Avesta Sheffield AB –
Interim Report for April – December 1999

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

- **The result after financial items for the third quarter was a profit of SEK 123 million (-521m) and for the nine months a profit of SEK 219 million (-1,036m). This corresponds to earnings per share after full tax of SEK 0.63 (-2.40) and SEK 1.04 (-5.70) respectively.**

- **The result for the nine months benefited from cost reductions of SEK 490 million compared with the same period last year. Cost reductions since April 1997 have exceeded 1.6bn SEK.**

- **Deliveries for the nine months totalled 645,000 (653,000) tonnes. Deliveries during the third quarter of 223,000 tonnes were 10 per cent up on the same period last year, with improvements seen in Europe, North America and Asia.**

- **Raw material prices continued their upward trend, with nickel reaching USD 3.95 per lb at end January 2000. There was positive price change in inventory of SEK 513 million (-473m). The rapid increase in raw material prices continues to put pressure on conversion margins despite rising stainless steel prices. The higher raw material prices also contributed significantly to the increase in net borrowings during the quarter.**

- **European demand for stainless steel coil products remained strong through the third quarter. Demand in North America and, particularly Asia also improved. Base selling prices for coil products are increasing in all of the Group's major markets. Other products are also beginning to show signs of improvement in both demand and selling prices.**

- **The outlook for coil products remains strong. Good order intake and increased capacity utilisation will further support higher price levels.**

- **The acquisition of Lee Steel Strip in the UK was finalised in November 1999.**

		April 1999-Dec. 1999	April 1998-Dec. 1998
Net sales	**(SEKm)**	**10,814**	**12,135**
Operating result before depreciation	(SEKm)	666	-627
Result after financial items	**(SEKm)**	**219**	**-1,036**
Net result for the period	(SEKm)	164	-901
Earnings per share after full tax	(SEK)	1.04	-5.70
Return on equity after full tax	(%)	3	negative
Return on capital employed	(%)	4	negative
Net borrowings at period end	**(SEKm)**	**-2,317**	**-1,300**

"Demand for the Group's products was strong through the third quarter in the main markets of Europe, North America and Asia. Deliveries into Asia in particular improved. Base selling prices for coil products, which represent about 60 per cent of the Group's sales, are increasing steadily, and increases are now also being seen in quarto plate. However, in the quarter, despite the increasing Alloy Adjustment Factor, total effective selling prices remained below the same period last year. The rapidly increasing nickel price continued to put pressure on conversion margins, although there was some improvement towards the end of the quarter. Improved demand and increases in base selling prices are now being seen across much of the product range. Coupled with the improving output from the Group's production facilities and continuing cost reductions, this will lead to an improvement in the Group's financial position through 2000, despite the current combination of a weak euro and strong sterling", says Avesta Sheffield's CEO, Stuart Pettifor.

GROUP

Market

Underlying demand for stainless steel cold rolled coil products strengthened through the third quarter with the continued recovery of the global economy. In Western Europe this was driven primarily by a more optimistic manufacturing sector, where exports have benefited from the weak euro and buoyant demand. Demand in the North American market gathered momentum in the latter part of 1999, underpinned by high levels of consumer confidence and increased output from white goods and automotive sectors. South Korea and Taiwan, with their improving economies, have been at the forefront of the recovery for stainless demand in Asia. Stainless steel delivery lead-times have lengthened as order bookings have continued to improve.

Base prices for coil products have risen in all of Avesta Sheffield's major European markets as a result of strong market conditions. Over the quarter coil base prices in Germany have increased by 5.5 per cent. The gap between Asian and European base prices narrowed during the quarter as Asian stocks reduced and material supply/demand balance tightened. Effective prices have also increased because of the rising cost of raw materials, notably nickel.

There are now clearer signs that project-related demand for tubular, welding and quarto plate products is beginning to improve. This can be attributed to higher commodity prices in the oil and gas and pulp and paper sectors and the general economic recovery in South-East Asia. Precision Strip has experienced a sudden and rapid recovery in demand for its products since the New Year, with mills fully booked until the next quarter. Prices have now started to improve and the upward trend is expected to continue.

Acquisitions

On 12 November, the Group finalised the purchase of Lee Steel Strip Ltd in the UK from Carclo Engineering Group plc. The purchase price comprised SEK 243m for the shares and SEK 36m for related properties, plus borrowings taken over at acquisition of SEK 33m.

