Avesta Sheffield AB –
Interim Report for April – September 1999

The Avesta Sheffield AB (publ) financial year is from 1 April – 31 March

- **The result after financial items for the second quarter was a profit of SEK 37 million (-191m) and for the half year a profit of SEK 96 million (-515m). This corresponds to an earnings per share after full tax of SEK 0.20 (- 1.31) and SEK 0.41 (-3.30) respectively.**

- **The half-year result benefited from cost reductions of SEK 380 million compared with the first half of last year. Cost reductions during the last two years have totalled over 1.5bn SEK.**

- **Deliveries for the half year totalled 422,000 (450,000) tonnes. Deliveries of coil increased during the half year, and the fall in deliveries is related to lower sales of quarto plate, semi-finished and ferritic products and the mothballing of production in Baltimore.**

- **Raw material prices continue to rise with nickel reaching USD 3.70 per lb. There was a positive price change in inventory of SEK 280 million (–275m). Higher nickel prices and a stronger USD reduced the conversion gap despite rising stainless prices.**

- **European demand for stainless steel coil products remained at a good level through the second quarter. Demand in both North America and Asia also improved. Base selling prices for coil products are increasing, although prices in the second quarter were still 4 per cent below the same period last year.**

- **The outlook for coil products remains positive, with some signs of improvement also being seen for other products. Orders for coil products are running at high levels and are being carefully balanced against capacity to safeguard service levels. The order book for all other products is beginning to strengthen as world capacity and demand moves towards a balance.**

- **The Group is in the process of acquiring Lee Steel Strip in the UK, which is in line with the Group's strategic objective to add value. Lee Steel Strip's production is 14,000 tonnes per year.**

		April 1999- Sept. 1999	April 1998- Sept. 1998
Net sales	**(SEKm)**	**7,025**	**8,456**
Operating result before depreciation	(SEKm)	380	- 251
Result after financial items	**(SEKm)**	**96**	**–515**
Net result for the period	(SEKm)	65	–521
Earnings per share after full tax	(SEK)	0.41	- 3.30
Return on equity after full tax	(%)	2	negative

Return on capital employed	(%)	3	negative
Net borrowings at period end	**(SEKm)**	**-1,216**	**-1,486**

All quarters referred to are financial quarters.

"European demand for coil products was good in the quarter, despite the seasonal slow down, with improvements also seen in Asia and North America. Base selling prices in Europe for coil products increased by just over 4 per cent in the first financial half year, but still remain lower than last year's level. This gradual recovery is forecast to continue, underpinned by the rising price of nickel. Cold rolled coil products represents some 40 per cent of the Group's sales and there are now signs of improving prices and demand in our other businesses. Demand and prices for project-related business remain low, although there are some signs of recovery. The benefits from the cost reduction programme continue to be realised, and this has put the Group in a strong position to benefit from the improving market conditions", says Avesta Sheffield's CEO, Stuart Pettifor.

British Steel/Koninklijke Hoogovens merger

Following the merger with Koninklijke Hoogovens, effective from 6 October 1999, British Steel plc, which owns 51 per cent of the issued share capital of Avesta Sheffield AB (publ) became a wholly owned subsidiary of a newly formed holding company named Corus Group plc.

Corus Group plc will have a financial year end date of 31 December. Proposals to adopt the calendar year as the financial year and that the financial year beginning 1 April 2000 should be shortened to end at 31 December 2000 will be made at the Annual General Meeting of Avesta Sheffield AB (publ) in June 2000.

At an extra General Meeting on 22 October 1999, Tony Pedder and Franswillem Briët were elected as new Board members to replace John McDowall and Peter Wheelen. Tony Pedder was elected as the new chairman of Avesta Sheffield AB (publ).

