energy efficiency. Since 1970 it has reduced the amount of energy

required to make each tonne of steel by 40% with a 6% improvement since 1990.

The Company's environmental policy is for the protection of the environment by seeking to minimise the impact of its operations through continuous improvement in environmental performance and control. British Steel operates an environmental management system and its target is to adopt the environmental management standard ISO 14001 across 50% of operations by the end of year 2000. Accreditation has already been achieved by coke ovens at Port Talbot, Llanwern and Teesside Works, the sinter plant at Scunthorpe Works and at the following sites: Workington, Brinsworth, Dalzell, Clydebridge, Rotherham Bright Bar, Engineering Steels Midland Service Centre and European Electrical Steels Limited at Newport.

British Steel is one of the UK's leading packaging recycling companies; every year it recycles over 3 million tonnes of steel, 20% of the entire UK consumption. The Company also plays a leading role in shaping future national recycling performance. The British Steel Packaging Recycling Unit is the major force operating in the UK to increase recycling rates for steel packaging to meet EU recycling targets. During the year British Steel recycled more steel packaging than any other UK organisation and, as a result, was able to provide its customers with documentation (Packaging Recovery Notes or PRNs) demonstrating that recycling targets had been achieved. The income from this activity was used to improve future recycling performance. For example, new systems were devised and implemented to ensure that steel packaging, magnetically recovered from household waste, conforms with specification to facilitate its recycling. The Company is ready to undertake further recycling development activities as and when the income rises from PRN sales. The Packaging Recycling Unit has further plans to assist the recycling of steel packaging collected in community recycling schemes.

British Steel recognises its responsibilities for the remediation of sites after they have been decommissioned. At Ravenscraig, the largest of these sites, remediation work has been substantially completed. Discussions continue with potential public and private sector partners with the objectives of obtaining planning consent and establishing a joint venture vehicle for the large scale development of the site proposed jointly with the local authority in late 1997. The regeneration plan envisages a mixed urban development, industrial, residential, retail and leisure, and should provide a major enhancement to the economy of the local community.

Under the terms of the UK landfill tax, landfill operators can use up to 20% of their tax liability to support charitable work connected to the environment local to a landfill site. The Company has to contribute 10% new money and the scheme must be approved by Entrust. In the first two years of operation of the scheme the Company has donated £1,286,000 to improve the environment in the local communities in which it operates.

Engineering services

British Steel announced last year its intention to restructure the provision of engineering services within the Company and progress continues with the transfer of engineering staff to the three regionally based UK engineering businesses. The development, which will reduce the cost and improve the quality of maintenance services to the UK operating businesses, is complementary to the move to multi-skilled team working at the main production units which will be responsible for their own day to day maintenance requirements, with specialist skills and resources for major engineering programmes provided by the engineering businesses.

Business risk management

The risk management review process established in the Company in 1996/97 remains in place. Management throughout the Group is required annually to review exposure to risk and report on the controls and risk management practices employed.

To reduce its exposure to catastrophe losses, British Steel uses insurance, part of which is arranged through a wholly owned subsidiary, Crucible Insurance Company Limited, which reinsures catastrophe risks with the external insurance market. The proportion of insurance routed through Crucible has been reduced during the year and, as a consequence, the net book value of investments held by Crucible at the year end reduced to £117m (1998: £166m). Investment income earned is not included under Group interest and investment income but instead is taken into account in the assessment of the underwriting results and liabilities of Crucible. These, in turn, form part of the Group's insurance costs and arrangements.

Economic and Monetary Union (EMU) and the euro

Preparations for EMU commenced within the Group in early 1997. First phase objectives, now implemented, included software enhancements to information systems enabling businesses within the Group to transact in euros from 1 January 1999. With many euro-zone steel producers now listing steel prices in both euros and national currencies, demand for the euro as a trading currency is expected to increase significantly. Systems enhancements will ensure that British Steel is in a position to meet this demand when it arises.

Given the significance of the continental European market to the Group, the first phase of the project also included an assessment of the strategic impact of the single currency on the Group's competitive position. As pricing in the European steel market is already transparent, British Steel does not expect the introduction of the euro to lead to any significant price convergence. Nevertheless, until the UK joins EMU, British Steel will continue to attract currency risk on sales into Europe that competitors based within the euro-zone no longer experience.

Second phase objectives, currently in progress, are to ensure that all businesses located within the euro-zone have converted their base accounting and reporting currency to the euro by the end of the transition phase which is 31 December 2001. In fact many businesses have chosen an earlier conversion date of 1 April 2000. Although preparations are extensive, covering further software

Review of the year

enhancements as well as other areas such as employee training and communication, the costs are not expected to be material.

The third phase of the EMU project relates to preparing UK based businesses for entry into the euro-zone. In February 1999 the Government presented its Outline National Changeover Plan but it contained no clear indication of when the UK is likely to join, nor was there clear guidance on the period that businesses will be given to prepare for conversion. UK based businesses are, therefore, delaying further preparations until the UK entry timetable is clearer. It is not possible to make an accurate estimate of the costs of these preparations until a detailed scope of third phase requirements has been established.

In the meantime all businesses within the Group will continue to offer customers and suppliers the facility to transact in euros, and British Steel will continue to present its Group financial statements in sterling.

Much of the work involved in preparing for the euro during the year related to information systems and was combined with the Group's Year 2000 programmes. These costs cannot be separately identified but are not considered to be material. All costs have been written off as incurred.

Year 2000

This disclosure is a Year 2000 Readiness Disclosure within the meaning of the Year 2000 Information and Readiness Disclosure Act of 1998 to the extent that the disclosure relates to Year 2000 processing by British Steel or products or services offered by British Steel.

The Company recognises the significance of the risks arising from the Year 2000 date change and is carrying out a comprehensive programme with a view to ensuring that as far as possible essential systems and equipment are Year 2000 compliant.

A consistent methodology for managing the Year 2000 programme started in late 1996 has been adopted across the Company, with Avesta Sheffield AB having developed its own programme along broadly similar lines. British Steel plc and Avesta Sheffield AB have adopted the British Standards Institution definition of Year 2000 compliance as detailed in 'DISC PD2000 – A Definition of Year 2000 Conformity Requirements'.

A Year 2000 programme manager is responsible for the overall compliance programme across the Company (a separate programme manager has been appointed by Avesta Sheffield AB) and for co-ordination of the multitude of individual projects involved. The programme manager reports to the Company's Executive Committee. Recognising that embedded chips in the process control area may be a major concern, a central co-ordinator has been appointed to co-ordinate the approach to process control projects.

Each business within the Company has a Year 2000 management team comprising a compliance manager, a co-ordinator and a number of project managers. These teams are progressing their

defined action plans in consultation with the programme manager. The compliance managers are responsible to the relevant managing director for their business's compliance programme. The co-ordinators support their local compliance manager whilst also acting as part of the programme manager's central support function.

The Company and Avesta Sheffield AB have engaged IBM to assist in the management of the overall programme. The compliance programme areas being covered are Information Systems, Information Systems Operations, Desktop Systems, Networks, Process Control, and Facilities & Property. In addition there are a number of initiatives involving the supply chain and contingency planning for the date change. An eight step approach has been adopted to the Year 2000 issue and these steps are common to all programme areas. They involve: awareness across the businesses; compilation of comprehensive inventories; impact analysis reviews showing business impact, timings and costs; definition of the strategy to be adopted and responsibility for implementation; decision on the test approach; development of a comprehensive plan, securing the necessary financial budget and resolving resource issues; starting compliance projects and monitoring progress; and implementation of compliant components.

As at 3 April 1999, work in each of the compliance programme areas was substantially complete. The work remaining to be done is scheduled for completion by end June 1999 or during summer shut down periods at works. One matter of some concern is that certain suppliers, particularly in the areas of process control and networks, are taking longer than originally anticipated to supply details of compliance, but the situation is being very carefully monitored.

A work programme has been undertaken with suppliers and customers both to assess their capabilities of surviving the millennium change and to give them confidence in the ability of British Steel to continue to meet their needs. All critical customers and suppliers have been identified and their Year 2000 plans reviewed. These plans are being analysed to determine the risk to British Steel of failure of any of these customers or suppliers and plans are being prepared accordingly.

All businesses within British Steel have held workshops to identify the risks and solutions for all areas of the Year 2000 problem. Aspects common to many of the businesses (such as utilities and banking) have each been assigned an owner who has prepared some basic assumptions that the business can use in their risk assessment process. Each business has prepared outline contingency plans and reviewed them for consistency with general business risk analysis and local major incident plans. Detailed arrangements are scheduled to be in place by end September 1999. Structures to deal with issues affecting all or several businesses are also being prepared.

All programme activities have been subject to review by the Company's Internal Audit function. Additionally audits of British Steel have been carried out on behalf of a number of customers; IAIG for North America motor manufacturers, UKMG for UK motor

manufacturers and TUV for Daimler Benz. All have awarded British Steel 'low risk' assessments.

Avesta Sheffield AB's programme of work is following similar lines with a target of achieving internal compliance by mid-1999, and completing work with suppliers and customers, and on millennium preparation, by October 1999.

While the directors believe that all proper and appropriate effort is in place to overcome the Year 2000 problem, the scale of complexity and its unprecedented nature makes complete assurance that everything will be compliant difficult to achieve. It cannot be certain that Year 2000 issues will not have a significant impact on British Steel's operations or its financial condition, particularly if there are unforeseen compliance problems with the systems operated by British Steel's customers, suppliers (including utilities), vendors or subcontractors. However, the Year 2000 programme is expected to significantly reduce the Company's level of uncertainty about the Year 2000 problem and completion of the programme as scheduled should reduce the possibility of significant disruption to normal operations.

Of the worst case scenarios a reasonably likely one would be significant failure by infrastructure agencies such as power suppliers, compounded by failure of systems in several major suppliers and customers. The risk analysis and solutions projects run by each business have focused particularly closely on this type of threat to minimise both the likelihood of occurrence and the financial consequences of such occurrence.

The Group estimates that it has spent around £30m in the year to 3 April 1999 (1998: £10m) and will spend approximately £50m in total over the duration of the Year 2000 project, of which around £10m remains to be spent. These are predominantly external costs. In accordance with accounting policies, all remediation and software costs are written off as incurred and these costs are being funded through operating cash flow. These amounts do not include any costs associated with the implementation and contingency plans, which are in the process of being developed.

Investment

Capital expenditure during the year reduced to £189m (1998: £404m). Contracts for future capital expenditure not provided for in the accounts amounted to £32m, and there was a further £38m authorised but not yet subject to agreed contracts. These amounts are to be spent over the next two years and the commitments are expected to be met by cash flow provided by operating activities, cash balances and borrowing facilities.

The year was marked by the completion of all but one of the major projects which were in progress at the beginning of the year. Of major significance, the new high capacity continuous annealing line at Port Talbot Works started commissioning on schedule in July 1998 after the shortest known construction period for a line of its complexity. The line is providing significantly improved quality for cold rolled strip, broadening the product range particularly of high strength steels. Production is being built up to deliver a more extensive product range and to achieve the planned quality and productivity improvements.

A number of other important market related projects were also completed in the year. At Trostre Works, the enhancement of the cold mill was fully commissioned and is delivering world class dimensional consistency across a broad range of tin mill products. The resultant improvements in can making efficiencies have been welcomed by customers, particularly in the demanding beverage sector, where the development has provided a platform for a stronger competitive position in UK and European markets. At Llanwern Works, the upgrading of a pickle line was completed in August 1998 incorporating a state of the art laser welder. In addition to providing an improved quality of feed stock for downstream processing, the project has increased the volume of high quality pickled coil available to the market place. The enhancements to the Scunthorpe Works' billet caster were completed early in 1999, and the planned increase in output and the widening of the range of sizes and steel qualities are progressing.

At the primary processing level, the Queen Bess blast furnace rebuild at Scunthorpe Works was commissioned successfully, and several other projects are helping to reduce dependence on imported coke and to lower overall energy costs. These include the commissioning of coal preparation and coal injection facilities at Port Talbot Works, where injection rates are being increased to planned levels with full benefits of the scheme expected to be secured later this year; similar equipment has recently been installed at Llanwern Works. At Llanwern, the rebuild of a coke oven battery was achieved six weeks ahead of schedule with the ovens now being fully operational.

Major capital projects:

Completed during the year	Capital cost £m	Completion date
Scunthorpe Queen Bess blast furnace rebuild	30	Apr 98
Port Talbot blast furnaces coal injection	20	May 98
Trostre 5 stand cold mill enhancement	17	Jun 98
Llanwern rebuild of no.3 coke oven battery	12	Jun 98
Port Talbot continuous annealing line	121	Jul 98
Llanwern no.1 pickle line enhancement	19	Aug 98
Degerfors heat treatment/cooling facilities	15	Sep 98
Scunthorpe billet caster enhancement	14	Mar 99
In progress at 3 April 1999		
Teesside extended life of South Bank coke ovens	12	May 99

The focus has remained on progressing and completing the large number of major schemes approved in previous years. As a result, no new projects over £10m were approved during the year.

Development of the business

The Company's objective is to enhance shareholder value but progress towards achievement by businesses of the target set last year of 15% pre-tax return on net operating assets has been affected by the sharp deterioration in market conditions experienced through the year. Nevertheless, the essential measures necessary to deliver this target in the medium term have been progressed and many are discussed under 'Dynamics of the business'. These include product and market enrichment including development of the range of products and services offered to customers, technological development, the introduction of team working and simplified management structures, rigorous cost

cutting including manpower reductions and continued development of the 'suppliers' initiative', and the information systems led business improvement programme.

The drive for operational efficiency has continued during the year with the closure of ingot route steel making at Teesside Works, the mothballing of Avesta Sheffield AB's melt shop at Baltimore, USA, and mill closures at Darlington and Templeborough. In spite of the difficult market conditions high plant utilisation has remained a priority and a number of output records have been achieved; notably the Redcar blast furnace campaign reaching 40mt in February 1999, a record steel to concast tonnage at Scunthorpe Works, and a fourth consecutive annual output record at Scunthorpe rod mill.

Acquisitions and disposals

There were no material acquisitions or disposals in the course of the year, although the Company is in exclusive discussions with Usinor regarding the proposed acquisition of their rail manufacturing business, Sogerrail. The acquisition of Catnic Limited from Caradon plc was completed on 23 March 1999 for a deferred cash consideration of £14m. Catnic is a manufacturer of steel lintels and other metal products for the construction industry and complements existing Company facilities.

Loss for the financial year, total recognised gains and losses and shareholders' perspective

The loss for the financial year after interest, tax and minority interests was £81m, representing a loss per share of 4.09p. Translation gains of £6m arose on foreign currency net investments, mainly from the Group's investment in Avesta Sheffield AB, so that total recognised losses in the year amounted to £75m.

The Board has recommended a final dividend of 7p per share making a total of 10p per share for the year.

Shareholders' funds reduced by £276m to £4,346m, reflecting mainly the dividend and the loss for the year, and representing net assets of 219.3p per share. The Company's share price fluctuated within the range of 87½p to 172p during the year, with a year end price of 124½p and stock market capitalisation of £2,467m.

Accounting policies

Details of the main accounting policies used by the Group appear on pages 32 and 33. The 1998/99 Accounts have been produced in accordance with the standards issued by the Accounting Standards Board, with the exception of FRS15 'Tangible Fixed Assets' which is not mandatory until the Group's next financial period.

There have been six other new standards in the last two financial years. FRS9 'Associates and Joint Ventures' was adopted early in the 1997/98 Accounts. FRS10 'Goodwill and Intangible Assets' has been adopted during the year resulting in a change in accounting policy. Goodwill arising on acquisition and intangible assets acquired is now capitalised and amortised over its estimated useful economic life to a maximum of 20 years. Goodwill written off to

reserves under the Company's previous policy will not be reinstated and, accordingly, no restatement of comparative figures is required.

The adoption of FRS12 'Provisions, Contingent Liabilities and Contingent Assets' during the year has also resulted in a change in accounting policy. Revenue costs of rationalisation and related measures are now provided for when a constructive obligation has arisen before the balance sheet date. The adoption of FRS12 has had no material effect on the results or balance sheet of the Group and no restatement of comparative figures is required.

The other new standards which have been adopted for the financial year 1998/99 are FRS11 'Impairment of Fixed Assets and Goodwill', FRS13 'Derivatives and Other Financial Instruments: Disclosures' and FRS14 'Earnings per Share'. Appropriate disclosures as required by FRS13 and FRS14 are included in the Accounts.

For a discussion of the results in accordance with US GAAP see the 'Supplementary information for North American investors' on pages 54 to 56.

Financial review

Capital structure and treasury policy

Average net funds during the year were some £329m and net funds at the year end amounted to £463m (1998: £446m; 1997: £785m). The balance sheet remains strong in spite of the loss for the year.

Cash and short term investments at the year end amounted to £1,369m, almost all held in sterling. Group policy is to maintain surplus funds on term deposits with a limited number of banks and institutions of high credit standing. Deposits are for periods not exceeding one year.

British Steel has bilateral agreements with eighteen banks for the provision of committed borrowing facilities of £490m. The facilities extend for seven years from 25 June 1997 with a 20% amortisation at the end of the fifth and sixth years. At the year end, the Group had £1,194m in committed borrowing facilities, of which £361m was unutilised. The Company believes that these are sufficient to meet the needs of its present activities. Major borrowing facilities incorporate covenants on balance sheet ratios but not on interest cover or cash flow.

Total borrowings at the year end were £906m of which £453m was represented by foreign currency borrowings, principally in US dollars and deutschmarks, under long term facilities with maturities ranging between one and five years. Other borrowings comprised £198m in 6.75% sterling bonds due 2008 (£200m issued at 99.122%), a fixed rate 11.5% debenture stock of £150m repayable in 2016, bank overdrafts of £56m mainly in foreign currencies, and finance lease obligations totalling £49m. The majority of currency borrowings carry interest on variable rate terms, which ranged at year end between 3.1% and 10.0% with a weighted average of 5.4%.

