

Avesta Sheffield AB – Interim Report for April – June 2000

The Avesta Sheffield AB (publ) financial year 2000 is from 1 April to 31 December 2000.

- The result after financial items for the first quarter was a profit of SEK 547 million (59m). This corresponds to earnings per share after tax of SEK 2.59 (0.22).
- The result for the quarter benefited from a significant improvement in conversion margins as increases in base selling prices were seen across the Group's product range.
- Deliveries for the first quarter totalled 260,000 (226,000) tonnes.
- There was positive effect from price change in inventory of SEK 122 million (97m). Nickel prices have remained volatile.
- The outlook for coil products remains strong in all markets. Good order intake and increased capacity utilisation will support higher base selling prices.

		<u>April 2000- June 2000</u>	<u>April 1999- June 1999</u>
Net sales	(SEKm)	5,403	3,743
Operating result before depreciation	(SEKm)	705	200
Result after financial items	(SEKm)	547	59
Net result for the period	(SEKm)	409	34
Earnings per share after tax	(SEK)	2.59	0.22
Return on equity after tax	(%)	20	2
Return on capital employed	(%)	22	4
Net borrowings at period end	(SEKm)	- 2,334	- 1,225

“This was an excellent quarter for the Group. The strong demand and increases in base selling prices and margins across the Group’s entire product range, coupled with high deliveries, resulted in a further improvement in profitability. Although there has recently been some easing in demand as customers react to lower nickel prices and destock, strong market conditions and increased capacity utilisation means that good profitability will continue” says Avesta Sheffield’s CEO, Stuart Pettifor.

GROUP

Market

Consumption for coil products in Western Europe during the first quarter continued to be strong, reflecting further economic recovery in the region. Cold rolled shipments increased by 6 per cent compared to the same quarter last year and were the second highest on record. This growth was driven by strong manufacturing exports from Europe, helped by the competitive advantage of a weak euro. Average base prices in Europe increased by approximately 12 per cent during the quarter and represented the strongest rise in prices since the recovery in the stainless market began at the end of 1998.

The US economy continued to achieve strong levels of economic growth, driving stainless steel coil product consumption. Coil base prices increased in April supported by good levels of demand. By June, coil base prices in the US had weakened in line with a decline in the price of nickel.

Firm growth in South East Asia supported coil demand at the beginning of the quarter, but Chinese anti dumping duties and the dip in nickel prices had a dampening effect on the market. Total prices declined to reflect the fall in the value of nickel. Nevertheless underlying demand in the region remains strong.

The quarto plate market is continuing to show signs of gradual improvement in volumes as further project related investments are announced. Shipments increased by 7 per cent compared to the previous quarter. Base prices for quarto plate were maintained at the previous quarter’s improved levels.

Global demand for long products and precision strip remained good, with price increases achieved in line with expectations.

Net sales

Delivered tonnage of 260,000 (226,000) tonnes for the first quarter was a 15 per cent increase compared with last year. This is the Group’s second highest quarterly deliveries and follows the previous quarter’s record deliveries. The largest percentage improvement was in Asia, where demand continues to recover. Deliveries increased throughout Europe, except for the UK where, despite the beneficial effect of Lee Steel Strip sales, they were marginally down on the same period last year.

Net sales / deliveries (April to June)

Market	Net Sales, SEKm		Change in %	Net Deliveries, Kton		Change in %
	1999/2000	2000		1999/2000	2000	
Europe	2,897	4,203	45	180	204	13
North America	650	820	26	30	34	13
Asia	115	268	133	10	16	60
Rest of World	81	112	38	6	6	0
Total Sales / Net Deliveries	3,743	5,403	44	226	260	15

Net sales for the first quarter were SEK 5,403m (3,743m). Of the 44 per cent increase in net sales compared with last year, 15 per cent relates to higher volumes and 33 per cent to mix and price improvements, including the beneficial effect of the Alloy Adjustment Factor, offset by a deterioration of 4 per cent as a result of adverse exchange rate movements.

Raw Materials

The significant increase in nickel prices seen throughout last year continued until March when a peak of USD 4.84 per lb was reached. However, the price then fell sharply during the quarter to June, dropping by approximately 20 per cent against the end March figure. However, despite this fall, average nickel prices for the first quarter were the same as for the previous quarter. Nickel prices at the end of June were USD 3.75 per lb, but then fell to USD 3.40 per lb before recovering to USD 3.86 per lb in August. Although London Metal Exchange nickel stocks have reduced to below 20,000 tonnes, and a shortfall in nickel supply is still forecast for 2000 in total, the future direction of nickel prices remains uncertain.

