Avesta Sheffield AB –
Interim Report for April – September 2000

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

- **Avesta Sheffield and Outokumpu Steel have announced merger plans to form AvestaPolarit which will become the world's second largest stainless steel producer. The merger will represent a major strategic step forward for Avesta Sheffield, creating a world class company with a low cost base, efficient distribution network and reduced business risk. It will also create a firm platform for future growth.**

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- **The result after financial items for the second quarter was a profit of SEK 323 million (37m). This corresponds to earnings per share after tax of SEK 1.49 (0.20).**

- **The result after financial items for the half year was a profit of SEK 870 million (96m). This corresponds to earnings per share after tax of SEK 4.08 (0.41).**

- **Market demand has remained subdued following the summer vacation. This is a period of order and stock adjustment but demand is expected to recover after the year end. The global outlook for coil products remains firm.**

		April 2000-Sept 2000	April 1999-Sept 1999
Net sales	**(SEKm)**	**9,942**	**7,025**
Operating result before depreciation	(SEKm)	1,197	380
Result after financial items	**(SEKm)**	**870**	**96**
Net result for the period	(SEKm)	644	65
Earnings per share after tax	(SEK)	4.08	0.41
Return on equity after tax	(%)	15	2
Return on capital employed	(%)	18	3
Net borrowings at period end	**(SEKm)**	**-2,112**	**-1,216**

"The most significant event during the quarter was the announcement of the proposed merger with Outokumpu Steel to form AvestaPolarit. This is the final step in completing our Cornerstone Strategy announced in 1998. The merger represents an excellent opportunity for Avesta Sheffield to further advance its recent improvement by combining its strong distribution system with Outokumpu Steel's low cost and efficient production. Our task over the coming months will be to plan for the launch of this new Group in early 2001. We must, at the same time, continue to drive forward our existing business to improve its efficiency and maximise profitability " says Avesta Sheffield's CEO, Stuart Pettifor.

Outokumpu Steel and Avesta Sheffield to form AvestaPolarit

Outokumpu and Avesta Sheffield announced in September that they propose to set up a leading pure-play stainless steel company called AvestaPolarit. The company will be the world's second largest stainless steel producer with net sales in excess of EUR 3 billion. It will have some 8 700 employees on its payroll and major production facilities in Sweden, UK, Finland and the United States. At first, Outokumpu is to own 55 per cent of the company, but it has agreed to reduce its holding to no more than 40 per cent within the next three years in order to increase the liquidity of the share.

The planned combination will take place via an exchange offer in which Avesta Sheffield shareholders will be offered one Outokumpu Steel share in exchange for each Avesta Sheffield share. Later on, Outokumpu Steel will be renamed AvestaPolarit and listed on the OM Stockholm Exchange. The offer is conditional upon the necessary regulatory approvals and at least 90 per cent acceptance by Avesta Sheffield shareholders.

GROUP
Market
European demand for coil products fell during the quarter in line with seasonal trends, but was up approximately 9 per cent compared to the corresponding period last year. Quarto plate demand followed a similar trend, with 6 per cent growth in European shipments over the same quarter last year.

French and German cold rolled consumption was particularly firm growing by approximately 16 per cent compared to the same period last year. This was balanced by more marginal increases in Italy and the UK, where economic growth was less robust.

The strong rise in US consumption during the first six months of the year slowed over the summer, reflecting quieter market conditions and a declining nickel price. Consequently there was a period of inventory readjustment during the second quarter.

Activity in South East Asian markets also slowed in response to steadily declining nickel prices and the continuation of import restrictions into China, which has lead to a degree of inventory build in Hong Kong and South Korea. Despite slightly weaker market conditions in South-East Asia, there were further signs of improvement in Japan as local demand increased, reflecting a gradual improvement in the domestic economy.

Average European coil base prices have increased by around 15 per cent since April 2000, with most of these increases taking place as expected in the first quarter. However, the falling nickel price (from USD 4.64 per lb at its peak, it is now below USD 3.10 per lb) is causing buyers, particularly stockists, to reduce orders and stocks. This is causing downward pressure on base prices for future deliveries.

In the US market the strong US dollar has encouraged the continuation of high levels of imports, despite a slowdown in consumption. In response there has been a downward correction of selling prices during the last quarter to pre-April levels. Seen overall, effective prices in South East Asia also declined, reflecting lower nickel price levels and weaker levels of activity.

Demand for precision strip products has remained strong, giving rise to improvements in base prices. Demand for long products was good and in line with expectations, but tubular demand continued to be subdued in the absence of any strong pick up in project investment.