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 the existing Avesta Sheffield range. The business is managed as part of the Group's Precision Strip Business Area.

Net sales

Delivered tonnage of 645,000 (653,000) tonnes for the nine months was 1 per cent down on the same period last year. Deliveries in the third quarter totalled 223,000 (203,000) tonnes. The improvement in deliveries for the third quarter compared with last year includes an increase in deliveries in the main markets of Europe, North America and particularly Asia, offset by a small reduction in Rest of World markets. However, in all the main markets average effective selling prices remained below the levels achieved in the same period last year.

Net sales/deliveries

Market	Net sales SEKm		Change in %	Net deliveries kton		Change in %
First Nine Months April-December	**1999/ 2000**	**1998/ 1999**		**1999/ 2000**	**1998/ 1999**	
Europe	8,143	9,410	-13	493	513	-4
North America	1,895	1,927	-2	94	90	4
Asia	534	377	42	44	25	76
Rest of World	242	421	-43	14	25	-44
Total sales/ net deliveries	**10,814**	**12,135**	**-11**	**645**	**653**	**-1**

Net sales for the third quarter were SEK 3,789m (3,679) and for the nine months SEK 10,814m (12,135m). Of the 3 per cent increase in net sales in the third quarter, 10 per cent relates to the increase in deliveries, offset by a reduction of 7 per cent attributable to lower effective selling prices.

Raw materials

Nickel prices continued the upward trend that has been apparent since January 1999. Prices averaged USD 3.55 per lb during the quarter and have since increased to USD 3.95 per lb at the end of January 2000, the highest level since November 1995. Prices have continued to be volatile, partly the result of trading by investment funds. The substantial increase in the LME (London Metal Exchange) value of nickel, coupled with firm demand, continued to result in upward price pressure on stainless scrap prices. The increase in nickel prices has also resulted in an increase in the value of working capital, including on accounts receivable through the effect of the Alloy Adjustment Factor.

Although chromium prices remained relatively unchanged through the quarter, there is some demand led pressure for price increases. Molybdenum prices have remained relatively stable.

Result

The result after financial items for the third quarter was a profit of SEK 123m (-521m) and for the nine months SEK 219m (-1,036m). The improvement in profitability for the nine months 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 490m compared with last year.
- A positive price change in inventory of SEK 513m compared with a negative price change in inventory of SEK –473m for the same period last year.

- A SEK 530m reduction in non-recurring costs (the 1998/1999 nine months result included provisions totalling SEK –570m related to the mothballing of the Baltimore melt shop in the USA and for reductions in Group personnel).

These positive effects were offset by:
- The 1 per cent decline in deliveries to 645,000 tonnes, which reduced the result by SEK –45m.
- Higher raw material costs which, despite the continuing increases in effective selling prices, principally for coil products, reduced the conversion margin (the difference between selling prices and raw material prices) across the Group. This reduced profits by an estimated SEK –400m compared with the same period last year. Conversion margins remained under pressure through the third quarter, as a result of the rapid increase in the nickel price.
- The adverse effect of exchange rate movements. This is related both to the sale of many of the Group's products into Europe, where the euro continues to fall in value, and also to the increased cost of raw materials priced in USD. The reduction in profit compared with last year is estimated at SEK –270m.

Financial position
In the third quarter, net borrowings increased by SEK 1,101m to SEK 2,317m (1,027m at March 1999). The increase in borrowings in the quarter is after the payment of SEK 279m for Lee Steel Strip Ltd, plus borrowings taken over at acquisition of SEK 33m.

The increase is also attributable to a planned build-up of raw material and work in progress security stocks ahead of the Millennium change and to support anticipated final quarter demand. These stocks will be reduced through the final quarter although the benefit to borrowings will not arise until later in 2000. The rising cost of nickel significantly increased stock valuation, and also accounts receivable through the Alloy Adjustment Factor. The benefit of increasing base selling prices has still to be reflected in both improved profitability and reduced borrowings.

There was expenditure in the third quarter of SEK 56m on non-recurring items provided against profits in 1998/1999. Interest-bearing liabilities at the end of December were SEK 2,717m (1,620m at March 1999) and liquid assets were SEK 400m (593m at March 1999).