Foreign exchange risk management

The Group's policy is to minimise currency translation exposure and, therefore, to hedge a proportion of most material overseas investments either with foreign currency borrowings or cross currency swaps. In the case of the investment in Avesta Sheffield AB, where the risk tends to be balanced over time by the contra-effect of exchange rate movements on Avesta Sheffield's competitiveness and profitability, no hedging is undertaken. At the year end the Company had, for the purpose of hedging overseas investments, drawn down in foreign currencies £378m under bilateral facilities extending to 2004. There were no swaps held at the year end.

The net currency transaction exposure arising from contracted sales and purchases is hedged by selling or purchasing foreign currency forward. At the year end the Group held forward currency sales of principally mainland European currencies amounting to £633m (year end value £619m) and forward currency purchases of principally US dollars amounting to £133m (year end value £138m). These amounts represented substantially 100% of the contracted currency transaction exposure in these currencies at the year end. Foreign exchange contracts do not generally extend beyond twelve months.

Commodity risk management

The Group makes only limited use of commodity futures contracts to manage its purchase price risk for certain commodities. At the year end the Group had hedges amounting to £15m (year end value £15m).

Interest rate risk management

The Group's financial structure is conservative and it is not considered necessary to engage in significant hedging activity in respect of interest rate exposure. Where appropriate, however, use is made of forward rate agreements.

None of the above instruments is used by British Steel for the purposes of speculation.

Further details of the use of financial instruments are included in Notes 19 and 20 to the Accounts on page 43. In the normal course of business, the Group also faces risks that are non-financial or non-quantifiable. Such risks principally include country risk, credit risk and legal risks.

Sensitivity analysis

At 3 April 1999 the Group had outstanding forward contracts of £500m in respect of actual and forecast transaction exposures. The year end value of these contracts at 3 April 1999 amounted to £481m, resulting in a fair value of £19m. A 10% appreciation of sterling would revise the fair value of these contracts by £44m to £63m.

At 3 April 1999, the Group had £859m net funds exposed to floating interest rates. A 1% decrease in average interest rates would cause a decrease in future earnings before tax of £9m.

Taxation

The net taxation credit for the year was £19m. Within the total, UK corporation tax at 31% totalled £3m and there was an ACT write off of £3m. Taxation on the Group's overseas profits amounted to £6m and the Group's share of taxation of joint ventures and associated undertakings amounted to £4m. A reduction in the UK charge arose from credits of £6m in respect of liabilities from previous years and £14m for double taxation relief. Net deferred tax adjustments, UK and overseas, amounted to a credit of £15m.

Funds from operating activities and other cash flows

The Group achieved an operating cash inflow of £437m, which was used to pay dividends of £201m and tax of £60m, together with a net £179m on capital expenditure and financial investment. Net funds increased by £17m to £463m.

Minority interests

At the year end, minority interests in subsidiary undertakings amounted to £311m (1998: £351m) arising principally from the consolidation of Avesta Sheffield AB.

The British Steel Executive

John Bryant
Chief Executive

Jeff Edington
Executive Director, Technology

John Rennocks
Executive Director, Finance

Richard Reeves
Company Secretary

Executive Committee

There is an Executive Committee which meets regularly as a general management committee under the chairmanship of the Chief Executive. It is comprised of the Executive Directors, the Company Secretary and the Director, Personnel.

Harold Homer
Executive Director

John McDowall
Executive Director

Sections Plates & Commercial Steels

Two major integrated sites at Scunthorpe and Teesside engaged in iron making, steel making and hot rolling; associated mills at Dalzell and Shelton.

Sections and heavy plates are used in the construction, energy, shipbuilding, process plant and engineering sectors; coil plate and reversing mill plate for the Company's Tubes & Pipes business and for a wide range of end-uses; rod for wire drawing; semi-finished products in the form of billets, blooms and slabs for re-rolling and further processing.

Engineering Steels

BSES is the largest manufacturer of engineering steels in Europe. It produces free cutting, carbon and manganese, leaded, micro-alloyed, spring and stainless steels. Its steel making and rolling facilities are at Rotherham, Stocksbridge and Tinsley Park.

Tuscaloosa Steel Corporation

An internationally competitive mini-mill, Tuscaloosa produces quality plate in coil, cut to length and discrete plate form, primarily for use in the construction, transportation and energy industries.

Mobile DRI

Mobile DRI processes ore and ore products to produce direct reduced iron, for use in electric arc furnaces.

Tubes & Pipes

Located at Corby, Hartlepool and Stockton, manufacturing welded products for the construction, energy, mechanical and general engineering industries.

Railway & Foundry Products

Rails and railway track manufacture, installation and maintenance for high speed, heavy haul and light rail systems. Engineering and foundry design, manufacturing and refurbishment services for the steel, power generation and nuclear reprocessing industries.

Special Sections

Custom-built hot rolled special profiles produced at Troisdorf in Germany and Skinningrove in the UK for use in automotive components, earth moving equipment, fork-lift trucks and the mining industry, and rolling facilities at Darlington.

European Electrical Steels Limited (75% owned)

Facilities in Wales and Sweden produce a range of electrical strip steels, used by manufacturers of electrical equipment for transformers, motors, generators and alternators. Sales and processing companies in the USA and Canada.

Avesta Sheffield AB (51% owned)

Avesta Sheffield AB, listed on the Stockholm Stock Exchange, is one of the world's largest producers of stainless steel products with principal manufacturing facilities at Avesta in Sweden and Sheffield in the UK.

Strip Products

Two major integrated sites at Llanwern and Port Talbot engaged in iron making, steel making, hot and cold strip rolling and further processing. The coatings complex at Shotton and other smaller sites offer a wide range of speciality coated products.

Hot rolled coil is the feedstock for cold reduced and coated coil, including the substrate for the other flat products businesses. Cold reduced coil and sheet, metallic and non-metallic coated products are used in the automotive, domestic appliance, construction, engineering and metal goods industries.

British Steel Distribution

Steel service centres supplying steel users throughout the UK and Ireland.

Processing facilities include: slitting, multi-strand blanking, press-blanking, laser cutting and laser welding of tailored blanks, sawing, shotblasting and painting, flame-cut profiling and weld preparation for customers with either specialist or multi-product requirements.

Distribution Mainland Europe

A network of sales offices across mainland Europe supported by agency arrangements and steel processing and service centre locations.

Distribution North America

Sales offices in USA, Canada and Mexico and steel processing operations across 20 sites on the continent.

International Distribution

A worldwide trading business and a marketing network covering all other regions with a presence physically located in 25 countries. A growing range of steel processing units.

Profiles

Nine profiling companies in the UK and mainland Europe supplying a wide range of roofing and cladding materials to the building industry.

Supplies & Transport

A central team of specialists co-ordinating the Company's purchases and specifically handling contracts for raw materials and associated bulk shipping, energy, company-wide strategic purchases and outbound shipping services.

Tinplate

Produced at Ebbw Vale and Trostre, tinplate is used for packaging in the food and beverage industries and for other domestic and industrial appliances.

Narrow Strip

Hot and cold rolling operations at Rotherham, and cold rolling operations at Tipton and Newport, which serve the automotive, agricultural and general engineering sectors.

Rollforming, pressing and fabrication operations at Newport and the recently acquired 'Catnic' business in Caerphilly, which serve the construction and engineering products sectors.

The Board

Sir Brian Moffat OBE [†]

Chairman

Sir Brian Moffat joined British Steel in 1968 and held various senior positions before being appointed Managing Director, Finance in 1986, becoming Chief Executive in 1991 and Chairman in 1993. He relinquished the post of Chief Executive in January 1999, but continues as part-time Chairman. He is a non-executive director of Enterprise Oil plc and HSBC Holdings plc. Aged 60.

Sir Nicholas Goodison ^{*#†}

Deputy Chairman, Independent

Sir Nicholas Goodison joined the Board as a non-executive director in 1989 and was appointed Deputy Chairman in 1993. He is chairman of the audit and remuneration committees and serves also on the nominations committee. He is Deputy Chairman of Lloyds TSB Group plc and was formerly Chairman of TSB Group plc 1989-95 and of the London Stock Exchange 1976-88. Aged 65.

J M Bryant

Chief Executive

John Bryant joined British Steel in 1965 and has held a number of senior positions in the Company. He was appointed to the Board in 1996 and Chief Executive in January 1999. He is a non-executive director of BANK OF WALES PLC. Aged 55.

J F Devaney ^{*}

Independent

John Devaney joined the Board as a non-executive director in 1998. He serves on the audit committee. He was Chairman and Chief Executive of Eastern Group plc and is a non-executive director of the Midland Bank plc and NFC plc. Aged 53.

J W Edington

Executive Director, Technology

Jeff Edington joined British Steel in 1992 and was appointed to the Board in 1994. Prior to joining British Steel he was Vice-President Research and Technology at Alcan Aluminium Limited based in Montreal. He is a non-executive director of Cobham plc. Aged 60.

K W Gray CBE [°]

Independent

Ken Gray joined the Board as a non-executive director in 1995. He serves on the environment and audit committees. He is Chairman of Scipher plc and a Visiting Professor at Nottingham University. He was formerly Group Technical Director of THORN EMI plc. Aged 60.

H Homer

Executive Director

Harold Homer joined British Steel in 1957 and was appointed to the Board in 1992. He has responsibility for a business portfolio comprising Sections Plates & Commercial Steels, British Steel Engineering Steels, Tuscaloosa Steel and Mobile DRI in the USA. He has regional responsibility for North America. Aged 58.

J B McDowall CBE

Executive Director

John McDowall joined British Steel in 1967 and was appointed to the Board in 1992. He has responsibility for a business portfolio comprising Tubes & Pipes, Railway & Foundry Products, Special Sections, European Electrical Steels and is Chairman of Avesta Sheffield AB. He has regional responsibility for Eastern Europe. He is a non-executive director of The Laird Group PUBLIC LIMITED COMPANY. Aged 57.

A P Pedder

Executive Director

Tony Pedder joined British Steel in 1972 and was appointed to the Board in 1992. He has responsibility for the Strip Products business together with the Company's commercial and distribution activities and supplies and transport operations. He has regional responsibility for Asia Pacific. He is a non-executive director of DELTA PLC. Aged 49.

J L Rennocks

Executive Director, Finance

John Rennocks joined British Steel in 1996 as Executive Director, Finance. Prior to this he had been Finance Director of PowerGen plc and Smith & Nephew plc. He is a non-executive director of Biocompatibles International plc and Foreign & Colonial Investment Trust plc. Aged 53.

B K Sanderson ^{#°}

Independent

Bryan Sanderson joined the Board as a non-executive director in 1994. He serves on the remuneration and environment committees. He is a Managing Director of BP Amoco p.l.c. and is Chief Executive of its chemical business, Chairman of Sunderland plc and President of CEFIC, the European Chemical Industry Council. Aged 58.

Sir Giles Shaw ^{#°†}

Independent

Sir Giles Shaw joined the Board as a non-executive director in 1990. He is chairman of the environment committee and serves on the remuneration and nominations committees. He is a former Member of Parliament and Minister of State for Industry. He is non-executive chairman of The Broadcasters Audience Research Board Limited. Aged 67.

R T Turner OBE ^{*#}

Independent

Richard Turner joined the Board as a non-executive director in 1994. He serves on the remuneration and audit committees. He is Group Marketing Director of Rolls-Royce plc, a non-executive director of Senior plc and a member of the Board of British Trade International. Aged 56.

* Member of Audit Committee

Member of Remuneration Committee

° Member of Environment Committee

† Member of Nominations Committee

Directors' report

The directors present their report and the audited accounts for the financial year ended 3 April 1999.

Activities

The principal activities of the Group are the manufacture and sale of steel.

A review of the Group's performance during the past year, its prospects, future developments and research and development activities is given on pages 4 to 15.

Results and dividend

The loss before taxation was £142m compared with a profit of £315m in 1998.

A final dividend of 7p per share is proposed payable on 9 August 1999 to shareholders on the register on 18 June 1999, making a total dividend for the year of 10p per share, the same as in 1998.

Substantial shareholders

As at 2 June 1999 the Company had been notified of the following non-material interests in its issued ordinary share capital:

	% held
Franklin Resources, Inc	15.91
Brandes Investment Partners, LP	10.00
The Capital Group Companies, Inc	4.03

Save for the above, no person has reported any material interest of 3% or more or any non-material interest exceeding 10% of the issued ordinary share capital of the Company.

Directors

Directors who held office throughout the financial year are listed on page 18 with the exception of Mr J F Devaney who was appointed to the Board as a non-executive director on 9 September 1998. Mr J R H Bond was also a director until 31 March 1998.

Mr J M Bryant succeeded Sir Brian Moffat as Chief Executive in January 1999. Sir Brian Moffat remains as Chairman.

The directors retiring by rotation are Sir Nicholas Goodison, Mr J M Bryant, Dr J W Edington and Sir Giles Shaw who, with the exception of Sir Giles Shaw, offer themselves for re-election.

Mr J F Devaney, having been appointed since the last Annual General Meeting, retires and offers himself for re-appointment.

Mr J M Bryant and Dr J W Edington have service contracts which provide for a two year notice period. As non-executive directors, neither Sir Nicholas Goodison nor Mr J F Devaney have service contracts with the Company.

There were no contracts of significance between the Company or any of its subsidiary undertakings and any director.

Corporate governance

British Steel is committed to high standards of corporate governance for which the Board of directors is accountable to shareholders.

Board

Until January 1999, the Board comprised the Chairman, who until January 1999 was also the Chief Executive, six other executive directors and six non-executive directors. In January 1999 Mr J M Bryant, an executive director, succeeded Sir Brian Moffat as Chief Executive, Sir Brian continuing as Chairman. During the year, the Deputy Chairman, Sir Nicholas Goodison, was the senior independent director.

The Board meets on a regular basis, normally monthly, and has a formal schedule of matters for consideration and decision. There is a procedure for directors to obtain independent professional advice at the Company's expense in furtherance of their duties as directors if required. They also have access to the advice and services of the company secretary and other executives within the Company.

Biographies of all directors are set out on page 18.

All directors have full and timely access to all relevant information which may be needed to enable them to properly discharge their duties.

Appointments to the Board are considered initially by the Nominations Committee, whose recommendations are then made to the full Board. Non-executive directors are appointed for terms of three years and all directors are re-elected on a rotational basis. No director has served for more than three years without being re-elected by the shareholders and it is intended that this practice will continue to apply in the future.

Board committees

There are four main committees whose constitution and terms of reference are set out below. In addition, there is a Banking Committee and an Allotment Committee which operates in connection with the Company's Sharesave Scheme.

Audit Committee

The audit committee comprises four independent directors with the responsibility for reviewing all financial and other matters relating to internal control, financial reporting, the scope of both internal and external audits and other matters as requested by the Board.

Remuneration Committee

The remuneration committee comprises four independent directors with the responsibility for determining the remuneration and other contract terms for the executive directors and the company secretary. It is also responsible for the granting of options and the operation of the executive share option schemes.

Environment Committee

The environment committee comprises three independent directors with the responsibility for reviewing the Company's performance in terms of compliance with environmental legislation and to formulate the Company's policies with regard to environmental issues.

Nominations Committee

The nominations committee comprises three directors appointed by the Board to consider the nomination of Board members and to propose any new Board appointments. Sir Brian Moffat is chairman of this committee.

Directors' Remuneration

The Company aims to attract, retain and motivate executives who are of the appropriate calibre and have the necessary skills to manage and develop the Company successfully. The Board is advised on these matters by the remuneration committee the members of which are Sir Nicholas Goodison (Chairman), Mr B K Sanderson, Sir Giles Shaw and Mr R T Turner, all of whom are non-executive directors. At the invitation of the Committee, the Chairman of the Company, Sir Brian Moffat and the Chief Executive, Mr J M Bryant, may attend meetings but are not present when their own remuneration is discussed.

The Committee meets regularly (six times during 1998/99) and has available to it both external and internal expert advice on remuneration matters: it reviews both policy and practice against a comparator group of UK companies of similar size and complexity to British Steel.

The key elements of executive directors' remuneration are:

- competitive basic salaries which are subject to an annual review;
- an annual incentive scheme in which rewards vary with the Company's performance and which are designed to motivate the executive team to achieve specified targets each year;
- an incentive to contribute to the Company's longer term development and to increasing shareholder value through an Executive Share Option Scheme, which also aims to encourage loyalty and to retain key staff;
- membership of the British Steel Pension Scheme (1990) in common with other eligible employees, and of the Supplementary Section for Senior Managers.

Basic salaries

In view of the business situation during the year, the executive directors' basic salaries have not been increased since January 1998, with the exception of Mr J M Bryant whose salary was increased on his appointment as Chief Executive from 6 January 1999.

Annual incentive scheme

The performance related variable earnings scheme in operation during the year was based on a challenging scale of post tax profit levels which could have led to a 40% bonus given outstanding profit performance. The resulting zero bonus occurred in a year during which the executive directors have worked very hard against

major adverse economic factors, most of which were outside their sphere of influence. For 1999/2000 the remuneration committee has decided to modify the bonus scheme. 30% of the potential bonus will continue to be determined against a fixed post tax profit scale but new elements are being introduced related to cash management and to the progress in implementing the important business improvement projects from which substantial benefits should accrue: these new elements will account for up to 10% bonus. The remuneration committee considers that this arrangement for 1999/2000 will have long term benefits.

Pensions

The pension arrangements referred to earlier provide defined benefits which are separately funded and subject to Inland Revenue requirements. The pensions are normally based on final earnings and length of pensionable service. The pension promise depends on individual circumstances but for long serving executive directors it will normally provide a pension of two-thirds of pensionable earnings at age 60. Details are set out in each individual service contract.