GROUP

Market

European demand for cold rolled coil products was stronger than anticipated over the traditionally quiet summer period. This was driven by the improved economic sentiment in Western Europe and was reflected in firm demand from end users. Recently there have been signs of improvements in the economies of Germany and Italy, Europe's two largest consumers of stainless steels. In Asia, demand for coil products has strengthened as the region's recovery continues and material becomes more difficult to source from a few local producers. North American consumption also increased, as inventories were reduced and anti dumping measures began to restrict imports, bringing supply and demand more into balance.

Base price increases for cold rolled products, which were implemented in Europe at the beginning of April, were consolidated during the summer. Further increases have now been announced, with the most significant increases still to be reflected in invoiced sales. Since 1 April base prices have increased by just over 4 per cent.

Project related demand for tubular, welding and quarto plate products remains subdued. Prices for these products have still to show the recovery that is being seen for coil products. Enquiry levels are increasing indicating the possibility of recovery in the next year.

Demand for precision strip products is still recovering , as a result of strong consumption in the automotive sector. Base prices have stabilised and are expected to improve in the next calendar year. Demand for long products is strong, although competitive conditions have prevented improvements in price levels to date.

Prices for raw materials, especially nickel, rose strongly in the period and have continued to do so, with the result that effective prices have risen faster than base prices. This may have

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provided a further stimulus to demand, but there is no evidence of significant speculation or stock build by customers.

Acquisitions and Disposals

On 12 November, the Group will finalise the purchase of Lee Steel Strip Ltd in the UK from Carclo Engineering Group plc. The purchase price comprises SEK 241m for the shares and SEK 36m for related properties.

Lee Steel Strip specialises in the production of precision strip, has a world leading position in carbon spring steels and produces other precision stainless products complementing to the existing Avesta Sheffield range. The business will be managed as part of the Group’s Precision Strip Business Area. As this transaction was not completed before 30 September, the financial effect of the purchase is not included in these Interim Accounts.

Effective 30 September, the Group sold its Canadian sales company, Avesta Sheffield Inc (Canada) to Reynolds Aluminium Supply Company. The sale proceeds comprised SEK 196m, including the assumption of bank debt. The profit on disposal, after costs but before taxation, is SEK 10m. Rasco Specialty Metals, as the company will be called, will remain a distributor of the Group’s products in the Canadian market place.

Net sales

Delivered tonnage of 422,000 (450,000) tonnes for the half year was 6 per cent down on the same period last year. Deliveries in the second quarter totalled 196,000 (214,000) tonnes. The reduction in deliveries for the second quarter includes a reduction in project related European quarto plate sales, reduced sales of semi finished products and ferritic steels and the withdrawal from CPP production in the USA. It also includes the effect of reduced working weeks in 1999.

Net sales/deliveries

Market	Net sales SEKm		Change in %	Net deliveries kton		Change in %
First half	**1999/ 2000**	**1998/ 1999**		**1999/ 2000**	**1998/ 1999**	
Europe	5,305	6,561	-19	329	353	-7
North America	1,293	1,332	-3	62	62	0
Asia	260	247	+5	21	16	+31
Rest of World	167	316	-47	10	16	-47
Total sales/ net deliveries	**7,025**	**8,456**	**-17**	**422**	**450**	**-6**

Net sales for the second quarter were SEK 3,282m (4,010) and for the half year SEK 7,025m (8,456m). Of the 18 per cent reduction in net sales in the second quarter, 6 per cent relates to the lower volume and 12 per cent to lower effective selling prices.

Raw materials

Following the 14 per cent increase in August, nickel prices continued their upward trend reaching a 32-month high of USD 3.70 per lb in November. Nickel prices remain particularly volatile with swings as large as USD 0.20 per lb being seen during the course of a day's trading.

The substantial rise in the LME value of nickel, coupled with firm demand, once again placed

All quarters referred to are financial quarters.

upward price pressure on stainless scrap prices. There are also upward pressures on the price of chromium.