The Group's solvency ratio has reduced to 51 per cent since March 1999 and the debt/equity (gearing) ratio has risen to 31 per cent. Both ratios reflect the increase in net borrowings referred to above.

		Dec. 1999	March 1999	March 1998
Solvency	(%)	51	56	56
Gearing	(%)	31	14	20

Working capital increased in the quarter by SEK 948m net to SEK 4,967m (3,682m at March 1999). This increase is after excluding working capital of SEK 70m associated with the acquisition of Lee Steel Strip. Working capital will fall as the stocks built up ahead of the Millennium change are reduced.

It has been previously reported that 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 basis for transferring the surplus to the Group has still to be established.

The Group has two committed credit facilities:
a) a seven year multicurrency facility of USD 350m, which reduces progressively between December 1999 and December 2001. This facility was reduced by USD 50m in December 1999,
b) a five year revolving facility of USD 70m 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 nine months was SEK 278m (438m). Further investments totalling SEK 315m have been approved at:

- Coil Products Sheffield, to both increase its total cold rolling capacity and to increase the capacity to cold roll thin gauge material, and
- Coil Products Nyby (Torshälla) to increase the capacity to cold roll thin gauge material.

Other incremental 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.

Personnel
The number of employees at the end of December 1999 totalled 6,311, a net reduction of 296 from March 1999. This reduction is after taking into account an increase of 206 employees who joined the Group on the acquisition of Lee Steel Strip and a reduction of 84 employees following the disposal of the Canadian distribution company. The costs associated with reductions, which were part of the Group's rationalisation exercise, were all provided for in the 1998/1999 accounts.

Year 2000
As a result of the extensive programme of work undertaken within the Group, there were no incidents associated with the Millennium change, which affected either production or administration. There is no indication of any significant effect of the Millennium change at the Group's customers or suppliers. Expenditure to December 1999 on the Year 2000 programme totalled SEK 191m, of which SEK 50m was incurred in the nine months to December 1999.
More information can be found on the Group's website: www.avestasheffield.com

E-commerce
Using Internet technology, it is possible to integrate the information flow between Business Areas and customers. Through password protected websites customers can order steel for new products or buy steel from stock, follow order status and download certificates. This is online 24 hours a day. This system provides customers with specific support and technical information and information about the availability of material and delivery times. It is also capable of storing documents and certificates. Customer service can be improved cost efficiently and new customer segments can be attracted.

The pilot project, using Internet technology, introduced by Avesta Sheffield NAD in March 1997 has led to all product lines using an online order information system for the North American market since October 1999. In Europe, a pilot project with online order information is running. This will be extended during the spring.

PARENT COMPANY
The Parent Company reported net sales of SEK 4,504m (4,659m) and a result after financial items of SEK 15m (-419m) for the nine months. The improvement in profitability is attributable to substantially the same items as explained in 'Result' above. Capital expenditure amounted to SEK 123m (223m) and liquid assets stood at SEK 140m (88m) as at 31 December 1999.

MARKET OUTLOOK
There is optimism that underlying consumption for coil products will gather momentum throughout the year. This will be driven by improved growth prospects in both Europe and Asia as the economies in these regions strengthen. Base selling prices are expected to increase in line with this improved underlying demand and as capacity utilisation tightens. There is no evidence of high stock levels in Europe and this will accelerate demand and price rises for stainless steel. This will offer an opportunity to focus on those product and market sectors which will enhance the profitability of the Group.

It is anticipated that capital investment in stainless consuming sectors will increase during 2000, stimulating further the demand for other products, especially quarto plate and tubular products. This investment trend is already being seen in South East Asia with Europe expected to follow. Base selling prices for these products are therefore expected to improve in line with the better demand.

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

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, 17 February 2000

AVESTA SHEFFIELD AB (publ)

Stuart Pettifor
President and Chief Executive Officer

This report has not been the subject of any specific examination by the Company's Auditors.