Dr Edington and Mr Rennocks joined the Company after 1 June 1989 and are consequently subject to the Inland Revenue earnings cap introduced by the Finance Act 1989. They, together with a limited number of other senior executives affected by the earnings cap, have been given contractual promises of pension benefits equivalent to those of their colleagues to whom the cap does not apply: the costs of these benefits are provided for in the Company's accounts but are not externally funded.

The pension benefits for employees in the British Steel Pension Scheme (1990) are based on gross earnings inclusive of bonus. The executive directors had, until this year, been treated in the same way as all other employees. However the remuneration committee has decided that variable earnings will not be pensionable for executive directors appointed on or after 1 September 1998. Because of accrued pension rights protection and contractual commitments to individuals, the committee has decided that executive directors appointed before 1 September 1998 will continue to have variable earnings included in pensionable earnings, but up to a maximum of 30% of basic salary only.

Pension benefits earned by the directors are shown in the table below:

	Age at year end	Director's pension contributions during year £	Increase in accrued pension during year £ p.a.	Accumulated total accrued pension 1999 £ p.a.	Accumulated total accrued pension 1998 £ p.a.
Sir Brian Moffat	60	19,709	703	343,017	336,262
J M Bryant	55	15,091	20,656	159,599	135,687
J W Edington	59	9,383	8,607	59,952	50,142
H Homer	58	13,933	4,422	195,293	186,398
J B McDowall	56	14,304	4,503	193,047	184,125
A P Pedder	49	13,654	4,413	147,958	140,181
J L Rennocks	53	9,374	8,301	20,522	11,935

Notes:

- The pension entitlement shown is the accumulated pension that would be paid each year on normal pension age retirement based on service to the end of the current year.
- The details shown have been calculated as at 31 March of each year and exclude the amount and value of any additional voluntary contributions paid by the director. The increases in accrued pension during the year have been offset to take account of inflation on the accumulated total accrued pension.
- Normal pension age for the directors is age 60 with the exception of Dr Edington whose normal pension age is 65. Sir Brian Moffat attained normal pension age on 6 January 1999 and the figures reflect this fact.
- Widow's pension is two-thirds of the director's pension.
- An immediate pension is payable on early retirement on or after age 50 where retirement is at the request of the Employer. If retirement is prior to age 55 then an actuarial reduction would be applied to reflect earlier payment of the pension.
- In accordance with the pension scheme rules, pensions are increased annually after retirement by reference to increases in the Retail Prices Index.
- No discretionary benefits are applicable in the calculation of transfer values on leaving service. Any transfer value would be calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

Executive Share Options

There are 300 participants currently included in the Executive Share Option Schemes in addition to the executive directors. Options are normally granted annually and may be exercised after the elapse of three years and before the expiry of ten years from the date of grant. No options were granted during the year as, at the designated times when options can be granted, the external advice to the committee was that they were barred from so doing because the directors were in possession of potentially price sensitive information.

Since June 1996 performance requirements must be met before any new options become exercisable. These performance requirements are designed to ensure that there is real improvement in the underlying long term financial performance of the Company, despite this sometimes being masked by short term variations typical of the steel business cycle. The method of assessing long term performance is to track the seven year average earnings per share figure on a rolling basis year to year and compare this with a minimum growth target of the average earnings per share for the seven years ended 1995/96 inflated by the Retail Prices Index plus two per cent per annum. The seven year period is used as it historically approximates to one complete steel business cycle. New options become exercisable when the seven year average earnings per share exceeds the target figure providing also that the actual earnings per share for the year in question is higher than the seven year average figure.

Service Contracts

The executive directors have service contracts with notice periods of two years. Neither the Chairman nor any non-executive directors have service contracts. The Committee continues to be satisfied that it is not appropriate to reduce the present two year period of notice applicable to the executive directors given British Steel's need, in an internationally competitive market, to retain executives with high levels of technical and management skills. In the event of notice being given by the Company, account would be taken of normal mitigating requirements.

Emoluments of directors

	1999 £	1998 £
Executive directors:		
Salaries and related benefits	2,276,415	2,028,094
Performance related earnings (i)	910	126,289
Non-executive directors:		
Fees	155,354	165,000
Former directors:		
Subsidiary board fees (ii)	–	39,219
	2,432,679	2,358,602

Notes:

- The performance related variable earnings scheme for executive directors for 1998/99 was based on the level of post-tax profits measured against pre-determined targets set by the Board Remuneration Committee. The resulting payment was nil. The figure shown above is the difference between the actual bonus of £630 under the 1997/98 Profit Related Pay Scheme and the estimate of £500 included in last year's emoluments for each of the executive directors.
- Dr D Grieves received a fee as non-executive Chairman of British Steel (Industry) Ltd, a position he held from 1 August 1994 to 31 March 1998.

Relations with Shareholders

There is regular dialogue with institutional shareholders and general presentations are given after the annual and interim results.

Full use is made of the Company's Annual General Meeting to inform shareholders of current developments and there is an opportunity for individual shareholders to ask questions both within the meeting itself and also before and after when a number of directors are available for this purpose.

The Combined Code requires at least 20 working days' notice of the AGM to be given to shareholders. This has not proved to be practically possible this year, but will be met for the AGM 2000.

Accountability and Audit

The directors' responsibility for the preparation of the accounts is set out on page 26.

Recognising the differing requirements for information from shareholders, the Company produces a full annual report including all the financial information which is required, but it also produces a short form report which is sent to the overwhelming majority of shareholders.

Any shareholder may request a copy of the full version at no charge, and a Freephone number is provided for this purpose in the short form version.

The Company has traditionally also produced a half-year report which has been circulated to all shareholders. With the introduction of additional reporting requirements for this document, it is planned that for the 1999/2000 financial year this will be available on request only. Advertisements will be placed in national and international newspapers to meet the requirements of the London Stock Exchange Listing Rules.

In addition, the Company produces an Environmental Brochure which is available at no charge on request and which has a wide circulation beyond the shareholder base.

Going concern

The accounts have been prepared on the going concern basis since the directors are satisfied that the Company's activities are sustainable for the foreseeable future.

Internal control

The directors are responsible for the Group's system of internal control.

No system of internal control can provide absolute assurance against material misstatement or loss. However, the directors believe that the Group's system of internal control provides reasonable assurance that assets are safeguarded, transactions authorised and recorded properly and that material errors and irregularities are either prevented or would be detected within a timely period.

The key elements of the control system in operation are:

- the Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority;
- there are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against approved budgets and forecasts;
- the Audit Committee reviews matters relating to internal control and receives reports from both internal and external auditors on a regular basis and from executive directors of the Group.

The directors confirm that the Audit Committee has reviewed the effectiveness of the system of internal financial control as described above during the year.

As permitted by the London Stock Exchange, the Company has complied with Combined Code provision D.2.1 on internal control by reporting on internal financial control in the same manner as last year pending the issuance of formal guidance from the ICAEW.

Compliance with the Combined Code

The Board believes that during the year it has complied with the provisions of the Code of Best Practice with the following exceptions:

- the setting of or reducing directors' notice periods to one year or less;
- the period of notice to be given of the AGM.

Employees

Total employees worldwide at 3 April 1999 were 44,200. There are well established and effective arrangements at each business location for communication and consultation with both employees and trades union representatives. The Company recognises its responsibilities towards disabled people and employs them where suitable work can be found. Every effort is made to find appropriate alternative jobs for those who become disabled while working for the Company.

The Company continues to operate an Inland Revenue approved Sharesave Scheme. As at 3 April 1999 a total of 16,652 employees were participating in the Scheme.

Community involvement

The Company recognises its responsibilities to the communities in which it operates. During the year, charitable donations in the UK by the Company amounted to £498,000 (1998: £621,000). The Company also supports community projects by sponsorship, gifts of materials and secondments, and has maintained its support for the arts, environmental projects and educational activities.

No political donations were made.

Suppliers

It is the policy of the Company and its UK subsidiaries to establish terms of payment with suppliers when agreeing the terms of business transactions. The aim is to dispatch cheques on the due date or, where other means of payment are adopted, to deliver funds to suppliers as if payment had been made by cheque.

The Company had 61 days purchases outstanding at 3 April 1999 based on the average daily amount invoiced by suppliers during the year.

Auditors

Following the merger of Coopers & Lybrand and Price Waterhouse from 1 July 1998, Coopers & Lybrand resigned as auditors in favour of the new firm, PricewaterhouseCoopers, and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.

Special notice having been received, a resolution will be proposed at the Annual General Meeting that PricewaterhouseCoopers be re-appointed auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be determined by the directors.

Annual General Meeting

The Annual General Meeting will be held at Westminster Central Hall, London SW1 on Wednesday 21 July 1999 at 11.00am. The notice of meeting can be found on page 61. In addition to the routine business of the Annual General Meeting, the following business will be transacted:

Authority to allot shares (Resolution 5)

The authority given to the directors at the Annual General Meeting on 27 July 1994 to allot shares expires on 26 July 1999 and an ordinary resolution to renew that authority up to an aggregate nominal value of £308,000,000 will be proposed at the forthcoming meeting.

Authority to disapply pre-emption rights (Resolution 6)

The authority given to the directors at the last Annual General Meeting to allot shares for cash, other than on a strictly pro rata basis, expires at the conclusion of the forthcoming Annual General Meeting and a special resolution to renew that authority will be proposed at the meeting.

Authority to purchase own shares (Resolution 7)

The Company will be seeking authority by way of a special resolution to renew its current permission from shareholders to purchase its own shares in the market. This would only be done if the directors considered it to be in the best interests of the shareholders and would result in an increase in earnings per share.

Share capital

Changes in the ordinary share capital during the year are given in Note 22 to the Accounts on pages 44 and 45.

Tax status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

By order of the Board
Richard Reeves
Secretary
7 June 1999

Directors' remuneration and shareholdings

Analysis of executive directors' emoluments

	Basic salary		Performance related earnings		Taxable Benefits		Total	
	1999 £	1998 £	1999 £	1998 £	1999 £	1998 £	1999 £	1998 £
Sir Brian Moffat	477,223	447,024	130	30,070	43,009	41,416	520,362	518,510
J M Bryant	285,926	234,175	130	16,022	42,911	13,253	328,967	263,450
J W Edington	234,420	219,721	130	15,068	23,584	23,288	258,134	258,077
H Homer	262,043	245,168	130	16,747	40,256	14,881	302,429	276,796
J B McDowall	269,043	251,733	130	17,180	38,685	28,440	307,858	297,353
A P Pedder	256,793	240,244	130	16,422	46,933	33,159	303,856	289,825
J L Rennocks	234,429	215,356	130	14,780	21,160	20,238	255,719	250,374

Analysis of non-executive directors' emoluments

	1999 £	1998 £
Sir Nicholas Goodison	55,000	55,000
J R H Bond (i)	–	22,000
J F Devaney (i)	12,354	–
K W Gray	22,000	22,000
B K Sanderson	22,000	22,000
Sir Giles Shaw	22,000	22,000
R T Turner	22,000	22,000

Directors' interests

The beneficial interests of the directors and their families in the ordinary shares of the Company at the end of the financial year were as follows:

	1999	1998
Sir Brian Moffat	244,549	229,844
Sir Nicholas Goodison	36,000	36,000
J M Bryant	87,144	50,489
J R HBond (i)	–	–
J F Devaney (i)	4,154	–†
J W Edington	52,000	52,000
K W Gray	5,000	5,000
H Homer	80,954	66,065
J B McDowall	65,256	65,256
A P Pedder	92,338	77,838
J L Rennocks	11,846	11,846
B K Sanderson	5,000	5,000
Sir Giles Shaw	6,000	6,000
R T Turner	5,000	5,000

† On appointment 9 September 1998.

Notes:

- (i) Mr J F Devaney was appointed a director on 9 September 1998 and Mr J R H Bond resigned as director on 31 March 1998.
- (ii) None of the directors held non-beneficial interests.
- (iii) There have been no changes in directors' shareholdings between 3 April 1999 and 2 June 1999.
- (iv) Performance related earnings in 1999 relate to the difference between the actual bonus of £630 under the 1997/98 Profit Related Pay Scheme and the estimate of £500 included in last year's emoluments.

Directors' interests continued

The interests of the directors in share options held under the British Steel UK and Overseas Executive Share Option Schemes and the British Steel Sharesave Scheme were as follows:

		Outstanding at 28 March 1998		Exercised during year			Outstanding at 3 April 1999		Earliest date from which exercisable	Latest expiry date	Outstanding at 3 April 1999 Number†
		Number	Weighted average exercise price	Number	Exercise price	Market value at date of exercise	Number	Weighted average exercise price			
Sir Brian Moffat	Executive	611,000	158p				611,000	158p	1997	2007	611,000
	Sharesave	28,765	85p	14,500	50p	140 ¹ / ₂ p	14,265	121p	2000	2003	8,159
		639,765					625,265				619,159
J M Bryant	Executive	239,200	160p				239,200	160p	1997	2007	239,200
	Sharesave	51,515	69p	36,250	50p	140 ¹ / ₂ p	15,265	113p		2003	–
		290,715					254,465				239,200
J W Edington	Executive	451,100	136p				451,100	136p	1996	2007	296,100
	Sharesave	13,595	127p				13,595	127p	2000	2001	13,595
		464,695					464,695				309,695
H Homer	Executive	412,000	146p				412,000	146p	1996	2007	339,500
	Sharesave	26,110	82p	14,500	50p	140 ¹ / ₂ p	11,610	123p	2000	2001	8,159
		438,110					423,610				347,659
J B McDowall	Executive	415,100	147p				415,100	147p	1996	2007	345,100
	Sharesave	15,265	113p				15,265	113p		2003	–
		430,365					430,365				345,100
A P Pedder	Executive	399,200	147p				399,200	147p	1996	2007	329,200
	Sharesave	28,765	85p	14,500	50p	140 ¹ / ₂ p	14,265	121p	2000	2003	8,159
		427,965					413,465				337,359
J L Rennocks	Executive	309,500	171p				309,500	171p	1999	2007	309,500
	Sharesave	8,628	113p				8,628	113p		2001	–
		318,128					318,128				309,500

† Details of options outstanding at 3 April 1999 where the exercise price exceeds the market value as at that date.

Notes:

- (i) No options were granted or lapsed during the year.
- (ii) For the purposes of disclosure, gains have been calculated on the exercises during the year although the shares acquired have been retained. The aggregate of the gains made on these exercises, calculated on the difference between the option price and the mid-market price on the date of exercise, was £72,172 (1998: £nil) of which £13,122 (1998: £nil) related to the gain attributable to the highest paid director.
- (iii) The market price of the Company's shares at 3 April 1999 was 124¹/₂p and the range during the year to that date was 87¹/₂p to 172p.
- (iv) There have been no changes in share options between 3 April 1999 and 2 June 1999.

The Company's register of directors' interests contains full details of directors' shareholdings and options.

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the statement of auditors' responsibilities set out on page 27, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

The directors consider that in preparing the financial statements on pages 28 to 53, which have been prepared on a going concern basis, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Group keeps accounting records which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of the Board
Richard Reeves
Secretary
7 June 1999

Report of the auditors

Auditors' report to the shareholders of British Steel plc

We have audited the financial statements on pages 28 to 53, which have been prepared under the historical cost convention, and the accounting policies set out on pages 32 to 33, and the summary of differences between UK and US generally accepted accounting principles on pages 54 to 56.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the annual report including, as described on page 26, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, 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, or the Listing Rules 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.

We review whether the statement on page 22 reflects the Company's compliance with those provisions of the combined code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board which are substantially the same as those followed in the United States. 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.

UK Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 3 April 1999 and of the loss and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

US Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at 3 April 1999 and 28 March 1998 and the results of their operations, total recognised gains and losses and their cash flows for each of the three years ended 3 April 1999, 28 March 1998 and 29 March 1997 in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States. Application of generally accepted accounting principles in the United States would have affected the determination of net income for the years ended 3 April 1999, 28 March 1998 and 29 March 1997 and the determination of consolidated shareholders' equity at 3 April 1999 and 28 March 1998, to the extent summarised on page 54.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
England
7 June 1999

Consolidated profit and loss account

For the financial year ended 3 April 1999				
	Note	1999 £m	1998 £m	1997 £m
Turnover: group and share of joint ventures		6,455	7,166	7,405
Less: share of joint ventures' turnover	1	(196)	(219)	(181)
Group turnover	1	6,259	6,947	7,224
Operating costs	2	(6,433)	(6,682)	(6,848)
Group operating (loss)/profit		(174)	265	376
Share of operating results of joint ventures and associated undertakings	4	(3)	–	15
		(177)	265	391
Profit on sale of fixed assets		7	6	–
Profit on disposal of businesses, subsidiaries and associated undertakings		1	5	18
(Loss)/profit on ordinary activities before interest		(169)	276	409
Net interest and investment income:				
Group	5	30	41	44
Joint ventures and associated undertakings	4	(3)	(2)	(2)
(Loss)/profit on ordinary activities before taxation		(142)	315	451
Taxation	6	19	(82)	(144)
(Loss)/profit on ordinary activities after taxation	7	(123)	233	307
Minority interests		42	(7)	3
(Loss)/profit for financial year		(81)	226	310
Dividends	8	(201)	(195)	(204)
(Loss)/profit retained for the year	23	(282)	31	106
Basic (loss)/earnings per ordinary share	9	(4.09)p	11.44p	15.22p
Diluted (loss)/earnings per ordinary share	9	(4.09)p	11.25p	14.94p

There were no material acquisitions or discontinued activities in 1999.

Notes and related statements forming part of these accounts appear on pages 32 to 53; Note 23 sets out the movements on reserves.