Net sales
Delivered tonnage of 460,000 (422,000) tonnes for the half year was a 9 per cent increase compared with last year. Delivered tonnage of 200,000 (196,000) tonnes for the second quarter was a 2 per cent increase compared with last year. Deliveries for the second quarter were lower than the previous quarter as a result of the summer vacation but also because of reduced order intake from customers. The largest percentage improvement for the half year compared with last year was in Asia.

Net sales / deliveries (April to Sept.)

Market	Net Sales, SEKm		Change in %	Net Deliveries, Kton		Change in %
	2000	1999/2000		2000	1999/2000	
Europe	7,674	5,305	45	357	329	9
North America	1,501	1,293	16	60	62	-3
Asia	543	260	109	32	21	52
Rest of World	224	167	34	11	10	10
Total Sales / Net Deliveries	9,942	7,025	42	460	422	9

Net sales for the half year were SEK 9,942m (7,025m), which was an increase of 42 per cent compared with last year. Net sales for the second quarter were SEK 4,539 (3,282m). Of the 38 per cent increase in net sales in the second quarter compared with last year, 2 percentage points relates to higher volumes and 39 percentage points to mix and price improvements, including the beneficial effect of the Alloy Adjustment Factor, offset by a deterioration of 3 per cent as a result of adverse exchange rate movements.

Raw Materials
Nickel prices continued to fluctuate through the quarter, ranging between USD 3.37 per lb and USD 4.05 per lb. This price volatility was caused by several factors. These included the increased availability of stainless scrap, the impact of destocking at stainless producers and customers, speculative activity and the strike at the Falconbridge plant in Canada. London Metal Exchange nickel stocks also continued to reduce through the period, reaching a nine year low. Nickel prices have now fallen back to below USD 3.10 per lb. Analyst’s views are generally that there will be a supply surplus in 2001.

The Group continued to benefit from the increased use of stainless steel scrap in its production and prices for this material tended to follow the movement in primary nickel prices.

Chromium and molybdenum prices remained relatively steady through the quarter.

There was a nil effect from price change in inventory (280m) for the half year. The negative effect from price change in inventory of SEK –122m (183m) for the second quarter was principally the result of reducing nickel prices through to August. As stated earlier, nickel prices remain volatile and volatility will therefore also be seen in the effect of price change in inventory.

Result

The operating result, for the second quarter was a profit of SEK 363m (54m). The result after financial items was a profit of SEK 323m (37m).
The operating result for the half year was a profit of SEK 949m (127m). The result after financial items was a profit of SEK 870m (96m).

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

- A 9 per cent increase in delivered tonnage to 460,000 tonnes, which improved the result by SEK 185m.
- Increased conversion margins (the difference between net selling prices and raw material costs) totalling SEK 1,200m, mainly resulting from the improvement in base selling prices across the Group's product range.
- Net cost reductions of an estimated SEK 150m after taking into account additional costs this year related to the acquisition of Lee Steel Strip Limited, UK, and Smidesbolaget L. Persson AB, Sweden, offset by reductions following the sale of Avesta Sheffield Inc. (Canada).

These positive effects were offset by:

- A nil effect from price change in inventory compared with SEK 280m for the first half of last year.
- Adverse exchange rate movements, principally related to the weakness of the euro, the net cost of which is estimated at SEK –460m compared with last year.

The share of profits of associated companies for the half year was SEK 9m (-12m). Financial expenses were higher than last year because of increased borrowings.

Financial Position

There was a cash inflow from operations of SEK 847m (-214m), after non-recurring expenditure of SEK 32m on items provided against profits in prior years. Net borrowings (interest bearing liabilities less liquid assets) were SEK 2,112m as at 30 September 2000, compared with net borrowings of SEK 2,343m as at 31 March 2000. The gross interest bearing liabilities as at 30 September 2000 were SEK 2,659m (2,903m at March 2000) and liquid assets were 547m (560m at March 2000). The Group's debt/equity (gearing) ratio has improved to 24 per cent from 28 per cent at March 2000. The solvency ratio has improved marginally since March 2000 to 54 per cent.

	Sept. 2000	March 2000	March 1999
Solvency %	54	53	56
Gearing %	24	28	14

During the quarter, there was a cash receipt of SEK 72m in respect of the SPP refund of surplus accounted for as profit in 1999/2000. Working capital increased in the half year by SEK 245m to SEK 6,157m adjusted for the acquisition of Smidesbolaget L. Persson AB and exclusion of corporation tax in receivables and payables. Inventories remained high because of destocking by customers and slow recovery of demand following the summer vacation. Accounts receivable reduced from March as payments were received for high deliveries made earlier in the year. However, this reduction was partly offset by a reduction in accounts payable. Capital employed increased in the half year by SEK 205m to SEK 11,342m.