Result

The result after financial items for the second quarter was a profit of SEK 37m (- 191m) and for the half year SEK 96m (- 515m). The improvement in the profitability for the half-year compared with the same period last year was principally the result of:

- Further cost reductions across the Group, which improved the result by approximately SEK 380m compared with last year.
- A positive price change in inventory of SEK 280m compared with a negative price change in inventory of SEK –275m for the first half last year.
- A SEK 259m reduction in non-recurring costs (the 1998/1999 half year result included provisions related to the mothballing of the Baltimore melt shop in the USA).

These positive effects were offset by;

- A 6 per cent decline in deliveries to 422,000 tonnes, which reduced the result by SEK –160m.
- Higher raw material costs which, despite the continuing increases in effective selling prices, reduced the conversion gap (the difference between selling prices and raw material prices) across the Group. This reduced profits by an estimated SEK –300m compared with the first half last year.
- The adverse effect of exchange rate movements, principally related to the increased cost of raw materials priced in USD, estimated at SEK –130m.

The Group's costs for Research & Development during the six months to September were SEK 48m (58m).

Financial position

In the quarter, net borrowings reduced by SEK 9m to SEK 1,216m (1,027m at March 1999). The reduction in net borrowings in the quarter is after receiving proceeds from the sale of the Canadian sales company of SEK 196m, including the assumption of bank debt. There was expenditure in the quarter of SEK 61m on non-recurring items provided against profits in 1998/1999. Interest bearing liabilities at the end of the quarter were SEK 1,950m (1,620m at March 1999) and liquid assets were SEK 734m (593m at March 1999).

The Group's debt/equity (gearing) ratio has risen since March 1999 to 17 per cent. The solvency ratio has remained unchanged since March 1999 at 56 per cent.

		Sept. 1999	March 1999	March 1998
Solvency	(%)	56	56	56
Gearing	(%)	17	14	20

Working capital increased by SEK 453m net to SEK 3,949m (3,682m at March 1999). This increase is after excluding working capital of SEK 174m associated with the Canadian sales company. Physical stocks were increased during the quarter in response to improved forecast demand.

SPP (Swedish Staff Pension Insurance) has announced that, based on certain specified conditions, an amount of about SEK 360 million has been reserved on account for Avesta Sheffield and its subsidiaries for pension purposes. The amount represents a surplus allocated by SPP for pension funds deposited by Avesta Sheffield in recent years. The time period, procedure and conditions for transferring the surplus to the Group have not yet been determined, so no benefit is included in the result.

The Group has two committed credit facilities:

All quarters referred to are financial quarters.

a) a seven year multicurrency facility of USD 350 million, which reduces progressively between December 1999 and December 2000,
b) a five year multicurrency facility of USD 70 million to Avesta Sheffield NAD Inc. and its US subsidiaries. This facility expires in July 2001.

Since the last Annual Report there has been no significant change to the Group's uncommitted facilities or to the Group's financial leases and the associated payment obligations.

Investments

Capital expenditure for the half year was SEK 204m (332m). Further investments totalling SEK 112m have been approved at the Avesta Melt Shop primarily to reduce production cost. Other investments to eliminate capacity bottlenecks or to expand the current product range are under review. Improved efficiency in the Group's cold rolling facilities has raised production capacity, and it is estimated that this capacity will be sufficient to meet projected medium term demand. The Group's overall cold rolling facilities are currently under review in anticipation of the long-term growth in stainless steel demand. However, improved levels and consistency of profitability and cash generation will be necessary to justify a major investment.

Personnel

The number of employees at the end of September 1999 totalled 6,135, a reduction of 472 from March 1999. The costs associated with reductions which were part of the Group's rationalisation exercise were all provided in the 1998/1999 accounts.

Trade cases

The US Authorities have decided to revoke the existing antidumping order on stainless steel plate from Sweden, initially introduced in 1973, with effect from 1 January 2000.