Balance sheets

At 3 April 1999					
	Note	The Company		The Group	
		1999 £m	1998 £m	1999 £m	1998 £m
Fixed assets					
Tangible assets	10	2,241	2,319	3,240	3,335
Investments in subsidiary undertakings	11	1,540	1,551	–	–
Investments in joint ventures:					
Share of gross assets				208	221
Share of gross liabilities				(113)	(117)
				8	8
Investments in associated undertakings	11	–	–	9	9
Other investments and loans	11	8	8	136	181
Own shares	11	–	18	–	18
		3,797	3,904	3,480	3,647
Current assets					
Stocks	12	526	583	1,007	1,222
Debtors	13	889	1,083	1,315	1,643
Short term investments	14	1,133	974	1,206	1,043
Cash at bank and in hand		73	68	163	163
		2,621	2,708	3,691	4,071
Creditors: amounts falling due within one year	15	(928)	(1,102)	(1,359)	(1,672)
Net current assets		1,693	1,606	2,332	2,399
Total assets less current liabilities		5,490	5,510	5,812	6,046
Creditors: amounts falling due after more than one year	16	(1,358)	(1,086)	(852)	(723)
Provisions for liabilities and charges	21	(96)	(105)	(253)	(292)
Accruals and deferred income					
Regional development and other grants		(49)	(57)	(50)	(58)
		3,987	4,262	4,657	4,973
Capital and reserves					
Called up share capital	22	991	991	991	991
Share premium account	23	51	51	51	51
Capital redemption reserve	23	47	47	47	47
Statutory reserve	23	2,338	2,338	2,338	2,338
Profit and loss account	23	560	835	919	1,195
Shareholders' funds – equity interests	23	3,987	4,262	4,346	4,622
Minority interests					
Equity interests in subsidiary undertakings		–	–	311	351
		3,987	4,262	4,657	4,973

Sir Brian Moffat
J L Rennocks
7 June 1999

Notes and related statements forming part of these accounts appear on pages 32 to 53.

Statement of total recognised gains and losses

For the financial year ended 3 April 1999	1999 £m	1998 £m	1997 £m
(Loss)/profit for financial year	(81)	226	310
Exchange translation differences on foreign currency net investments:			
Group	8	(28)	(80)
Joint ventures	(2)	(1)	(1)
Total recognised (losses)/gains relating to the year	(75)	197	229

Reconciliation of movements in shareholders' funds

For the financial year ended 3 April 1999	1999 £m	1998 £m	1997 £m
(Loss)/profit for financial year	(81)	226	310
Dividends	(201)	(195)	(204)
	(282)	31	106
Exchange translation differences on foreign currency net investments	6	(29)	(81)
Share buy back	-	(146)	-
New shares issued	-	19	1
Goodwill arising on consolidation	-	(10)	(5)
Reversal of goodwill write-off through profit and loss account on disposal	-	-	13
Net (decrease)/increase in shareholders' funds	(276)	(135)	34
Shareholders' funds at beginning of year	4,622	4,757	4,723
Shareholders' funds at end of year	4,346	4,622	4,757

Notes and related statements forming part of these accounts appear on pages 32 to 53.

Consolidated cash flow statement

For the financial year ended 3 April 1999	Note	1999 £m	1998 £m	1997 £m
Net cash inflow from operating activities	28	437	512	857
Dividends from joint ventures and associated undertakings		12	6	12
Returns on investments and servicing of finance	29	27	36	26
Tax paid	29	(60)	(183)	(281)
Capital expenditure and financial investment	29	(179)	(366)	(410)
Acquisitions and disposals	29	(6)	(25)	57
Equity dividends paid		(201)	(201)	(204)
Cash inflow/(outflow) before use of liquid resources and financing		30	(221)	57
Management of liquid resources				
Net (purchase)/sale of short term investments		(159)	311	(167)
Financing				
Purchase of own shares	29	-	(146)	-
Issue of ordinary shares	29	3	16	1
Increase in debt	29	131	88	78
Net cash inflow/(outflow) from financing activities	29	134	(42)	79
Increase/(decrease) in cash in year		5	48	(31)

Reconciliation of net cash inflow/(outflow) to movement in net funds

	Note	1999 £m	1998 £m	1997 £m
Increase/(decrease) in cash	30	5	48	(31)
Increase/(decrease) in liquid resources	30	159	(311)	167
Increase in debt	30	(131)	(88)	(78)
Change in net funds resulting from cash flows	30	33	(351)	58
Long term debt acquired	30	-	(1)	-
Other non cash items	30	-	(3)	-
Effect of foreign exchange rate changes	30	(16)	16	37
Movement in net funds		17	(339)	95
Net funds at beginning of year		446	785	690
Net funds at end of year		463	446	785

Notes and related statements forming part of these accounts appear on pages 32 to 53.

Presentation of accounts and accounting policies

I Description of Business

In calendar year 1998, British Steel was the fourth largest steel producer in Europe and the sixth largest in the world in terms of crude steel production.

The global market for steel is very competitive with high levels of international trade providing the conduit for rapid price movements. Further, because steel is a capital intensive industry, changes in demand in one region often lead to a rapid change in geographical sales patterns as producers seek to maintain high capacity utilisation. This situation has previously been exacerbated during periods of weaker demand, particularly in Europe, with the availability of state aid to support weaker, and very often state-owned, producers.

In 1998/99, Europe accounted for 83% of British Steel's total sales, the UK being 43%. The principal factors influencing the Group's financial performance are the economic climates in the UK and mainland Europe and sterling exchange rate relativities, particularly to the euro/deutschmark and US dollar. For the reasons set out above, however, British Steel's financial performance is also influenced by trends and events in the global steel market.

II Basis of consolidation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the UK. They comprise a consolidation of the accounts of the Company and its subsidiary undertakings together with the Group's share of the results and net assets of its joint ventures and associated undertakings.

Until 1998, the surplus or deficit of the fair value of the purchase consideration of subsidiary undertakings, joint ventures and associated undertakings over the fair value of the attributable net assets at the date of acquisition ('goodwill') was written off/credited immediately to reserves.

From 1999, positive goodwill is capitalised and amortised over its estimated useful economic life to a maximum of 20 years, and negative goodwill is recognised in the profit and loss account in line with the periods in which the assets acquired are depreciated. No reinstatement of previously eliminated goodwill is required and the change in accounting policy has no material effect on the results for 1998 or 1999. On disposal of a business any attributable goodwill previously written off immediately to reserves will be transferred from reserves to the profit and loss account in arriving at the profit or loss on disposal.

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

III Turnover

Sales to export customers other than those to member and associate member countries of the European Coal and Steel Community are recorded at the f.o.b. price of products sold and services rendered. All other sales represent the invoice prices (which include delivery charges) of products sold and services rendered. Sales exclude VAT and similar taxes.

IV Rationalisation and related measures

The revenue costs of rationalisation and related measures are provided for in respect of decisions taken, announced and where a constructive obligation has arisen prior to the balance sheet date and are included under operating costs. This is a change in accounting policy but has no material effect on the results for 1998 or 1999.

V Research and development

Revenue expenditure on research and development is charged to the profit and loss account as it is incurred.

VI Deferred taxation

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

VII Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the quoted rates of exchange ruling at each balance sheet date except where forward cover has been obtained, when the covered rate is used. Profit and loss account items in foreign currencies are translated into sterling at the average rates ruling during the financial year.

Exchange differences arising from the retranslation of the opening net investment in foreign enterprises and the retranslation of profit and loss account items from average rate to closing rate are recorded as movements on reserves.

Exchange gains or losses on foreign currency borrowings and forward exchange contracts used to finance an equity investment in a foreign enterprise are offset against the exchange difference arising on the retranslation of the net investment.

Exchange gains and losses on forward exchange contracts used to manage exposure to fluctuations in foreign currency with respect to transactions, together with all other exchange gains and losses on settlement are included in arriving at the result for the year.

VIII Derivative Financial Instruments

The Group uses a variety of derivative financial instruments, including forward foreign exchange contracts and commodity futures contracts as part of an overall risk management strategy. These instruments are used as a means of hedging exposure to price and foreign currency risk connected to anticipated or contracted sales and purchases or existing assets and liabilities. The Group does not hold or issue derivative financial instruments for trading purposes.

The Group uses forward contracts or currency options, where appropriate, to hedge the cash flow risk of contracted sales and purchase transactions. Net sales and purchases covered by these contracts or options are translated into sterling at contract rates. No account is taken of the potential but unrealised profits or losses on open forward exchange contracts or options which are intended as a hedge against future transactions; such profits and losses are accounted for so as to match the exchange differences arising on the underlying currency transactions.

The Group uses commodity futures contracts to hedge the price risk of certain anticipated purchases. The futures contract is marked to market at the balance sheet date with the gain or loss deferred until settlement date, at which time the gain or loss is taken to the profit and loss account and offset against the related purchase.

Deferral (hedge) accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated at inception as a hedge with respect to the hedged item. Additionally, the derivative must result in payoffs that are expected to be inversely correlated to those of the hedged

item. The correlation of hedge designation is high and must exist both at inception and throughout the hedge period.

If a derivative instrument ceases to meet the criteria for deferral or settlement accounting, any subsequent gains or losses are recognised at that time in the profit and loss account. If an anticipated transaction does not occur, the hedge is terminated, and any gains or losses are recognised in the profit and loss account. If a hedging instrument is sold or terminated prior to maturity, gains and losses continue to be deferred until the hedged item is recognised in the profit and loss account.

IX Stocks

Stocks of raw materials are valued at cost or, if they are to be realised without processing, the lower of cost and net realisable value. Cost is determined using the 'first in first out' method. Stocks of partly processed materials, finished products and stores are individually valued at the lower of cost and net realisable value. Cost of partly processed and finished products comprises cost of production including works overheads. Net realisable value is the price at which the stocks can be realised in the normal course of business after allowing for the cost of conversion from their existing state to a finished condition and cost of disposal. Provisions are made to cover slow moving and obsolescent items.

X Tangible fixed assets

Tangible fixed assets are recorded at original cost less accumulated depreciation. In the case of assets constructed by the Group, related works and administrative overheads are included in cost.

Commissioning costs and interest attributable to expenditure on assets in course of construction are written off to revenue as incurred. Tangible fixed assets financed by leasing arrangements that approximate to the loan of money and in which the Group enjoys substantially all the risks and rewards of ownership (finance leases) are treated as if they have been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance cost; the capital element reducing the obligation to the lessor and the finance cost being written off to the profit and loss account over the period of the lease. Operating lease costs are charged to the profit and loss account as incurred.

Included in tangible fixed assets are loose plant and tools which are stated at cost less amounts written off related to their expected useful lives and estimated scrap value; and also spares, against which provisions are made where necessary to cover slow moving and obsolescent items.

Repairs and renewals are charged to profit and loss account as incurred.

XI Depreciation of tangible fixed assets

Depreciation is provided so as to write off, on a straight line basis, the net book value of tangible fixed assets including those held under finance leases. They are depreciated from the dates they are brought into use over their estimated useful lives or, in the case of leased assets, over the lease period if shorter. The estimated useful lives of assets are reviewed regularly and, when necessary, revised. Accelerated depreciation is provided where an asset is expected to become obsolete before the end of its normal useful life or if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. No further depreciation is provided in respect of assets which are fully written down but are still in use.

The estimated useful lives for the main categories of fixed assets are:

Freehold and long leasehold buildings which house plant, and other works buildings	25 years
Other freehold and long leasehold buildings	50 years
Plant and machinery:	
Iron and steel making	maximum 25 years
Other	maximum 15 years
Computers	maximum 8 years
Office equipment and furniture	10 years
Motor vehicles	4 years

XII Fixed asset investments

In the Group's balance sheet, shares in joint ventures and associated undertakings are stated at the Group's share of net assets. Loans and other investments are stated at cost. Provisions are made if events or circumstances indicate that the carrying amount may not be recoverable.

In the Company's own balance sheet, investments are stated at cost. Provisions are made if events or circumstances indicate that the carrying amount may not be recoverable.

Income from fixed asset investments comprises dividends declared up to the balance sheet date and, where relevant, is shown before deduction of overseas withholding taxes.

XIII Pensions

The regular cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the expected average remaining service lives of employees. Variations from regular cost arising from periodic actuarial valuations of the principal schemes are allocated to profit and loss account so as to spread the surplus/deficit over the expected average remaining service lives of employees.

Differences between the amounts funded and amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

XIV Government grants

Grants related to expenditure on tangible fixed assets are credited to profit and loss account over a period approximating to the lives of qualifying assets. Total grants received less the amounts credited to profit and loss account at the balance sheet date are included in the balance sheet as deferred income.

XV Insurance

Certain of the Group's insurances are handled by its captive insurance company, Crucible Insurance Company Limited. With the exception of marine cargo and certain employer's liability, all insurance business is accounted for on an annual basis and is dealt with as part of the operating costs in these accounts. In the case of marine cargo and certain employer's liability business, the results of each underwriting year are determined at the end of the third year at which time any profits or losses arising are recognised; in the interim, the level of insurance provisions is kept under review and, where appropriate, adjustments are made.

Notes to the accounts

1. Analysis of turnover, results, tangible fixed assets and net assets

The Group has adopted SFAS No.131 'Disclosures about Segments of an Enterprise and Related Information' for US reporting purposes. SFAS No.131 supersedes SFAS No.14 replacing the 'industry segment' approach with the 'management' approach. The management approach designates the internal organisation that is used by management for making operating decisions and assessing performance as a source of the Group's reportable segments. The directors consider that the Group has one reportable segment under the new standard and one class of business under SSAP 25 'Segmental Reporting'. The analysis of results by geographical origin has not been disclosed in common with the practice adopted by other major steel producers.

Turnover by location of Group entity is set out below:

	Joint venture turnover			Group turnover		
	1999 £m	1998 £m	1997 £m	1999 £m	1998 £m	1997 £m
United Kingdom gross turnover	51	49	49	4,709	5,527	5,871
Less: inter-segment turnover	-	-	-	(589)	(891)	(891)
	51	49	49	4,120	4,636	4,980
Other European gross turnover	111	125	100	1,485	1,868	1,900
Less: inter-segment turnover	-	-	-	(111)	(356)	(290)
	111	125	100	1,374	1,512	1,610
North America gross turnover	34	27	-	616	615	610
Less: inter-segment turnover	-	-	-	(2)	(1)	(10)
	34	27	-	614	614	600
Other areas	-	18	32	151	185	34
Total turnover	196	219	181	6,259	6,947	7,224

Geographical market analysis of turnover by destination is set out below:

United Kingdom	51	46	47	2,663	3,010	3,111
European Union (excluding UK)	42	54	24	2,237	2,353	2,437
Europe (excluding EU)	69	74	78	295	334	335
North America	34	27	-	657	654	673
South America	-	-	-	35	45	34
Africa	-	-	-	53	53	63
Asia	-	18	32	282	439	516
Australasia	-	-	-	37	59	55
	196	219	181	6,259	6,947	7,224

Included above:

Exports from the United Kingdom				1,985	2,495	2,722
Sales to joint ventures and associated undertakings				121	185	370

Tangible fixed assets and net assets by location of Group entity are set out below:

	Tangible fixed assets		Net assets	
	1999 £m	1998 £m	1999 £m	1998 £m
British Steel and subsidiary undertakings:				
United Kingdom	2,607	2,702	3,121	3,299
Other European	388	373	539	583
North America	241	251	293	333
Other areas	4	9	-	-
Other net assets	-	-	600	645
	3,240	3,335	4,553	4,860
Joint ventures and associated undertakings:				
United Kingdom			34	32
Other European			29	33
North America			38	47
Other areas			3	1
			104	113
			4,657	4,973

Other net assets are mainly cash and investments net of loans and finance lease obligations.

2. Operating costs

	1999 £m	1998 £m	1997 £m
Costs by type:			
Raw materials and consumables	2,667	3,019	2,967
Maintenance costs (excluding own labour)	530	578	573
Other external charges (including fuels and utilities, hire charges and carriage costs)	1,022	1,044	1,031
Employment costs (Note 3)	1,352	1,348	1,465
Depreciation	313	306	298
Regional development and other grants released	(9)	(11)	(10)
Other operating costs	376	434	459
Changes in stock of finished goods and work in progress	190	(26)	66
Own work capitalised	(8)	(10)	(1)
	6,433	6,682	6,848

Costs by function:

Costs of goods sold	5,969	6,183	6,363
Selling, general and administrative expenses	464	499	485
	6,433	6,682	6,848

	1999 £m	1998 £m	1997 £m
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The above costs are stated after including:

Purchases from joint ventures and associated undertakings	50	58	52
Depreciation of owned assets (including accelerated depreciation)	305	298	289
Depreciation of assets held under finance leases	8	8	9
Operating leases:			
Plant and machinery	36	34	29
Leasehold property	24	22	22
Costs of research and development (after deducting recoveries of £5m (1998: £4m; 1997: £4m))	44	48	45
Provision for doubtful debts	6	-	(1)
Realised gains on investments held to fund insurance liabilities	(32)	-	-
Reduction in underwriting provisions in Crucible Insurance Company Limited	(16)	-	-
Release of provision for landfill tax	(2)	-	(12)
Provision for rationalisation and related measures:			
Redundancy and related costs	64	18	60
Accelerated depreciation	15	21	4
Other rationalisation costs	6	4	9
Costs incurred in rendering existing software Year 2000 compliant	30	10	-

	£000	£000	£000
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Remuneration of Group's auditors

In respect of the audit:			
British Steel plc	961	973	916
Subsidiary undertakings	1,852	1,776	1,874
Group audit	2,813	2,749	2,790

In respect of other work:			
UK	1,271	753	745
Overseas	732	468	579
	2,003	1,221	1,324

Total	4,816	3,970	4,114
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3. Employees

	1999 £m	1998 £m	1997 £m
The total employment costs of all employees (including directors) in the Group were:			
Wages and salaries	1,104	1,143	1,204
Social security costs	128	127	139
Other pension costs (Note 31)	56	60	62
Redundancy and related costs	64	18	60
	1,352	1,348	1,465

The average weekly number of employees on the Group's payroll during the financial year was 46,500 (1998: 50,000; 1997: 52,900) including 9,200 (1998: 9,400; 1997: 9,500) employees outside the UK whose employment costs were £289m (1998: £299m; 1997: £322m).