Strong demand has resulted in chromium prices continuing to increase, reaching USD 0.43-0.45 per lb by the end of June 2000.

Molybdenum prices showed a small increase during the quarter.

There was a positive effect from price change in inventory of SEK 122m (97m) for the first quarter. The effect of the reductions in nickel prices began to affect price change in inventory negatively during May.

Result

The operating result for the first quarter was a profit of SEK 586m (73m). The result after financial items was a profit of SEK 547m (59m).

The improvement in the operating result compared to the same period last year was principally the result of:

- A 15 per cent increase in delivered tonnage to 260,000 tonnes, which improved the result by SEK 170m.
- Increased conversion margins (the difference between net selling prices and raw material costs) totalling SEK 550m, mainly resulting from the improvement in base selling prices across the Group's product range.
- Cost reductions which improved the result by an estimated SEK 50m compared with last year. Additional costs, such as maintenance, were incurred in the quarter to support the increased levels of production and deliveries.

These positive effects were offset by:

- Adverse exchange rate movements, principally related to the weakness of the euro, the net cost of which is estimated at SEK -250m compared with last year.
- Net cost increases of SEK 50m following the acquisition of Lee Steel Strip Limited and Smidesbolaget L. Persson AB, offset by reductions following the sale of Avesta Sheffield Inc. (Canada).

The share of profits of associated companies was SEK 14m (-4m), with the improvement attributable to increased profitability at Fagersta Stainless.

Financial expenses were higher than last year because of increased borrowings.

Financial Position

There was a cash inflow from operations of SEK 469m, after non-recurring expenditure of SEK 20m on items provided against profits in prior years. Net borrowings (interest

bearing liabilities less liquid assets) were SEK 2,334m as at 30 June 2000, compared with net borrowings of SEK 2,343m as at 31 March 2000. The gross interest bearing liabilities as at 30 June 2000 were SEK 3,086m (2,903m at March 2000) and liquid assets were 752m (560m at March 2000). The Group's debt/equity (gearing) ratio has remained unchanged from March 2000 at 28 per cent. The solvency ratio has improved marginally since March 2000 to 51 per cent.

	<u>June 2000</u>	<u>March 2000</u>	<u>March 1999</u>
Solvency %	51	53	56
Gearing %	28	28	14

Working capital increased in the quarter by SEK 105m to SEK 5,984m. Inventories increased as additional stocks were produced ahead of the summer vacation period, and this increase was offset to some extent by increased payables. Accounts receivable remained virtually unchanged from March 2000. Capital employed increased in the quarter by SEK 170m to SEK 11,307m.

Investments and acquisitions

Capital expenditure for the quarter totalled SEK 96m (65m). Additionally, in May 2000, the acquisition was completed of Smidesbolaget L. Persson AB for SEK 27m, plus borrowings taken over at acquisition of SEK 31m. Capital expenditure will increase during the remainder of the year as the major projects approved in late 1999 and early 2000 are progressed. The Group's strategy remains to grow capacity in line with the increase in market demand, and to focus on projects which either reduce costs, improve operational efficiency or have a strong market or customer focus.

To strengthen its position in France, the Group has acquired the Deroulinox stainless steel service centre in Tours. The purchase price was FFR 22 million and the purchase will be effective from 1 November 2000.

Personnel

The number of employees at the end of June 2000 totalled 6,447, a net increase of 139 from March 2000. This net increase includes 70 additional employees related to the acquisition of Smidesbolaget and also temporary summer vacation employees in Sweden.

E-commerce

Avesta Sheffield actively uses the Internet as an important channel to market products and service.

By using Internet technology, the information flow between Business Areas and customers can be integrated. Through secured web sites customers can order steel for new products or buy steel from stock, follow the status of orders and download certificates, online 24 hours a day.

The Order On Line pilot, that offers the possibility to buy steel, has been running for internal use during the spring. Usage will be expanded to selected customers and partners.

In August auctions of prime arising and non-prime stainless steel products have been implemented.

PARENT COMPANY

The Parent Company reported net sales of SEK 2,547m (1,558m). The result after financial items was SEK 210m (24m). The improvement in net sales and profitability was attributable to substantially the same items as explained earlier in this report.

Capital expenditure totalled SEK 48m (35m) and liquid assets stood at SEK 267 (280m) as at 30 June 2000.

MARKET OUTLOOK

Industrial production and GDP growth in Western Europe is forecast to remain strong. This will drive further improvement in coil product consumption. Despite signals that US economic growth has now started to slow, coil demand is anticipated to remain firm. The sale of excess inventory during the summer should bring supply and demand in the market more into balance by the autumn 2000. Optimistic growth prospects in South East Asia should encourage further firm demand for all coil products.