Year 2000

The Group's Year 2000 programme is proceeding to plan and was substantially completed during October. There are no concerns that the Group will have significant internal problems related to the Year 2000. Any concerns relate to the external environment where, despite the discussion and review currently taking place, there may be problems which are beyond the control of the Group. The focus is now on the final phase of the programme, which is preparation for the activities during the Millennium change. A Group Information centre is to be established at the Avesta site.

The main task for this centre will be to monitor the restart of production facilities and sales company activities during January 2000, but also to operate as a centre for problem reporting. More information can be found on the Group's website: *www.avestasheffield.com*

PARENT COMPANY

The Parent Company reported net sales of SEK 2,785m(3,363m) for the half year. The result after financial items amounted to SEK –10m (- 202m) for the half year. Capital expenditure amounted to SEK 91m (174m) and liquid assets stood at SEK 224m (29m) as at 30 September 1999.

MARKET OUTLOOK

The outlook for the coil products market remains positive. Consumption is forecast to rise in Western Europe in line with recent trends. Demand in Asia is expected to accelerate strongly as economic growth in this region improves.

Base prices for coil products will continue to rise, as underlying global demand and capacity utilisation both increase.

All quarters referred to are financial quarters.

Increases in oil prices and other commodities should encourage new investment in the oil and gas and pulp and paper sectors, improving the demand for quarto plate and tubular products over the next calendar year.

Base prices for other stainless products are still lagging behind the trend seen in coil products. However some signs of improvement in the market are already being seen. Over the next half year base prices are expected to follow the upward trend set by coil products.

FINANCIAL REPORTS

The following financial information will be published during the course of 1999/2000 financial year:

Interim report, Q3 (April – December 1999)	17 February 2000
Year-end report, (April 1999 – March 2000)	23 May 2000

1 April – 31 December 2000 financial year:

Interim report, Q1 (April – June 2000)	25 August 2000
Interim report, Q2 (April – September 2000)	9 November 2000
Year-end report, (April – December 2000)	15 February 2001

Stockholm, 11 November 1999

AVESTA SHEFFIELD AB (publ)

Stuart Pettifor
President and Chief Executive Officer

All quarters referred to are financial quarters.

REVIEW REPORT

We have carried out a review of this half-year report of Avesta Sheffield AB (publ) for the period 1 April 1999 to 30 September 1999 in accordance with the recommendation issued by the Swedish Institute of Authorised Public Accountants, FAR. A review is significantly limited in comparison with an audit.

Nothing has come to our attention which could cause us to believe that the half-year report does not meet the requirement of the Swedish Securities Exchange and Annual Accounts Act.

Stockholm, 11 November 1999

Öhrlings PricewaterhouseCoopers

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Public Accountant

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More information about Avesta Sheffield AB is available on the Group's homepage on the Internet:
www.avestasheffield.com

CONSOLIDATED INCOME STATEMENT

SEK million	July-Sept. 1999	July–Sept. 1998	April-Sept. 1999	April–Sept. 1998	Oct. 98-Sept. 99	April 98 - March 99
Net sales	**3,282**	**4,010**	**7,025**	**8,456**	**14,381**	**15,812**
Operating expenses	-3,102	-4,045	-6,645	-8,707	-14,426	-16,488
Depreciation according to plan	-118	-119	-241	-241	-478	-478
Share of result in associated companies	-8	-11	-12	-9	-24	-21
Operating result	**54**	**-165**	**127**	**-501**	**-547**	**-1,175**
Financial items	-17	-26	-31	-14	-53	-36
Result after financial items	**37**	**-191**	**96**	**-515**	**-600**	**-1,211**
Tax	-6	-10	-28	-1	131	158
Minority interests	0	-6	-3	-5	19	17
Net result for the period	**31**	**-207**	**65**	**-521**	**-450**	**-1,036**

Key numbers

Earnings per share after full tax (SEK)	0.20	-1.31	0.41	-3.30	-2.85	-6.56
Return on equity after full tax (%)	2	negative	2	negative	negative	negative
Return on capital employed (%)	3	negative	3	negative	negative	negative
Equity/share (SEK)	45.66	48.70	45.66	48.70	45.66	45.03
Number of shares (million)	158	158	158	158	158	158

Definition of key numbers

Return on equity after full tax
The result after full taxation as a percentage of the average equity.