4. Share of results of joint ventures and associated undertakings

	1999 £m	1998 £m	1997 £m
Share of operating results:			
Joint ventures	(4)	–	15
Associated undertakings	1	–	–
	(3)	–	15
Net interest:			
Interest receivable: joint ventures	1	2	1
Interest payable:			
Joint ventures	(4)	(4)	(2)
Associated undertakings	–	–	(1)
Share of results	(6)	(2)	13
Taxation (Note 6)	(4)	(5)	(4)
Share of results after taxation	(10)	(7)	9
Receivable in dividends:			
The Company	(5)	(3)	(7)
Subsidiary undertakings	(3)	(3)	(5)
Retained	(18)	(13)	(3)

5. Net interest and investment income

	1999 £m	1998 £m	1997 £m
Dividends from other fixed asset investments	4	2	2
Interest receivable	92	91	90
	96	93	92
Less: Interest payable:			
Bank loans and overdrafts	32	30	25
Other interest payable	30	18	18
	62	48	43
Finance leases	4	4	5
	66	52	48
Net interest and investment income	30	41	44

Returns on investments held by Crucible Insurance Company Limited (Note 11(ii)), including dividends and realised gains and losses, amounting to £48m (1998: £8m; 1997: £16m) have not been included above as the income has been taken into account in the assessment of the underwriting results and liabilities of that company, being in respect of Group insurance costs and arrangements. The above gains and losses are calculated using cost of specific investments.

6. Taxation

	1999 £m	1998 £m	1997 £m
Taxation based on (loss)/profit on ordinary activities for the year:			
The Group:			
UK corporation tax at 31% (1998: 31%; 1997: 33%)	3	89	168
Double tax relief	(14)	(7)	(12)
Prior year credit	(6)	(4)	(19)
ACT written off	3	–	–
Overseas taxes	6	12	4
	(8)	90	141
UK deferred tax	(15)	(5)	(9)
Overseas deferred tax	–	(8)	8
	(23)	77	140
Joint ventures	4	4	4
Associated undertakings	–	1	–
	(19)	82	144

The tax charge reconciles with the standard rate of UK corporation tax as follows:

Tax on result before tax at standard rate 31% (1998: 31%; 1997: 33%)	(44)	98	149
Temporary differences between taxable and accounting profit:			
Accelerated capital allowances	16	10	3
Other timing differences	8	(27)	14
ACT written off	3	–	–
Prior year credit	(6)	(4)	(19)
Tax credit on contribution to Qualifying Employee Share Ownership Trust	–	(10)	–
Permanent differences	4	15	(3)
	(19)	82	144

7. Result of the Company

Of the Group loss after taxation, £74m (1998: profit £225m; 1997: profit £209m) is attributable to the Company. The Company has taken advantage of the exemption contained in the Companies Act 1985 allowing it not to present its own profit and loss account.

8. Dividends

	1999 £m	1998 £m	1997 £m
On ordinary shares:			
Interim dividend of 3p (1998: 3p; 1997: 3p) per share	62	58	61
Proposed final dividend of 7p (1998: 7p; 1997: 7p) per share	139	137	143
	201	195	204

The increase in the cost of the dividends in 1999 reflects the effect of shares transferred from the QUEST on 1 April 1998 on the exercise of employee share options (see Note 9 below).

9. Earnings per ordinary share

Basic loss per ordinary share has been calculated by dividing the loss attributable to shareholders of £81m (1998: profit £226m; 1997: profit £310m) by 1,980m (1998: 1,975m; 1997: 2,037m) ordinary shares being the weighted average number of shares outstanding during the period. The trustee of the Qualifying Employee Share Ownership Trust (QUEST) has waived all but a nominal amount of the dividend on the trust's holding of shares in the Company, and these shares are therefore not included in the calculation of earnings per ordinary share. For the purpose of calculating diluted loss per share, the weighted average number of shares outstanding has been adjusted for the dilutive effects of options outstanding. This increases the weighted average number of shares used in the calculation by 3m (1998: 34m; 1997: 38m). The (loss)/profit attributable to shareholders is not affected.

10. Tangible fixed assets

	The Company				The Group			
	Land and buildings £m	Plant and machinery £m	Assets in course of construction £m	Total £m	Land and buildings £m	Plant and machinery £m	Assets in course of construction £m	Total £m
Cost at beginning of year	563	4,741	252	5,556	883	6,237	303	7,423
Additions	3	63	51	117	6	86	97	189
Acquisitions	-	-	-	-	4	20	-	24
Disposals	(2)	(67)	-	(69)	(8)	(94)	-	(102)
Exchange rate adjustments	-	-	-	-	7	19	-	26
Transfers and other movements	(2)	259	(228)	29	3	272	(275)	-
Cost at end of year	562	4,996	75	5,633	895	6,540	125	7,560
Depreciation at beginning of year	414	3,098	-	3,512	560	3,852	-	4,412
Charge for year	14	202	-	216	29	284	-	313
Acquisitions	-	-	-	-	2	13	-	15
Disposals	(1)	(63)	-	(64)	(5)	(80)	-	(85)
Exchange rate adjustments	-	-	-	-	2	8	-	10
Transfers and other movements	-	15	-	15	(1)	1	-	-
Depreciation at end of year	427	3,252	-	3,679	587	4,078	-	4,665
Net book value at 3 April 1999	135	1,744	75	1,954	308	2,462	125	2,895
Loose plant, tools and spares (net book value)				287				345
				2,241				3,240
Net book value at 28 March 1998	149	1,643	252	2,044	323	2,385	303	3,011
Loose plant, tools and spares (net book value)				275				324
				2,319				3,335

(i) Included above are fully depreciated assets with an original cost of £1,332m (1998: £1,127m) which are still in use. In addition, there are fully depreciated assets with an original cost of £139m (1998: £101m) which are permanently out of use and pending disposal, demolition or reapplication elsewhere in the business.

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
(ii) The net book value of land and buildings comprises:				
Freehold	128	142	294	311
Long leasehold (over 50 years unexpired)	6	7	12	11
Short leasehold	1	-	2	1
	135	149	308	323
(iii) The net book value of plant and machinery comprises:				
Assets held under finance leases:				
Cost	180	185	156	161
Accumulated depreciation	(141)	(137)	(117)	(113)
	39	48	39	48
Owned assets	1,705	1,595	2,423	2,337
	1,744	1,643	2,462	2,385
(iv) The net book value of loose plant, tools and spares comprises:				
Cost	517	499	625	594
Provisions	(230)	(224)	(280)	(270)
	287	275	345	324

Loose plant, tools and spares are shown at net book value. Due to the substantial number of items involved, and the many variations in their estimated useful lives, it is impracticable to give the details of movements normally disclosed in respect of tangible fixed assets.

11. Fixed asset investments

	The Company							Total £m
	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Interests in joint ventures and associated undertakings unlisted £m	Loans to joint ventures and associated undertakings £m	Other investments £m	Other loans £m	Own shares £m	
Cost at beginning of year	1,079	627	10	1	-	7	18	1,742
Additions	34	1	-	-	-	-	-	35
Disposals and repayments	-	(61)	-	-	-	-	(18)	(79)
Exchange translation differences	-	23	-	-	-	-	-	23
Cost at end of year	1,113	590	10	1	-	7	-	1,721
Provisions at beginning of year	80	75	2	-	-	-	-	157
Additions	8	-	-	-	-	-	-	8
Provisions at end of year	88	75	2	-	-	-	-	165
Net book value at 3 April 1999	1,025	515	8	1	-	7	-	1,556
Net book value at 28 March 1998	999	552	8	1	-	7	18	1,585

	The Group					Total £m
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	
Cost at beginning of year	109	1	172	8	18	308
Additions	7	6	-	-	-	13
Disposals	-	-	(49)	(2)	(18)	(69)
Exchange translation differences	4	-	-	-	-	4
Cost at end of year	120	7	123	6	-	256
Share of post acquisition reserves at beginning of year	13	-	-	-	-	13
Share of results in year retained	(18)	-	-	-	-	(18)
Exchange translation differences	(2)	-	-	-	-	(2)
Share of post acquisition reserves at end of year	(7)	-	-	-	-	(7)
Provisions at beginning and end of year	9	-	-	-	-	9
Net book value at 3 April 1999	104	7	123	6	-	240
Net book value at 28 March 1998	113	1	172	8	18	312

- (i) The Company net book value of shares in subsidiary undertakings includes £323m (1998: £323m) in respect of shares in Avesta Sheffield AB, listed overseas, quoted value £195m (1998: £310m).
- (ii) Other investments above amounting to £117m (1998: £166m) represent amounts held by Crucible Insurance Company Limited to fund insurance liabilities of the Group. Of this amount £42m (1998: £33m) relates to UK listed investments, market value £42m (1998: £35m) and £55m (1998: £94m) is listed overseas, market value £57m (1998: £124m).
- (iii) Other investments have contractual maturities within one year of £12m, between two and five years of £21m and greater than five years of £76m. The remaining investments do not have contractual maturity dates.
- (iv) Own shares amount to 289,906 (nominal value: £144,953; market value: £360,933) and are held in a QUEST to satisfy future exercise of options under the British Steel Sharesave Scheme.
- (v) The Company's principal subsidiary and associated undertakings are listed on pages 52 and 53.

12. Stocks

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Raw materials and consumables	200	228	259	312
Work in progress	128	147	315	388
Finished goods and goods for resale	198	208	433	522
	526	583	1,007	1,222

13. Debtors

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Amounts falling due within one year:				
Trade debtors	565	712	1,076	1,383
Less allowances for doubtful debts	(20)	(20)	(36)	(34)
	545	692	1,040	1,349
Amounts owed by subsidiary undertakings	118	167	-	-
Amounts owed by joint ventures	9	21	14	28
Amounts owed by associated undertakings	1	7	1	8
UK corporation tax	90	21	68	23
Other debtors	49	65	108	118
	812	973	1,231	1,526
Amounts falling due after more than one year:				
Advance corporation tax	-	35	-	35
Prepaid pension costs (Note 31)	77	75	84	82
	889	1,083	1,315	1,643

14. Short term investments

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Deposits within 3 months of maturity when acquired	252	125	322	183
Other short term deposits	881	849	884	860
	1,133	974	1,206	1,043

An analysis of short term deposits by currency is set out below:

	1999 £m	1998 £m	1999 £m	1998 £m
Sterling	1,133	968	1,146	969
Swedish Kronor	-	-	7	2
Deutschmarks	-	6	10	25
Netherlands Guilders	-	-	-	6
USDollars	-	-	28	18
Canadian Dollars	-	-	3	7
French Francs	-	-	6	12
Others	-	-	6	4
	1,133	974	1,206	1,043

Deposits are for periods not exceeding one year and the average weighted interest rate was 5.4%.

15. Creditors: amounts falling due within one year

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Bank overdrafts (Note 17)	15	15	56	63
Other loans (Note 17)	3	-	17	2
Obligations under finance leases (Note 17)	7	8	8	8
Trade creditors	489	547	733	853
Amounts owed to subsidiary undertakings	16	16	-	-
Amounts owed to joint ventures	7	4	9	10
Amounts owed to associated undertakings	1	2	1	2
Dividends payable to shareholders	140	137	140	137
Dividends payable to minority shareholders	-	-	-	7
UK corporation tax	-	-	-	27
Advance corporation tax	14	47	14	47
Overseas taxes	-	-	4	9
Other taxation and social security	30	28	55	65
Other creditors	206	298	322	442
	928	1,102	1,359	1,672

Loans of £378m (1998: £378m) drawn down under bilateral facilities extending to 2004 have been included in Creditors: amounts falling due after more than one year as amounts borrowed for short term periods may be renewed at the Company's option. Interest has been charged at rates varying between 3.1% and 6% on those loans during the year.

Other creditors include amounts provided in respect of capital expenditure, insurances, holiday pay, other employment costs and sundry other items.

16. Creditors: amounts falling due after more than one year

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Borrowings (Note 17):				
11.5% Debenture Stock 2016	150	150	150	150
6.75% Bonds 2008	198	-	198	-
Bank and other loans	378	381	436	488
Obligations under finance leases	39	47	41	49
	765	578	825	687
Amounts owed to subsidiary undertakings	593	507	-	-
Other creditors	-	1	27	36
	1,358	1,086	852	723

Amounts owed to subsidiary undertakings represent loans with no fixed repayment date.

17. Borrowings and finance leases

(i) The currency and interest exposure of gross borrowings of the Group at 3 April 1999 is as follows:

	Weighted average interest rate %	Weighted average time for which rate is fixed years	Fixed rate borrowings £m	Floating rate borrowings £m	Total 1999 £m	Total 1998 £m
Sterling	8.8	11.7	393	18	411	224
US Dollars	5.9	1.0	5	376	381	360
Euros	-	-	-	18	18	-
Deutschmarks	-	-	-	45	45	61
Netherlands Guilders	-	-	-	13	13	27
French Francs	-	-	-	10	10	15
Swedish Kronor	5.9	3.5	10	3	13	44
Other	-	-	-	15	15	29
			408	498	906	760

The majority of floating rate borrowings are bank borrowings bearing interest rates based on LIBOR or official local rates. These rates are fixed for periods of up to six months.

The weighted average interest rate on short term borrowings was 4.5% (1998: 6.5%).

17. Borrowings and finance leases continued

(ii) The maturity of borrowings is as follows:

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
In one year	29	27	85	77
Between one and two years	11	14	42	31
Between two and three years	10	11	33	13
Between three and four years	10	11	11	44
Between four and five years	93	388	94	438
More than five years	654	174	659	182
	807	625	924	785
Less: amounts representing interest in future minimum lease payments	(17)	(24)	(18)	(25)
	790	601	906	760
Amounts falling due within one year	25	23	81	73
Amounts falling due after more than one year	765	578	825	687

- (iii) At 3 April 1999 the Group has undrawn committed borrowing facilities of £361m (1998: £290m) of which £49m expire in less than one year, £62m between one and two years and £250m in more than two years. Total unutilised bank facilities are £788m (1998: £727m). These facilities contain various covenants, the most onerous of which is that Group shareholders' funds shall not be less than £2,500m.
- (iv) The Debenture Stock is secured by a floating charge over the assets of the Company and certain subsidiary undertakings. The Debenture Stock contains various covenants, the most onerous of which is that the aggregate value of tangible assets of the Company situated in the UK of certain subsidiary undertakings shall not be less than £2,000m.
- (v) The Bonds are unconditional and unsecured. Under the terms of the Bonds the Company has agreed that no further charges will be created over the assets other than the Debenture Stock described in (iv) above.

18. Currency analysis of net assets

The Group's net assets (excluding cash, short term investments and borrowings) by principal currency at 3 April 1999 are:

	Net assets by currency of operations £m	Cash and short term investments £m	Gross borrowings £m	Net investment £m
Sterling	3,278	1,225	(411)	4,092
US Dollars	288	34	(346)	(24)
Deutschmarks	67	28	(46)	49
Swedish Kronor	408	30	(49)	389
Other	153	52	(54)	151
	4,194	1,369	(906)	4,657

The above foreign currency assets and liabilities are matched, either because they are denominated in the same currency as the operations to which they belong or the foreign currency borrowing provides a hedge against a foreign equity investment (see Presentation of accounts and accounting policies note VII).

The Group hedges substantially 100% of its contracted currency transaction exposure by way of forward currency exchange contracts and options. In this respect, no material gains or losses are recognised in the profit and loss account.

19. Fair values of the Group's financial instruments

The major financial risks facing the Group and the objectives and policies for holding financial instruments are discussed in the Financial review on page 15.

	Book value 1999 £m	Fair value 1999 £m	Book value 1998 £m	Fair value 1998 £m
Financial assets:				
Cash and short term investments (i)	1,369	1,369	1,206	1,206
Other investments (ii)	123	125	172	204
Financial liabilities:				
Short term borrowings (i)	(81)	(81)	(73)	(73)
Long term borrowings (iii)	(825)	(930)	(687)	(763)
Unrecognised financial instruments:				
Forward foreign exchange contracts (iv)	-	7	-	2

The following notes summarise the principal methods and assumptions that are used in estimating the fair values of financial instruments.

Investment securities and long term borrowings are valued at market prices. The fair values of derivatives generally reflect the estimated amounts that the Group would receive or pay to terminate the contracts at 3 April 1999, thereby taking into account the current unrealised gains or losses of open contracts. Market rates are available for all of the Group's derivatives.

- (i) The fair values of cash, short term investments and short term borrowings approximate to their book values due to their short term nature.
- (ii) Fair values of other investments are provided by independent fund managers, and are based on quoted market prices or dealer quotes.
- (iii) £498m (1998: £472m) of long term borrowings are with variable rate terms, for which carrying amount approximates to fair value because of the frequency of re-pricing at market value. The remaining £408m (1998: £215m) of borrowings are fixed. For these, fair values are based on quoted market value where appropriate, or are estimated by discounting future cash flows using rates currently available to the Group for borrowings with similar terms.
- (iv) The fair value of forward foreign exchange contracts is the net amount that the Group would receive or pay, after settlement of transactions already recorded in the balance sheet.
- (v) Short term debtors and creditors are excluded from the table.

None of the above mentioned instruments is used by British Steel for the purposes of speculation.

	Total gains £m
Unrecognised gains on hedges at 28 March 1998	2
Gains arising in previous years recognised in current year	2
Gains arising before 28 March 1998 not recognised in current year	-
Unrecognised gains arising during current year	7
Unrecognised gains on hedges at 3 April 1999	7
Gains expected to be recognised in 1999/2000	7

20. Financial instruments

British Steel uses certain financial instruments to reduce business risks which arise from its exposure to foreign exchange and interest rate fluctuations. The instruments used, which are confined principally to forward foreign exchange contracts, forward rate agreements and swaps, involve elements of credit and market rate risk in excess of the amounts recognised in the accounts.