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

CONSOLIDATED INCOME STATEMENT

SEK million	Oct. - Dec. 1999	Oct. - Dec. 1998	April-Dec. 1999	April–Dec. 1998	Jan.-Dec. 1999	April 98 - March 99
Net sales	**3,789**	**3,679**	**10,814**	**12,135**	**14,491**	**15,812**
Operating expenses	-3,503	-4,055	-10,148	-12,762	-13,874	-16,488
Depreciation according to plan	-125	-118	-366	-359	-485	-478
Share of result in associated companies	-14	-11	-26	-20	-27	-21
Operating result	**147**	**-505**	**274**	**-1,006**	**105**	**-1,175**
Financial items	-24	-16	-55	-30	-61	-36
Result after financial items	**123**	**-521**	**219**	**-1,036**	**44**	**-1,211**
Tax	-26	110	-54	109	-5	158
Minority interests	2	31	-1	26	-10	17
Net result for the period	**99**	**-380**	**164**	**-901**	**29**	**-1,036**

Key numbers

Earnings per share after full tax (SEK)	0.63	-2.40	1.04	-5.70	0.18	-6.56
Return on equity after full tax (%)	5	negative	3	negative	0	negative
Return on capital employed (%)	7	negative	4	negative	2	negative
Equity/share (SEK)	46.45	46.30	46.45	46.30	46.45	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.

SUMMARY OF THE BALANCE SHEET

SEK million	31.12.99	31.12.98	31.03.99	31.03.98
ASSETS				
Fixed assets				
Intangible assets	103	21	17	22
Tangible assets	5,414	5,407	5,315	5,493
Financial assets	316	371	358	400
Total fixed assets	**5,833**	**5,799**	**5,690**	**5,915**
Inventories	**4,369**	**3,700**	**3,204**	**4,507**
Current receivables				
Accounts receivable	3,524	2,661	2,911	3,528
Other receivables	334	240	177	406
Prepaid costs and accrued income	152	155	156	150
Total current receivables	**4,010**	**3,056**	**3,244**	**4,084**
Short-term investments	**163**	**104**	**310**	**32**
Cash and bank	**237**	**387**	**283**	**425**
Total current assets	**8,779**	**7,247**	**7,041**	**9,048**
TOTAL ASSETS	**14,612**	**13,046**	**12,731**	**14,963**
EQUITY AND LIABILITIES				
Equity	**7,339**	**7,320**	**7,115**	**8,305**
Minority interests	**61**	**51**	**60**	**79**
Provisions				
Provisions for pensions and similar commitments[1])	377	437	387	426
Provisions for deferred taxation	626	603	559	703
Other provisions	413	633	551	370
Total provisions	**1,416**	**1,673**	**1,497**	**1,499**
Long-term liabilities				
Liabilities to credit institutions	1,315	848	891	1,189
Other liabilities – interest-bearing	127	135	112	118
Other liabilities – non-interest-bearing	70	69	67	64
Total long-term liabilities	**1,512**	**1,052**	**1,070**	**1,371**
Current liabilities				
Accounts payable	1,937	1,261	1,553	1,735
Liabilities to credit institutions	942	445	290	459
Other liabilities– non-interest-bearing	478	434	426	582
Accrued costs and prepaid income	927	810	720	933
Total current liabilities	**4,284**	**2,950**	**2,989**	**3,709**
TOTAL EQUITY AND LIABILITIES	**14,612**	**13,046**	**12,731**	**14,963**

[1])Provisions include SEK 333m (363m at 31.12.98 and 327m at 31.03.99) of interest-bearing pension liabilities

STATEMENT OF CHANGES IN THE FINANCIAL POSITION

SEK million	April– Dec. 99	April– Dec. 98	April 98- March 99
Operating income and costs			
Result before appropriations and tax	208	-1,036	-1,211
Depreciation and write-downs against earnings	368	536	656
Other items, net	-146	235	147
Working capital			
Increase(-)/reduction(+) in inventories	-1,278	806	1,302
Increase(-)/reduction(+) in interest-free receivables	-753	1,064	868
Increase(+)/reduction(-) in interest-free liabilities	646	-739	-541
From operations	**955**	**866**	**1,221**
Change in fixed assets	**-253**	**-363**	**-446**
Translation gains/losses on consolidation	53	-	-2
Sale/Acquisition of subsidiary companies	**-135**	**-**	**-**
Cash Flow	**-1,290**	**503**	**773**
External financing	**1,097**	**-469**	**-637**
Change in liquid assets	**-193**	**34**	**136**
LIQUID ASSETS AT PERIOD END	**400**	**491**	**593**