The outlook for coil base prices remains positive, supported by good order intake and capacity utilisation. The underlying trend for coil base prices remains upward.

The quarto plate market is continuing to show signs of a gradual recovery and this will be further stimulated by any new announcements for project related investments throughout the year. Base prices are anticipated to remain stable in the coming months, but will be supported by any further acceleration in demand.

The outlook for long products, precision strip and tubular products looks increasingly positive, with further improvements in demand expected during the remainder of the year.

FINANCIAL REPORTS

The following financial information will be published during the course of 1 April – 31 December 2000 financial year:

Interim report, Q2 (April – September 2000)	9 November 2000
Year-end report, (April – December 2000)	22 February 2001

Stockholm, 25 August 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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CONSOLIDATED INCOME STATEMENT

SEK million	April–June 2000	April–June 1999	July 1999- June 2000	July 1998- June 1999	April 1999- March 2000	January- December 1999
Net sales	5,403	3,743	17,753	15,109	16,093	14,491
Operating expenses	-4,698	-3,543	-15,435	-15,369	-14,280	-13,874
Depreciation according to plan	-133	-123	-501	-479	-491	-485
Share of result in associated companies	14	-4	-13	-27	-31	-27
Operating result	586	73	1,804	-766	1,291	105
Financial items	-39	-14	-110	-62	-85	-61
Result after financial items	547	59	1,694	-828	1,206	44
Tax	-134	-22	-347	127	-235	-5
Minority interests	-4	-3	-7	13	-6	-10
Net result for the period	409	34	1,340	-688	965	29

Key numbers

Earnings per share after tax (SEK)	2.59	0.22	8.48	-4.35	6.11	0.18
Return on equity after tax (%)	20	2	17	negative	13	0
Return on capital employed (%)	22	4	19	negative	14	2
Equity/share (SEK)	51.59	45.44	51.59	45.44	51.70	46.45
Number of shares (million)	158	158	158	158	158	158

Definition of key numbers

Return on equity after tax

The result after 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	30.06.2000	30.06.1999	31.03.2000
ASSETS			
Fixed assets			
Intangible assets	111	15	105
Tangible assets	5,399	5,283	5,435
Financial assets	330	344	322
Total fixed assets	5,840	5,642	5,862
Inventories	4,864	3,549	4,427
Current receivables			
Accounts receivable	4,155	3,008	4,183
Other receivables	495	407	495
Prepaid costs and accrued income	163	129	151
Total current receivables	4,813	3,544	4,829
Short-term investments	146	48	79
Cash and bank	606	335	481
Total current assets	10,429	7,476	9,816
TOTAL ASSETS	16,269	13,118	15,678
EQUITY AND LIABILITIES			
Equity	8,151	7,179	8,168
Minority interests	70	63	66
Provisions			
Provisions for pensions and similar commitments ¹⁾	580	384	522
Provisions for deferred taxation	885	578	800
Other provisions	166	516	235
Total provisions	1,631	1,478	1,557
Long-term liabilities			
Liabilities to credit institutions	2,524	985	2,203
Other liabilities – interest-bearing	32	40	112
Other liabilities – non-interest-bearing	51	70	52
Total long-term liabilities	2,607	1,095	2,367
Current liabilities			
Accounts payable	2,239	1,655	2,145
Liabilities to credit institutions	168	248	235
Other liabilities – non-interest-bearing	449	517	357
Accrued costs and prepaid income	954	883	783
Total current liabilities	3,810	3,303	3,520
TOTAL EQUITY AND LIABILITIES	16,269	13,118	15,678

¹⁾Provisions include SEK 362m (335m at 30.06.99 and 353m at 31.03.00) of interest-bearing pension liabilities

CASH FLOW STATEMENT

SEK million	April– June 00	April– June 99	April 99– March 00
Operating income and costs			
Result before appropriations and tax	547	59	1,206
Non-cash items	37	87	311
Paid tax	-10	4	-28
	574	150	1,489
Working capital			
Increase(-)/reduction(+) in inventories	-432	-345	-1,336
Increase(-)/reduction(+) in interest-free receivables	26	301	-1,529
Increase(+)/reduction(-) in interest-free liabilities	301	-249	560
	-105	-293	-2,305
From operations	469	-143	-816
Change in fixed assets	-86	-55	-365
Sale/Acquisition of subsidiary companies	-58	-	-135
	-144	-55	-500
Cash Flow	325	-198	-1,316
External financing	-133	-12	1,283
Change in liquid assets	192	-210	-33
LIQUID ASSETS AT PERIOD END	752	383	560