Credit risk arises from the possible failure of counter-parties to meet their obligations under the instruments. However counter-parties are established banks and financial institutions with high credit ratings and British Steel continually monitors each institution's credit quality and limits by policy the amount of credit exposure to any one of them. The Group's theoretical risk is the cost of replacement at current market prices of these transactions in the event of default by counter-parties. Management believes that risk of incurring such losses is remote. Underlying principal amounts are not at risk.

Market risk arises as a consequence of fluctuations in foreign exchange rates, interest rates and commodity prices. The market risk associated with financial instruments is controlled by means of trading limits and monitoring systems. The instruments detailed above are employed as hedges of transactions included in the accounts or for firm contractual commitments almost all of which mature within one year.

The contract or notional amounts of financial instruments with off-balance sheet risk are as follows:

	1999 £m	1998 £m
Foreign exchange contracts	766	1,193
Commodity futures and contracts	15	11

Whilst the contract or notional amounts of these instruments reflect the volume of activity in particular classes of financial instrument, they do not represent the considerably lower amount of credit and market risk to which the Group is exposed. British Steel does not believe it is exposed to any material concentrations of credit risk. Details of guarantees are given in Note 26.

21. Provisions for liabilities and charges

	The Company					Total 1999 £m	Total 1998 £m
	Rationalisation costs £m	Deferred tax £m	Insurance (Policy note XV) £m	Pensions (Note 31) £m	Other £m		
At beginning of year	81	9	–	2	13	105	129
Profit and loss account	42	4	–	1	(9)	38	6
Utilised in year	(43)	–	–	–	(4)	(47)	(30)
At end of year	80	13	–	3	–	96	105

	The Group					Total 1999 £m	Total 1998 £m
	Rationalisation costs £m	Deferred tax £m	Insurance (Policy note XV) £m	Pensions (Note 31) £m	Other £m		
At beginning of year	127	31	48	53	33	292	341
Exchange translation differences	–	–	–	1	–	1	(7)
Profit and loss account	70	(15)	(14)	4	(5)	40	8
Investment returns	–	–	3	–	–	3	4
Reclassifications	–	–	–	–	–	–	2
Utilised in year	(69)	–	(5)	(2)	(7)	(83)	(56)
At end of year	128	16	32	56	21	253	292

(i) The Group charge for rationalisation includes £64m of redundancy costs relating to 2,971 employees across manufacturing, selling, distribution and administration. Of the £60m redundancy provisions held at the beginning of the year, £40m has been utilised in the year in respect of 1,882 employees. £84m of redundancy costs are included within the closing provision, relating to 3,692 employees. Although the precise timing of expenditure in respect of rationalisation provisions is not known, the majority is expected to be incurred within one year.

(ii) Deferred tax provided and the full potential liability is made up as follows:

	The Company				The Group			
	Amount provided		Full potential liability		Amount provided		Full potential liability	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Pension prepayment	25	25	25	25	25	26	25	26
Accelerated capital allowances	–	–	343	358	32	11	451	458
Remittance of overseas profits	–	1	–	1	–	14	–	14
Other timing differences	(12)	(17)	(36)	(43)	(41)	(20)	(90)	(44)
	13	9	332	341	16	31	386	454

(iii) Other provisions include postretirement benefits and environmental provisions for which the timing of any potential expenditure is uncertain.

22. Share capital

The share capital of the Company is shown below:

	Authorised		Allotted, called up and fully paid	
	1999 £m	1998 £m	1999 £m	1998 £m
2,600,000,000 ordinary shares of 50p each (allotted 1,981,757,020 (1998: 1,981,388,595))	1,300	1,300	991	991

(i) 368,425 ordinary shares of 50p each were issued wholly in respect of the exercise of options under the British Steel Sharesave Scheme at prices ranging between 50p and 128p. The aggregate consideration received in respect of these allotments was £418,252 of which £234,039 represented a premium over the nominal value.

(ii) The Company operates three share option schemes for employees. No options have been granted to eligible employees to subscribe for ordinary shares in the Company during the year. The main scheme is the Sharesave Scheme for which the majority of employees with more than six months service are eligible.

22. Share capital continued

Prices at which options are granted under the British Steel Sharesave Scheme must be not less than 80% of the average of the market value of an ordinary share on the London Stock Exchange on the three business days immediately preceding the date of offer of options. Prior to 1997, options were normally exercisable on completion of a five year savings contract. In 1997 the rules of the scheme were amended to allow future options granted to be exercisable on completion of a three or five year savings contract at the choice of the employee.

The British Steel UK Executive Share Option Scheme and the British Steel Overseas Executive Share Option Scheme are schemes for senior executives of British Steel and the share options are exercisable between the third and tenth anniversary of the grant. Prices at which options are granted are the average of the market value of an ordinary share on the London Stock Exchange on the three business days immediately preceding the date of grant.

Options outstanding at 3 April 1999 together with their exercise prices and dates of exercise are as follows:

	Number of participants 3 April 1999	Number of participants 28 March 1998	Price per share	Normal dates of exercise	Number of ordinary shares	
					1999	1998
British Steel Sharesave Scheme	2,251	7,146	126p	2000	10,691,504	12,437,762
	8,390	10,173	128p	2001	20,991,272	24,487,506
	5,080	6,117	113p	2001	10,904,429	13,225,861
	7,574	8,488	113p	2003	28,176,182	31,585,266
British Steel UK Executive Share Option Scheme	3	4	143 1/2p	1992–1999	13,300	21,700
	2	2	118 1/2p	1993–2000	43,400	43,400
	6	6	94p	1996–2003	497,300	497,300
	92	108	137p	1997–2004	2,132,300	2,478,100
	114	129	166p	1998–2005	2,155,200	2,412,500
	68	69	176p	1999–2006	500,200	509,500
	192	196	156p	2000–2007	1,817,000	1,856,500
British Steel Overseas Executive Share Option Scheme	1	2	166p	1998–2005	6,600	35,000
	114	122	176p	1999–2006	2,164,400	2,313,500
	136	143	156p	2000–2007	2,951,000	3,106,400

Movements in ordinary shares under option schemes are as follows:

	Sharesave Scheme		Executive Share Option Schemes		
	number	Weighted average price	UK Executive number	Overseas number	Weighted average price
At 30 March 1996	85,723,344	92p	6,517,800	35,000	140p
Granted	–	–	509,500	2,313,500	176p
Exercised	(1,058,938)	59p	(685,400)	–	97p
Forfeited, expired or lapsed	(4,492,581)	109p	(163,400)	–	150p
At 29 March 1997	80,171,825	92p	6,178,500	2,348,500	155p
Granted	44,924,351	113p	1,856,500	3,106,400	156p
Exercised	(1,140,264)	75p	(192,700)	–	101p
Forfeited, expired or lapsed	(6,520,937)	122p	(23,300)	–	151p
At 28 March 1998	117,434,975	98p	7,819,000	5,454,900	156p
Exercised	(35,778,519)	50p	–	–	–
Forfeited, expired or lapsed	(10,893,069)	118p	(660,300)	(332,900)	156p
At 3 April 1999	70,763,387	119p	7,158,700	5,122,000	156p
Options were exercisable as follows:					
At 29 March 1997	–	–	649,500	–	97p
At 28 March 1998	–	–	3,040,500	–	130p
At 3 April 1999	–	–	4,841,500	6,600	145p

For the two executive share option schemes the weighted average exercise prices of options granted were equivalent to the market values of the options at the dates of the grants. In the case of the Sharesave Scheme the market value at the date of the grant in 1998 was 129p. At 3 April 1999: 15,272,124 (1998: 14,845,922; 1997: 26,234,007) ordinary shares were available for granting options.

23. Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Statutory reserve £m	Profit and loss account £m	Joint ventures and associated undertakings reserves £m	Total £m
The Group							
At 30 March 1996	1,018	17	-	2,338	1,304	46	4,723
Profit retained	-	-	-	-	109	(3)	106
Exchange translation differences on foreign currency net investments	-	-	-	-	(80)	(1)	(81)
New shares issued	1	-	-	-	-	-	1
Goodwill arising on consolidation	-	-	-	-	(5)	-	(5)
Reversal of goodwill write-off through profit and loss account on disposal	-	-	-	-	9	4	13
Disposals and transfers	-	-	-	-	15	(15)	-
At 29 March 1997	1,019	17	-	2,338	1,352	31	4,757
Profit retained	-	-	-	-	44	(13)	31
Exchange translation differences on foreign currency net investments	-	-	-	-	(28)	(1)	(29)
Share buy back	(47)	-	47	-	(146)	-	(146)
New shares issued	19	34	-	-	(34)	-	19
Goodwill arising on consolidation	-	-	-	-	(10)	-	(10)
Disposals and transfers	-	-	-	-	4	(4)	-
At 28 March 1998	991	51	47	2,338	1,182	13	4,622
Loss retained	-	-	-	-	(264)	(18)	(282)
Exchange translation differences on foreign currency net investments	-	-	-	-	8	(2)	6
At 3 April 1999	991	51	47	2,338	926	(7)	4,346
The Company							
At 29 March 1997	1,019	17	-	2,338	985	-	4,359
Profit for financial year	-	-	-	-	225	-	225
Share buy back	(47)	-	47	-	(146)	-	(146)
New shares issued	19	34	-	-	(34)	-	19
Dividends	-	-	-	-	(195)	-	(195)
At 28 March 1998	991	51	47	2,338	835	-	4,262
Loss for financial year	-	-	-	-	(74)	-	(74)
Dividends	-	-	-	-	(201)	-	(201)
At 3 April 1999	991	51	47	2,338	560	-	3,987

- (i) £381m of the statutory reserves is available for distribution; the balance of £1,957m constitutes restricted reserves which may only be applied by the Company in paying up unissued shares to be allotted to its members as fully paid bonus shares.
- (ii) Distributable retained profits of subsidiary and associated undertakings attributable to the Group include £335m (1998: £373m; 1997: £406m) retained overseas. The deferred taxation provision includes £nil (1998: £14m; 1997: £16m) in respect of UK corporation tax on planned future remittances of the accumulated reserves of overseas subsidiaries. Except for the above, deferred tax has not been provided on earnings retained overseas as it is not intended to remit earnings which would give rise to significant UK tax liabilities after taking account of any related double tax relief.
- (iii) Retained profits of subsidiary undertakings include £13m (1998: £18m; 1997: £25m) which amount is considered by the directors as not available for distribution.
- (iv) The cumulative net goodwill written off to Group reserves resulting from acquisitions to 28 March 1998 amounts to £325m (1998: £325m; 1997: £315m) (see Presentation of accounts and accounting policies note II).
- (v) There was a foreign exchange loss of £20m arising on certain foreign currency borrowings. This has been set off against exchange differences on foreign currency investments. The cumulative effect of exchange translation differences since the formation of British Steel plc is to reduce shareholders' funds by £72m.

24. Future capital expenditure

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Contracted but not provided for	18	57	32	65
Authorised but contracts not yet placed	31	50	38	66

The above figures incorporate an estimate for future inflation.

25. Operating leases

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Committed amounts payable for the next year are:				
Leases of land and buildings expiring:				
Within one year	-	-	1	1
In years two to five	-	-	2	2
After more than five years	7	6	9	8
	7	6	12	11
Other leases expiring:				
Within one year	-	-	3	2
In years two to five	1	1	7	7
	1	1	10	9

Future minimum lease payments for the Group at 3 April 1999 are:

In one year	22	20
Between one and two years	18	18
Between two and three years	16	14
Between three and four years	12	12
Between four and five years	10	10
More than five years	78	84

26. Contingencies

	The Company		The Group	
	1999 £m	1998 £m	1999 £m	1998 £m
Guarantees given under trade agreements	14	14	15	15
Guarantees given in respect of borrowings of certain overseas subsidiary undertakings	12	12	-	-
Uncalled share capital	-	-	1	1
Others	3	1	8	20

There are also contingent liabilities in the ordinary course of business in connection with the completion of contractual arrangements.

Following investigations by officials of the European Commission in respect of alleged anti-competitive behaviour since 1984 with regard to beams supplied to the construction industry, proceedings were initiated in May 1992 and, in February 1994, the European Commission imposed fines totalling ecu104.4m (£79m) on 14 European steel makers, including British Steel. Provision in the sum of ecu32m (£24m) was made in the 1993/94 financial statements for the full amount of British Steel's fine. The Company lodged this amount with the European Commission in June 1994 but appealed to the Court of First Instance of the European Communities against the European Commission's decision. The appeal was heard in March 1998 and the decision was given in March 1999. A reduction in the fine of euro12m (£8m) was achieved. A further (and final) appeal to the European Court of Justice was initiated by the Company in May 1999. Pending the outcome of this appeal and the possibility of an appeal by the European Commission, the 1998/99 financial statements take no account of the fine repayment.

In April 1998 the Company received a writ from BHP and others seeking damages of approximately £230m. The writ concerns seamless steel pipe supplied by British Steel in 1993 for use in the Liverpool Bay Oil and Gas Development. The pipe was manufactured by antalian subcontractor, Dalmine Tupi Industriali SRL, now Dalmine SpA, who is also a defendant to the action. British Steel played no part in the design, welding or installation of the pipe or in the management of the project. British Steel had received no communication about any such claim until almost 4 years after the delivery of the pipe. British Steel has been advised by its lawyers that it has strong defences to the claim on a variety of legal and factual bases. British Steel denies that it is responsible for the failure of the pipe and intends to defend the action vigorously.

26. Contingencies continued

There has within the European steel industry historically been close co-operation among steel companies, the European Commission and governments. European steel producers individually and through trade associations have played an important part in conjunction with both the European Commission and governments in the process of attempting to resolve problems of excess capacity, its causes and its consequences. Trade associations and other industry groups cover a wide range of issues where there is a need for a common industry voice, including international trade policies, social and environmental control issues, research and development matters, market conditions and various aspects of the sale and marketing of related steel products. British Steel's policy with respect to the continuation of its membership of and role in these organisations is influenced by the attitude of the enforcement authorities (including the European Commission and authorities in other jurisdictions), which continue to make investigations at their discretion. Enforcement authorities' attitudes may be dependent on economic, market and political circumstances and therefore subject to change, including retrospective change, from time to time.

In December 1994 the European Commission inspected various tube and pipe producers including British Steel. The Company, together with certain other tube manufacturers, received Statements of Objections in January 1999 from the European Commission concerning alleged anti-competitive behaviour with regard to the supply of some seamless and large diameter pipes, to which the Company replied in April 1999. An oral hearing has taken place in June 1999.

HM Customs & Excise have been ordered by the Court of Appeal to repay hydrocarbon oil duty paid by British Steel between 1988 and 1993 as it qualifies for relief from excise duty. At present it is not practicable to determine the amount of repayment accurately and no recognition of the repayment has been made in these accounts. The directors do not believe the repayment will be significant in relation to Group and Company net assets.

27. Acquisitions and disposals

On 5 May 1998, British Steel acquired the remaining interest in British Steel Yassan Profil Ticaret ve Sanayi AS for £1m and on 23 March 1999 acquired Catnic Limited from Caradon Plc for a deferred consideration of £14m which is included in creditors. The purchase considerations are being met from the Group's cash resources and the acquisitions have been accounted for by the acquisition method of accounting. There were no material differences between book values and fair values. The net assets acquired comprise:

	£m
Tangible fixed assets	9
Stocks	3
Debtors	7
Cash	1
Current liabilities	(4)
Long term liabilities	(1)
	15
Cost of investment:	
Cash paid in 1998/99	(1)
Cash to be paid 1999/2000	(14)
Goodwill	-

28. Reconciliation of operating profit to net cash inflow from operating activities

	1999 £m	1998 £m	1997 £m
Operating (loss)/profit	(174)	265	376
Depreciation (net of grants released)	304	295	288
Change in pension prepayments and provisions	(5)	(1)	(22)
Increase/(decrease) in provisions for doubtful debts	6	-	(1)
Reduction in insurance and other provisions	(22)	(6)	(5)
Movement in loose plant, tools and spares	(20)	(11)	(6)
Reduction/(increase) in stocks	227	(16)	67
Reduction/(increase) in debtors	324	(9)	142
(Reduction)/increase in creditors	(204)	17	(27)
Rationalisation costs provided	70	22	69
Utilisation of rationalisation provisions	(69)	(44)	(24)
Net cash inflow from operating activities	437	512	857

29. Analysis of cash flow items

	1999 £m	1998 £m	1997 £m
Returns on investments and servicing of finance			
Interest and other dividends received	97	92	97
Interest paid	(57)	(42)	(44)
Interest element of finance lease rental payments	(6)	(8)	(5)
Dividends paid to minority shareholders in subsidiary undertakings	(7)	(6)	(22)
Net cash inflow from returns on investments and servicing of finance	27	36	26
Taxation:			
UK corporation tax paid	(48)	(178)	(206)
Overseas tax paid	(12)	(5)	(75)
Tax paid	(60)	(183)	(281)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(248)	(396)	(395)
Purchase of other fixed asset investments	-	-	(24)
Sale of tangible fixed assets	24	19	8
Sale of other fixed asset investments	49	11	1
Loans to joint ventures and associated undertakings	(6)	-	-
Repayment of loans	2	-	-
Net cash outflow from capital expenditure and financial investment	(179)	(366)	(410)
Acquisitions and disposals			
Purchase of subsidiary undertakings and businesses (Note 27)	(1)	(31)	(9)
Cash acquired with subsidiary undertakings and businesses	1	-	-
Investment in joint ventures and associated undertakings	(7)	(21)	(7)
Sale of businesses and subsidiary undertakings	1	-	73
Sale of joint ventures and associated undertakings	-	27	-
Net cash (outflow)/inflow from acquisitions and disposals	(6)	(25)	57
Financing			
Amount (applied)/received on account of allotment of shares	(15)	15	-
Issue of ordinary shares	18	1	1
Purchase of own shares	-	(146)	-
Cash inflow/(outflow) from issue of ordinary shares	3	(130)	1
New long term loans	198	105	185
Repayment of borrowings	(59)	(12)	(99)
Capital element of finance lease rental payments	(8)	(5)	(8)
Increase in debt	131	88	78
Net cash inflow/(outflow) from financing	134	(42)	79

30. Analysis of net funds

	1998 £m	Cash Flow £m	Exchange rate movements £m	1999 £m
Cash at bank and in hand	163	(3)	3	163
Bank overdrafts	(63)	8	(1)	(56)
Increase in cash		5		
Short term investments:				
Deposits within 3 months of maturity when acquired	183	136	3	322
Other short term deposits	860	23	1	884
Increase in liquid resources		159		
Long term borrowings	(638)	(125)	(21)	(784)
Other loans	(2)	(14)	(1)	(17)
Obligations under finance leases	(57)	8	-	(49)
Increase in debt		(131)		
	446	33	(16)	463

31. Pension schemes**UK GAAP**

The Group operates a number of pension schemes throughout the world covering the majority of employees. With the exception of Germany and certain unfunded schemes in Sweden and the UK, the assets of these schemes are held in separate independently administered funds. The principal pension scheme of the Group is the British Steel Pension Scheme (1990) (the 'BS Scheme'). British Steel Engineering Steels' employees are members of the British Steel Engineering Steels Pension Scheme (the 'BSES Scheme'). These are defined benefits schemes providing benefits based on final pay and service at retirement.