Return on capital employed
The result before financial items plus financial income as a percentage of the average capital employed.

Equity per share
Equity divided by the number of shares at the financial year-end.

Avesta Sheffield has chosen to report equity per share rather than net worth per share. To be able to report net worth, it is necessary to establish with reasonable certainty an objective market value for the (fixed) assets. The value of the asset should thus be largely independent of the company's business operations.

All quarters referred to are financial quarters.

SUMMARY OF THE BALANCE SHEET

SEK million	30.09.99	30.09.98	31.03.99	31.03.98
ASSETS				
Fixed assets				
Intangible assets	12	20	17	22
Tangible assets	5,275	5,420	5,315	5,493
Financial assets	335	382	358	400
Total fixed assets	**5,622**	**5,822**	**5,690**	**5,915**
Inventories	**3,571**	**4,252**	**3,204**	**4,507**
Current receivables				
Accounts receivable	2,781	3,021	2,911	3,528
Other receivables	210	302	177	406
Prepaid costs and accrued income	175	193	156	150
Total current receivables	**3,166**	**3,516**	**3,244**	**4,084**
Short-term investments	**258**	**39**	**310**	**32**
Cash and bank	**476**	**478**	**283**	**425**
Total current assets	**7,471**	**8,285**	**7,041**	**9,048**
TOTAL ASSETS	**13,093**	**14,107**	**12,731**	**14,963**
EQUITY AND LIABILITIES				
Equity	**7,214**	**7,695**	**7,115**	**8,305**
Minority interests	**63**	**82**	**60**	**79**
Provisions				
Provisions for pensions and similar commitments [1])	376	425	387	426
Provisions for taxation	583	715	559	703
Other provisions	452	433	551	370
Total provisions	**1,411**	**1,573**	**1,497**	**1,499**
Long-term liabilities				
Liabilities to credit institutions	1,188	1,095	891	1,189
Other liabilities – interest-bearing	134	147	112	118
Other liabilities – non-interest-bearing	68	69	67	64
Total long-term liabilities	**1,390**	**1,311**	**1,070**	**1,371**
Current liabilities				
Accounts payable	1,600	1,751	1,553	1,735
Liabilities to credit institutions	295	409	290	459
Other liabilities– non-interest-bearing	378	550	426	582
Accrued costs and prepaid income	742	736	720	933
Total current liabilities	**3,015**	**3,446**	**2,989**	**3,709**
TOTAL EQUITY AND LIABILITIES	**13,093**	**14,107**	**12,731**	**14,963**

[1])Provisions include SEK 333m (352m at 30.09.98 and 327m at 31.03.99) of interest bearing pension liabilities

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STATEMENT OF CHANGES IN THE FINANCIAL POSITION

SEK million	**April–Sept. 99**	**April–Sept. 98**	**April 98-March 99**
Operating income and costs			
Result before appropriations and tax	86	-515	-1,211
Depreciation and write-downs against earnings	242	432	656
Other items, net	-89	36	147
Working capital			
Increase(-)/reduction(+) in inventories	-539	255	1,302
Increase(-)/reduction(+) in interest-free receivables	9	595	868
Increase(+)/reduction(-) in interest-free liabilities	77	-210	-541
From operations	**-214**	**593**	**1,221**
Change in fixed assets	**-185**	**-318**	**-446**
Translation gains/losses on consolidation	14	39	-2
Sale of subsidiary company	**196**	**-**	**-**
Cash Flow	**-189**	**314**	**773**
External financing	**330**	**-254**	**-637**
Change in liquid assets	**141**	**60**	**136**
LIQUID ASSETS AT PERIOD END	**734**	**517**	**593**

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