Pension costs, which have been determined in accordance with actuarial advice and best local practice, were as follows:

	1999 £m	1998 £m	1997 £m
BS and BSES Schemes:			
Regular cost	91	94	97
Variation due to spreading of identified surplus	(44)	(46)	(50)
Interest	(7)	(7)	(6)
BS and BSES Pension costs	40	41	41
Other schemes net pension cost	16	19	21
Total pension costs of the Group	56	60	62

A prepayment in respect of the BS Scheme £87m (1998: £85m; 1997: £83m) is included in debtors, representing the excess of the amounts funded over the pensions charges in previous years. Of the prepayment, £81m (1998: £79m; 1997: £77m) falls due after more than one year.

An amount of £9m (1998: £9m; 1997: £12m) has been included in provisions for liabilities and charges, in respect of the BSES Scheme, representing the variation from regular costs to be spread over the expected remaining service lives of the current employees of British Steel Engineering Steels Limited.

In respect of certain other schemes, provisions of £47m (1998: £43m; 1997: £47m) have been included in provisions for liabilities and charges and prepayments of £3m (1998: £3m; 1997: £3m) have been included in debtors falling due after more than one year.

The results of the most recent actuarial valuations of the principal schemes, which were carried out by independent qualified actuaries, were as follows:

	BS Scheme	BSES Scheme
Date of last formal valuation	31 March 1996	6 April 1996
Actuarial method used	Projected unit	Projected unit
Market value of assets at last valuation date	£m 6,440	467
Level of funding, being the actuarial value of assets expressed as a percentage of the actuarial value of the accrued benefits after allowing for expected future increases in pay and pension	% 112	103
Main assumptions		
Wages and salaries increases p.a.	% 5.75	6.50
Return on investments	% 8.50	9.00
Pension increases p.a.	% 4.00	4.00
Dividends increases	% 3.75	4.75
Next formal valuation to be carried out as at	31 March 1999	6 April 1999

US GAAP

For the purpose of determining annual pension costs in accordance with USGAAP the Group adopts US Statements of Financial Accounting Standards SFAS Nos. 87 & 88. This year, the Group has adopted SFAS No. 132 'Employers' Disclosures about Pensions and other Postretirement Benefits'. This Statement standardises the disclosure requirements and has no impact upon pensions measurements and recognition.

The components of the BSScheme's pension cost under SFAS No. 87 are as follows:

	1999 £m	1998 £m	1997 £m
Service cost	146	122	96
Interest cost	381	438	430
Expected return on scheme assets	(549)	(554)	(554)
Recognised gains	-	-	(49)
Amortisation of prior service cost	27	25	25
Amortisation of transitional asset	(4)	(4)	(5)
Net periodic benefit cost under SFAS No. 87	1	27	(57)

The defined benefit obligations for the BS Scheme were determined using the following assumptions:

	1999 %	1998 %	1997 %
Discount rate	4.75	6.00	7.75
Rate of future salary increases	4.25	4.75	5.75
Rate of future pension increases	2.50	3.00	4.00
Expected long term rate of return on scheme assets	7.75	8.75	9.00

31. Pension schemes continued**US GAAP** continued

The disclosure requirements of SFAS No. 132, as calculated under SFAS No. 87, are as follows:

	1999 £m	1998 £m
Change in benefit obligation:		
Benefit obligation at beginning of year	6,523	5,821
Service cost	146	122
Interest cost	381	438
Employee contributions	37	38
Actuarial movement	591	439
Other changes	39	7
Benefits paid	(431)	(342)
Benefit obligation at end of year	7,286	6,523
Change in scheme assets:		
Fair value of scheme assets at beginning of year	8,347	6,869
Actual return on scheme assets	738	1,740
Employer contributions	35	35
Employee contributions	37	38
Other changes	39	7
Benefits paid	(431)	(342)
Fair value of scheme assets at end of year	8,765	8,347
Funded status:		
Fair value of scheme assets at end of year	8,765	8,347
Projected benefit obligation	(7,286)	(6,523)
Assets in excess of projected benefit obligation	1,479	1,824
Reconciliation of funded status:		
Prepaid pension cost	259	226
Unrecognised net gain at date of initial application of SFAS No. 87	13	17
Unrecognised prior service cost	(76)	(103)
Other unrecognised net gain	1,283	1,684
Assets in excess of projected benefit obligation	1,479	1,824

On adoption of SFAS No. 87 there was a transitional asset of £64m representing the excess of the market value of the BS Scheme's investments over its liabilities in respect of past service (with full allowance for future salary increases), the projected benefit obligation. This amount is being recognised in equal instalments over fifteen years since adoption.

Improvements in death in service benefits granted in 1988 and changes in the pension arrangements made in 1990 are reflected in prior service costs. Prior service costs are amortised on a straight-line basis over the average remaining service period of employees active at the date of amendment. At 3 April 1999, there was an unrecognised actuarial gain of £1,283m (1998: £1,684m) arising out of actual experience differing from assumptions made primarily in respect of investment performance. Cumulative actuarial gains or losses excluding asset gains and losses not yet reflected in market-related value which exceed 10% of the greater of the projected benefit obligation and the market-related value of the scheme's assets will be amortised on a straight-line basis over the average remaining service period of active employees. The cumulative gain as at 28 March 1998 was not sufficiently large to require future amortisation.

The BSScheme's assets are invested in UK equities, fixed interest and index-linked securities, overseas equities and property.

32. Emoluments of directors

Details of directors' emoluments and share options are shown on pages 20 to 21 and 24 to 25.

Principal subsidiary undertakings, joint ventures and associated undertakings

The most important subsidiary undertakings, joint ventures and associated undertakings of the Group at 3 April 1999 are set out below. A complete list of subsidiary and associated undertakings will be attached to the Annual Return to the Registrar of Companies.

Country names are countries of incorporation. Undertakings operate principally in their country of incorporation except where otherwise stated.

Subsidiary undertakings

Steel producing, further steel processing or related activities:

England and Wales

Avesta Sheffield Holdings Limited (51% owned)	
Avesta Sheffield Distribution Limited (51% owned)	
British Steel Engineering Steels Limited	
(also capped participation shares and non-cumulative redeemable convertible capped participation preference shares)	
British Steel Large Diameter Pipes Limited	a
Catnic Limited	a
CEDG Limited	a
British Steel Cold Drawn Tubes Limited	a
Industrial Steels (UK) Limited	a
European Electrical Steels Limited (75% owned)	a
Orb Electrical Steels Limited (75% owned)	a
Tubular Supply Services Limited	a

Australia

Avesta Sheffield Pty Limited (51% owned)

Austria

Avesta Sheffield GesmbH (51% owned)

Belgium

British Steel Belgium Sprl
Fischer Profielen NV

Canada

Avesta Sheffield Inc (51% owned)
British Steel Canada Inc
Cor Mag Inc (75% owned)

Czech Republic

Avesta Sheffield s.r.o (51% owned)
British Steel Central Europe s.r.o

Denmark

Avesta Sheffield A/S (51% owned)
British Steel Denmark A/S
Inter Profiles A/S

Finland

Avesta Sheffield Oy (51% owned)
British Steel Finland Oy

France

Avesta Sheffield SA (51% owned)
British Steel France SA

Germany

August Degels Eisengrosshandel GmbH
Avesta Sheffield GmbH (51% owned)
British Steel Blume GmbH
British Steel Distribution Germany GmbH
British Steel Deutschland GmbH
Fischer Profil GmbH
Mannstaedt-Werke GmbH & Co

a

Hong Kong

Avesta Sheffield Asia Pacific Limited (75.5% owned)
British Steel (Asia) Limited

Ireland (Republic of)

Avesta Sheffield Ireland Limited (51% owned)
British Steel Ireland Limited
The Steel Company of Ireland Limited

Italy

Avesta Sheffield SpA (51% owned)

Netherlands

Avesta Sheffield Holdings BV (51% owned)
British Steel Sales Office Nederland BV
Feijen Staalservice BV
Multi Steel BV
Profiel 2000 BV
Van der Vliet & de Jonge BV

New Zealand

British Steel New Zealand Limited

Norway

Avesta Sheffield A/S (51% owned)
British Steel Norge A/S
Sitas Profil A/S

Poland

British Steel Polska Sp.zo.o

Portugal

Chaperfil Revestimentos Metalicos LDA

Singapore

Avesta Sheffield (SEA) Pte Limited (50.5% owned)

Spain

Avesta Sheffield SA (51% owned)
British Steel SA

Sweden

Avesta ABE AB (51% owned)
Avesta Chemicals AB (51% owned)
Avesta Nordic Service Center AB (51% owned)
Avesta Prefab AB (51% owned)
Avesta Press-Plate AB (51% owned)
Avesta Sandvik Tube AB (38.25% owned)
Avesta Sheffield AB (51% owned)
Avesta Sheffield Precision Strip AB (51% owned)
Avesta Udeholm Stainless Bar AB (51% owned)
Avesta Welding AB (51% owned)
Binox AB (51% owned)
Billing Metal Trading AB (51% owned)
British Steel Svenska AB
Surahammars Bruk AB (75% owned)
Visent Invest AB (51% owned)
Visenta Försäkringsaktiebolag (51% owned)

c

a

Turkey

British Steel Yassan Profil Ticaret ve Sanayi AS

USA

Avesta Sheffield Inc NAD (51% owned)
British Steel Inc
Nor Mag Inc (75% owned)
Tuscaloosa Steel Corporation

Insurance underwriting for certain risks of the Group:

Isle of Man

Crucible Insurance Company Limited

Other undertakings:

England and Wales

British Steel Industry Limited
British Steel Consultants Limited (operates worldwide)

Joint ventures

Steel processing or related activities:

		Issued capital Number of shares	% held
--	--	------------------------------------	-----------

England and Wales

Caparo Merchant Bar plc	ab		
ordinary shares of £1		2,466,667	25

Norway

Norsk Stål AS			
shares of NOK1,000		63,500	50
Norsk Stål Tynnplater AS			
shares of NOK1,000		26,500	50

Sweden

Fagersta Stainless AB	b		
shares of SEK100		800,000	25.5

Turkey

British Steel Celik Ticaret AS			
shares of TRL100,000		800	50

USA

Trico Steel Co LLC			
ownership interest			25

Associated undertakings

Steel processing or related activities:

		Issued capital Number of shares	% held
--	--	------------------------------------	-----------

Spain

Laminacion y Derivados SA	b		
shares of ESP500		1,494,063	35

Subsidiary undertakings are wholly owned except where otherwise stated and comprise ordinary shares except where otherwise stated. Shares in undertakings marked 'a' are owned directly by British Steel plc, and, in undertakings not so marked, are owned by a subsidiary undertaking of British Steel plc.

Accounts of undertakings marked 'b' are not audited by PricewaterhouseCoopers.

The undertaking marked 'c' is regarded as a subsidiary undertaking as it is controlled through another partially owned subsidiary undertaking.

Supplementary information for North American investors

United States generally accepted accounting principles

The Group prepares its accounts in accordance with generally accepted accounting principles (GAAP) applicable in the UK which differ in certain significant respects from those applicable in the USA. These differences and the adjustments necessary to restate (loss)/profit for financial year and shareholders' equity in accordance with US GAAP are shown in the tables set out below:

	Note	Years ended		
		April 3 1999 £m	March 28 1998 £m	March 29 1997 £m
(Loss)/profit for financial year				
(Loss)/profit attributable to shareholders – UK GAAP		(81)	226	310
Adjustments:				
Amortisation of goodwill	(i)	(14)	(14)	(13)
Profit on disposal of business and associated undertaking	(i)	–	–	9
Interest costs capitalised	(ii)	21	27	19
Depreciation of capitalised interest	(ii)	(10)	(8)	(8)
Pension costs	(iii)	34	(18)	86
Stock-based employee compensation awards	(iv)	(8)	(6)	(4)
Rationalisation costs	(vi)	(14)	14	–
Deferred taxation	(vii)	48	9	26
Minority interests		(17)	–	(11)
(Loss)/profit for financial year – US GAAP		(41)	230	414
Basic (loss)/earnings per ADS in accordance with US GAAP		£(0.21)	£1.16	£2.03
Diluted (loss)/earnings per ADS in accordance with US GAAP		£(0.21)	£1.14	£2.00
Weighted average number of ADSs in issue				
		198	198	204
Effect of options available under stock-based compensation schemes				
		–	3	4
Number of ADSs as basis of calculation of diluted earnings per ADS				
		198	201	208
Shareholders' equity				
Shareholders' equity – UK GAAP		4,346	4,622	
Adjustments:				
Goodwill	(i)	193	207	
Interest costs capitalised (net of depreciation)	(ii)	148	137	
Pension costs	(iii)	137	103	
Stock-based employee compensation awards	(iv)	(19)	(11)	
QUEST shares held in trust	(v)	–	(18)	
Rationalisation costs	(vi)	–	14	
Deferred taxation	(vii)	(448)	(496)	
Investments in equity securities	(viii)	2	31	
Proposed dividend	(ix)	139	137	
Minority interests		3	20	
Shareholders' equity in accordance with US GAAP		4,501	4,746	

Consolidated statement of cash flows

Under UK GAAP, cash flows are classified under operating activities, returns on investments and servicing of finance, tax paid, capital expenditure and financial investments, acquisitions and disposals, equity dividends paid, management of liquid resources and financing. Under USGAAP, cash flows are classified under operating activities, investing activities and financing activities. Under UKGAAP, cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Under US GAAP, cash and cash equivalents are defined as cash and investments with original maturities of three months or less. The statement below shows the adjustments to be made to the UKGAAP cash flow statement to reclassify the cash flow statement to comply with USGAAP.

	Note	1999 £m	1998 £m	1997 £m
Net cash inflow from operating activities in accordance with UK GAAP	28	437	512	857
Dividends from joint ventures and associated undertakings		12	6	12
Returns on investments and servicing of finances	29	27	36	26
Tax paid	29	(60)	(183)	(281)
Net cash provided by operating activities in accordance with US GAAP		416	371	614
Capital expenditure and financial investment	29	(179)	(366)	(410)
Acquisitions and disposals	29	(6)	(25)	57
Net (purchase)/sale of other short term investments	30	(23)	133	(553)
Net cash used in investing activities		(208)	(258)	(906)
Net cash inflow/(outflow) from financing activities	29	134	(42)	79
(Reduction)/increase in short term borrowings	30	(8)	2	17
Equity dividends paid		(201)	(201)	(204)
Net cash used in financing activities in accordance with US GAAP		(75)	(241)	(108)
Exchange translation effects	30	6	(8)	(26)
Net increase/(reduction) in cash and cash equivalents in accordance with US GAAP		139	(136)	(426)
Cash and cash equivalents at beginning of year		346	482	908
Cash and cash equivalents at end of year		485	346	482
Cash and cash equivalents are:				
Cash at bank and in hand		163	163	118
Deposits within 3 months of maturity when acquired	14	322	183	364
		485	346	482

United States generally accepted accounting principles

(i) Goodwill – Until 1998, UK GAAP allowed the write-off of goodwill arising on acquisition direct to retained earnings in the period of acquisition. Negative goodwill was similarly credited direct to shareholders' equity. On disposal of a business, subsidiary undertaking or associated undertaking, any goodwill previously written off or credited to retained earnings on acquisition is written back in assessing the profit or loss on disposal. This was not in accordance with the US practice of amortising acquired goodwill over a period of up to 40 years and applying negative goodwill as a reduction to the net book value of any fixed assets acquired. For the purpose of compliance with US GAAP, goodwill arising on acquisitions prior to March 31, 1990 has been amortised over a period of 5 years. Goodwill arising on acquisitions since that date is being amortised over a maximum period of 20 years. Negative goodwill has been treated as a reduction in fixed asset values. The Company periodically assesses the recoverability of unamortised goodwill based on anticipated future earnings.

(ii) Capitalisation of interest costs relating to the construction of property, plant and equipment – UK GAAP does not require the capitalisation of interest costs incurred in connection with the financing of expenditures for the construction of property, plant and equipment. Such costs are required to be capitalised under US GAAP. For the purpose of compliance with US GAAP the amount of interest that would have been capitalised on construction costs incurred on major capital projects has been determined and depreciated over the lives of the related assets.

(iii) Pensions – UK GAAP requires the expected cost of providing pension benefits to be expensed so as to spread the cost over the expected average remaining service lives of employees (Note 31). Under US GAAP the annual pension cost comprises the estimated cost of benefits accruing in the period plus/(less) an adjustment where the scheme is in deficit/(surplus) at the time the standard was adopted. The charge is further adjusted to reflect the cost of benefit improvements and any surpluses/deficits which emerge as a result of the actuarial assumptions made not being borne out in practice. For US purposes, only those surpluses/deficits falling outside a 10% fluctuation 'corridor' are being recognised.

(iv) Stock-based employee compensation awards – UK GAAP does not require the recognition of compensation cost under its employee share option schemes. US GAAP requires a fair value based method of accounting for stock-based employee awards for transactions entered into after December 15, 1994. There were no awards in 1999. The charge for the year reflects the cost of options granted in previous years. For the purpose of compliance with US GAAP the fair value of awards in previous years has been estimated using the Black-Scholes option pricing model and the following weighted average assumptions were used: (1) risk free interest rate: 1998: 6.7%; 1997: 8%, (2) expected life: 1998: 4.6 years; 1997: 6 years, (3) expected volatility: 1998: 35%; 1997: 35%, (4) dividend yield 1998: 4.45%; 1997: 4.45%. The weighted average fair values of options granted in previous years were 1998: £0.53; 1997: £0.50.

(v) QUEST shares held in trust – Under UKGAAP shares held by the QUEST are recorded as fixed asset investments at cost less amounts written off. Under USGAAP these shares are recorded at cost in the balance sheet as a deduction from shareholders' funds.

(vi) Rationalisation costs – Until 1998, under UK GAAP, when a decision had been taken to restructure, the necessary provisions were made for impairment of asset values together with severance and other costs. Under US GAAP, a number of specific criteria have to be met before rationalisation costs can be recognised as an expense. Following the adoption of FRS12 under UK GAAP there is no significant difference arising.

(vii) Deferred taxation – Under UK GAAP, provision is made for deferred income tax only when it is expected that a liability will become payable in the foreseeable future and at the expected future rates of tax. Advance corporation tax is set off against actual or deferred tax liabilities to the maximum allowable amount and any surplus is written off. US GAAP requires full provision for deferred tax to be made on the basis of enacted tax rates at the year end. Tax losses amounting to £219m (1998: £171m) have not been recognised due to the uncertainty as to their recoverability.

(viii) Investments in equity securities – Under UK GAAP, equity securities are recorded in the balance sheet at cost. Under US GAAP, such securities are carried at fair (market) value and unrealised holding gains and losses are included as a separate component of equity, net of tax effects, for available-for-sale securities.

(ix) Proposed dividend – Under UK GAAP, dividends are provided for in the financial statements for the financial year when they are recommended by the Board of directors. Under US GAAP, dividends are only recorded as a liability after they are declared by the Board of directors. For the purpose of compliance with US GAAP, the proposed dividend payable on August 9, 1999 has been added back to shareholders' equity.

Statement of comprehensive income

The Statement of total recognised gains and losses (page 30) is similar to the Statement of comprehensive income presented in accordance with SFAS No. 130 'Reporting Comprehensive Income'. Under USGAAP, the unrealised holding gains and losses on investments in equity securities (item (viii) of the US GAAP reconciliation on page 54) would be recognised in the Statement of comprehensive income.

New US accounting standards not yet effective

In June 1998, the US Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.133 'Accounting for Derivative Instruments and Hedging Activities' which will not be effective for British Steel until the year ended March 31, 2001. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives). The Company has not adopted any of the provisions of this standard and has not yet evaluated the likely impact on its results.

New UK accounting standards not yet effective

These are discussed in the Review of the year on page 14.

Five year financial summary

Profit and loss account

	Years ended				
	1 April 1995 £m	30 March 1996 £m	29 March 1997 £m	28 March 1998 £m	3 April 1999 £m
Group turnover					
United Kingdom	2,447	3,176	3,111	3,010	2,663
Other European	1,554	2,671	2,772	2,687	2,532
North America	414	609	673	654	657
Other areas	369	592	668	596	407
	4,784	7,048	7,224	6,947	6,259
Group operating profit/(loss)	446	941	376	265	(174)
Share of operating results of joint ventures and associated undertakings	135	129	15	–	(3)
Operating profit/(loss)	581	1,070	391	265	(177)
Profit on disposal of fixed assets	4	11	18	11	8
Profit/(loss) before interest	585	1,081	409	276	(169)
Net interest and investment income	(7)	21	42	39	27
Profit/(loss) on ordinary activities before taxation	578	1,102	451	315	(142)
Taxation	(107)	(276)	(144)	(82)	19
Minority interests	(3)	(49)	3	(7)	42
Profit/(loss) for financial year	468	777	310	226	(81)
Dividends	(152)	(204)	(204)	(195)	(201)
Profit/(loss) retained for the year	316	573	106	31	(282)
Earnings/(loss) per ordinary share in pence	23.21	38.28	15.22	11.44	(4.09)
Dividend per ordinary share in pence	7.5	10.0	10.0	10.0	10.0
Earnings/(loss) per ADS in £	2.32	3.83	1.52	1.14	(0.41)
Dividend per ADS in £	0.75	1.00	1.00	1.00	1.00
Amounts in accordance with US GAAP					
Profit/(loss) for financial year	342	795	414	230	(41)
Earnings/(loss) per ADS in £	1.70	3.92	2.03	1.16	(0.21)

Balance sheet

	Years ended				
	1 April 1995 £m	30 March 1996 £m	29 March 1997 £m	28 March 1998 £m	3 April 1999 £m
Fixed assets	3,357	3,578	3,565	3,647	3,480
Current assets	2,877	4,565	4,311	4,071	3,691
Total assets	6,234	8,143	7,876	7,718	7,171
Long term borrowings	(386)	(534)	(618)	(687)	(825)
Creditors, provisions and minority interests	(1,761)	(2,886)	(2,501)	(2,409)	(2,000)
Shareholders' funds	4,087	4,723	4,757	4,622	4,346
Shareholders' funds in accordance with USGAAP	4,112	4,812	4,955	4,746	4,501

Some important data in euros

British Steel plc does not prepare its accounts in euros but has produced the following financial summary for the information of its shareholders.

Profit and loss account

	Years ended	
	3 April 1999 €m	28 March 1998 €m
Group turnover		
United Kingdom	3,959	4,234
Other European	3,765	3,780
North America	977	920
Other areas	605	838
	9,306	9,772
Group operating (loss)/profit	(259)	373
Share of operating results of joint ventures and associated undertakings	(4)	-
Operating (loss)/profit	(263)	373
Profit on disposal of fixed assets	12	15
(Loss)/profit before interest	(251)	388
Net interest and investment income	40	55
(Loss)/profit on ordinary activities before taxation	(211)	443
Taxation	28	(115)
Minority interests	62	(10)
(Loss)/profit for financial year	(121)	318
Dividends	(299)	(274)
(Loss)/profit retained for the year	(420)	44
(Loss)/earnings per ordinary share in euros	(0.06)	0.16
Dividend per ordinary share in euros	0.15	0.14
(Loss)/earnings per ADS in euros	(0.61)	1.61
Dividend per ADS in euros	1.49	1.41
Amounts in accordance with US GAAP		
(Loss)/profit for financial year	(61)	324
(Loss)/earnings per ADS in euros	(0.31)	1.64

Balance sheet

	Years ended	
	3 April 1999 €m	28 March 1998 €m
Fixed assets	5,174	5,131
Current assets	5,488	5,727
Total assets	10,662	10,858
Long term borrowings	(1,227)	(966)
Creditors, provisions and minority interests	(2,974)	(3,389)
Shareholders' funds	6,461	6,503
Shareholders' funds in accordance with US GAAP	6,692	6,677

The profit and loss account and balance sheet have been translated at € 1.4868 to £1.00, the year end rate at 3 April 1999 (1998: fixing rate of 1.4068).

Other key data

		Years ended				
		1 April 1995	30 March 1996	29 March 1997	28 March 1998	3 April 1999
Capital expenditure	£m	129	321	413	404	189
Average number of employees	000s	40	50	53	50	46
Turnover per employee	£000s	120	141	137	139	135
Employment costs: turnover	%	19.8	18.9	19.4	19.4	20.6
Liquid steel production	mt	13.4	15.6	17.0	17.8	16.7
Research and development expenditure (gross)	£m	36	41	49	52	49
UK consumption of main finished steel products:	mt					
Within British Steel's range		9.2	11.5	11.3	11.9	11.4
Adjustments to reflect acquisitions (i)		2.1	-	-	-	-
Within British Steel's current range		11.3	11.5	11.3	11.9	11.4
Outside British Steel's range		4.5	2.3	2.6	2.8	2.8
Adjustments to reflect acquisitions (i)		(2.1)	-	-	-	-
Outside British Steel's current range		2.4	2.3	2.6	2.8	2.8
		13.7	13.8	13.9	14.7	14.2
UK consumption of main finished steel products within British Steel's range was met by:	mt					
British Steel's deliveries		5.2	6.6	6.6	6.8	6.2
Adjustments to reflect British Steel's acquisitions (i)		1.1	-	-	-	-
Other UK steel companies' deliveries		0.7	0.7	0.7	0.7	0.6
Imports		4.3	4.2	4.0	4.4	4.6
		11.3	11.5	11.3	11.9	11.4
British Steel's UK market share	%	56	57	58	57	55

(i) Relating to companies acquired by British Steel prior to their acquisition.

Analyses of shareholdings at 3 April 1999

By size of holding	Holdings		Ordinary shares held	
	Number	Percentage	Number	Percentage
1 – 100	5,440	3.16	398,318	0.02
101 – 500	78,535	45.67	33,642,461	1.70
501 – 1,000	53,822	31.30	47,135,180	2.38
1,001 – 5,000	28,988	16.86	63,474,643	3.20
5,001 – 10,000	2,999	1.74	21,732,944	1.10
10,001 – 50,000	1,505	0.88	29,029,976	1.46
50,001 – 100,000	162	0.09	11,738,847	0.59
100,001 – 1,000,000	355	0.21	126,630,971	6.39
1,000,001 – Highest	147	0.09	1,647,973,680	83.16
	171,953	100.00	1,981,757,020	100.00

By category of shareholder	Holdings		Ordinary shares held	
	Number	Percentage	Number	Percentage
Male	98,906	57.51	110,755,700	5.59
Female	53,286	31.08	52,376,325	2.64
Joint Account	15,879	9.26	16,089,340	0.81
Bank	10	0.00	1,091,789	0.05
Nominee Company	3,184	1.86	1,767,023,036	89.20
Insurance Company	12	0.00	9,437,687	0.47
Pension Fund	19	0.00	7,324,051	0.36
Other Limited Company	492	0.29	12,820,008	0.64
Other Corporate Body	159	0.00	4,428,570	0.22
Public Limited Company	6	0.00	410,514	0.02
	171,953	100.00	1,981,757,020	100.00

Notice of meeting

The eleventh Annual General Meeting of British Steel plc will be held at Westminster Central Hall, Storey's Gate, Westminster, London SW19NH on Wednesday 21 July 1999 at 11.00am. The business of the Meeting will be as follows:

- To receive the report of the directors and the accounts for the year ended 3 April 1999.
- To declare a dividend.
- By separate resolutions to re-appoint as directors:
 - Sir Nicholas Goodison
 - Mr J M Bryant
 - Mr JF Devaney
 - Dr J W Edington

To consider and, if thought fit, pass the following resolutions of which resolutions 4 and 5 will be proposed as ordinary resolutions and resolutions 6 and 7 as special resolutions:

- That PricewaterhouseCoopers be re-appointed auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be determined by the directors.
- That the directors be generally and unconditionally authorised, pursuant to Section 80 of the Companies Act 1985, in substitution for the authority conferred on it on 27 July 1994, to exercise all powers of the Company to allot relevant securities of the Company (as defined in that section) up to an aggregate nominal value of £308,000,000 such authority to expire on 20 July 2004 (save that the Company may at any time prior to the expiry of such authority make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such offer or agreement as if such authority had not expired).
- That the directors be given power, pursuant to Section 95(1) of the Companies Act 1985, to allot equity securities (as defined in Section 94(2) of that Act) for cash, pursuant to the authority conferred by resolution 5, as if Section 89(1) of that Act did not apply to such allotment, provided that such power is limited to:
 - the allotment of equity securities (whether by way of rights issue, open offer or otherwise) effected in favour of the holders of ordinary shares of 50p each in the Company ('ordinary shares') where the equity securities attributable to the interests of all the holders of ordinary shares on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems arising in any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or shares represented by depositary receipts or otherwise howsoever; and
 - the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £49,000,000 being not more than 5% of the nominal value of the issued share capital as at 2 June 1999;

such power to expire at the conclusion of the next Annual General Meeting of the Company (save that the Company may at any time prior to the expiry of such power make an offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities in pursuance of such offer or agreement as if such power had not expired).

7. That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of its ordinary shares of 50p each upon and subject to the following conditions:

- the maximum number of ordinary shares which may be purchased is 198,000,000;
- the price at which ordinary shares may be purchased shall not exceed 105% of the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase and shall not be less than 50p per ordinary share, in both cases exclusive of expenses; and
- the authority to purchase conferred by this resolution shall, unless renewed prior to such time, expire at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry enter into a contract of purchase under which such purchase may be completed or executed wholly or partly after the expiry of this authority.

By order of the Board

Richard Reeves
Secretary
7 June 1999

Notes

- Holders of ordinary shares in the Company are entitled to attend and vote at the meeting.
- Shareholders entitled to attend and vote may appoint one or more proxies to attend and on a poll vote instead of that person.
 - A proxy need not be a member of the Company and such appointment will not preclude a shareholder from attending and voting at the meeting in person.
 - Forms of proxy must be lodged with the Company's Registrars not later than 48 hours before the time of the meeting.
 - The form of proxy must be signed by the member or, in the case of joint holders, any one of them.
 - The notice of meeting shall prevail over any description of the business of the meeting set out in the form of proxy.
- Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, only those shareholders registered at 6.00pm on 19 July 1999 will be entitled to attend and vote at the meeting in respect of the numbers of shares registered in their names at that time. Subsequent changes to the register will be disregarded in determining the rights of any person to attend and vote at the meeting.
- The register of directors' share interests and copies of directors' service contracts will be available for inspection at the Annual General Meeting from 10.45am to its conclusion.

Information for shareholders

General enquiries

For enquiries on all matters not covered below or if you would like copies of the Environmental Brochures please contact:

The Secretary's Office
British Steel plc
15 Marylebone Road
London NW1 5JD
Telephone: FREEPHONE 0800 484113

Registered in England No. 2280000

American Depositary Receipts (ADRs)

British Steel's ordinary shares are listed on the New York Stock Exchange in the form of American Depositary Shares (ADSs), evidenced by ADRs, and trade under ticker symbol 'BST'.

Each ADS is equivalent to 10 ordinary shares. Enquiries regarding ADR holders' accounts and payment of dividends should be directed to the Depository:

The Bank of New York
ADR Department
101 Barclay Street
New York NY 10286
Telephone: US Holders +1(888) 269 2377
Canadian Holders (212) 815 2051

Dividend payments to ADR holders

The final dividend recommended for 1998/99 will be made by the Depository, in US dollars on August 19, 1999 to the ADR holders on record on June 18, 1999. There is no UK withholding tax on dividends. Individual shareholders who are tax resident in the UK are entitled to a tax credit equal to 1/9th of the dividend and, generally, US resident shareholders are entitled to the same tax credit. However, in respect of dividends paid to individuals after 5 April 1999, generally no payment may be obtained in respect of such tax credit by a US shareholder from the UK Inland Revenue.

Voting at the Annual General Meeting

The 1999 Annual General Meeting of shareholders takes place in London on July 21, 1999. ADR holders may instruct The Bank of New York as to how the ordinary shares represented by their ADRs should be voted by completing and returning the voting card in accordance with the instructions printed thereon.

Form 20-F

The Company is subject to the reporting requirements of the US Securities and Exchange Commission ('SEC'). In compliance with these regulations, the Company will file its Annual Report on Form 20-F with the SEC in June 1999. Copies may be obtained from The Bank of New York or the Secretary's Office.

Holders of ordinary shares

Administrative enquiries concerning shareholdings, such as dividend payments, notification of change of address or the loss of a share certificate should be addressed to:

British Steel Section
Lloyds TSB Registrars
The Causeway, Worthing
West Sussex
BN99 6DA
Telephone: 01903 502541

Dividend mandate

Shareholders who do not currently have their dividends paid directly to a bank or building society account and who wish to do so should complete a mandate form obtainable from the Registrar, as above. Tax vouchers are sent to the shareholders registered address under this arrangement, unless requested otherwise.

Share price information

The latest British Steel share price is available from the Financial Times Cityline Service. Telephone: 0336 433311.

Website

The British Steel website address is www.britishsteel.co.uk.

Financial calendar

Annual General Meeting 21 July 1999

Dividends

Interim dividend 1998/99 – 3p per share	
Paid	11 January 1999
Proposed final dividend 1998/99 – 7p per share	
Ex-dividend	14 June 1999
Record date	18 June 1999
Payment date	9 August 1999
Total dividend 1998/99 – 10p per share	

Glossary

Term used in report and accounts

Accounts
Advance corporation tax (ACT)

Associated undertakings
Creditors
Creditors: amounts falling due within one year
Creditors: amounts falling due after more than one year
Debtors: amounts falling due after more than one year
Employment costs
Finance lease
Fixed asset investments
Interests in associated undertakings
Loans to associated undertakings
Other debtors
Profit
Profit and loss account (statement)
Profit and loss account
(under 'Capital and reserves' in Balance sheet)
Profit on sale of fixed assets
Profit for financial year
Secured
Shareholders' funds
Stocks
Tangible fixed assets
Trade debtors
Turnover

US equivalent or definition

Financial statements
Tax payable on company distributions recoverable from UK taxes due on income
Equity investees
Accounts payable
Current liabilities
Long term liabilities
Other non-current assets
Payroll costs
Capital lease
Non-current investments
Securities of related parties
Indebtedness of related parties not current
Other current assets
Income
Income statement

Retained earnings
Gain on disposal of non-current assets
Net income
Pledged as collateral
Shareholders' equity
Inventories
Property, plant and equipment
Accounts receivable (net)
Sales