Investments and acquisitions

Capital expenditure for the half year totalled SEK 262m (204m). Capital expenditure began to increase through the second quarter as the major projects approved in late 1999 and early 2000 were progressed. These projects are consistent with the joint Business Plan developed for AvestaPolarit, the proposed merger with Outokumpu Steel. Good progress was made on capital projects through the summer vacation period. The new ladle arc furnace at Avesta commissioned ahead of programme.

The acquisition of the Deroulinox stainless steel service centre in Tours in France was successfully completed on 2 November 2000. This was after the end of the reporting period. The purchase price was FFR 22 million and this acquisition will strengthen the Group's position in France.

In June the Group announced that it was investigating the possible sale of its tubular products business located in Wildwood, USA. After careful analysis, it has now been determined that the tubular products business will be retained as part of the Group's North American operations.

Personnel

The number of employees at the end of September 2000 totalled 6,465, a net increase of 157 from March 2000.

This net increase includes 70 additional employees related to the acquisition of Smidesbolaget L. Persson AB and, more significantly, temporary summer vacation employees in Sweden.

PARENT COMPANY

The Parent Company reported net sales during the second quarter of SEK 1,952m (1,227m). Net sales for the half year were SEK 4,499m (2,785m). The result after financial items for the second quarter was SEK 77m (-34m). The result after financial items for the half year was SEK 287m (-10m). The improvement in net sales and profitability compared with last year was attributable to substantially the same items as explained earlier in this report. Capital expenditure totalled SEK 138m (91m) and liquid assets stood at SEK 824m (224m) as at 30 September 2000.

MARKET OUTLOOK

The outlook for the world economy remains positive for 2001, with growth in both GDP and industrial production in Europe and South-East Asia expected to continue at good levels. Even in the USA, where there are signs that the economy is slowing, growth of around 3 per cent is expected next year.

As a result the global outlook for the coil products market is reasonably firm. Capacity utilisation, especially at the slab melting stage, is expected to continue to rise for the remainder of the year and into 2001.

In the short term, there is likely to be a period of nervousness as inventories are brought more into balance with demand and the market adjusts to the lower nickel price. In North America consumption is expected to slow in response to the slowing economy, but in Asia the recent decline in stainless steel consumption is expected to reverse early next year as industrial activity in the region picks up.

Quarto plate demand has improved slightly in recent months and it is hoped that higher energy prices will encourage further project related investment growth, particularly in the offshore industry. Two other sectors where growth opportunities are positive are the pulp and paper sector and chemical tankers.

Demand for precision strip remains buoyant, and this trend is expected to continue well into next year. Further base price improvements should be achieved during the next two quarters. Long products demand is also expected to remain firm during the final quarter of 2000.

FINANCIAL REPORTS

The year-end report (April – December 2000) will be 22 February 2001. If the merger with Outokumpu Steel is successfully concluded in early 2001, Avesta Sheffield AB will become a subsidiary of Outokumpu Steel and will subsequently be de-listed from the OM Stockholm Exchange. Outokumpu Steel will be renamed AvestaPolarit and listed on the OM Stockholm Exchange. In those circumstances, there will be no Interim Report issued by Avesta Sheffield AB (publ) for any period after 31 December 2000.

Stockholm, 9 November 2000

AVESTA SHEFFIELD AB (publ)

Stuart Pettifor
President and Chief Executive Officer

REVIEW REPORT

We have carried out a review of this half year report of Avesta Sheffield AB (publ) for the period 1 April 2000 to 30 September 2000 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 Act and Annual Accounts Act.

Stockholm, 9 November 2000

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CONSOLIDATED INCOME STATEMENT

SEK million	July-Sept 2000	July-Sept 1999	April-Sept 2000	April-Sept 1999	Jan-Sept 2000	April 1999-March 2000
Net sales	**4,539**	**3,282**	**9,942**	**7,025**	**15,221**	**16,093**
Operating expenses	-4,047	-3,102	-8,745	-6,645	-12,877	-14,280
Depreciation according to plan	-124	-118	-257	-241	-382	-491
Share of result in associated companies	-5	-8	9	-12	4	-31
Operating result	**363**	**54**	**949**	**127**	**1,966**	**1,291**
Financial items	-40	-17	-79	-31	-109	-85
Result after financial items	**323**	**37**	**870**	**96**	**1,857**	**1,206**
Tax	-85	-6	-219	-28	-400	-235
Minority interests	-3	0	-7	-3	-12	-6
Net result for the period	**235**	**31**	**644**	**65**	**1,445**	**965**

Key numbers

Earnings per share after tax (SEK)	1.49	0.20	4.08	0.41	9.15	6.11
Return on equity after tax (%)	11	2	15	2	24	13
Return on capital employed (%)	14	3	18	3	25	14
Equity/share (SEK)	54.53	45.66	54.53	45.66	54.53	51.70
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 period 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	30.09.2000	30.09.1999	31.03.2000
ASSETS			
Fixed assets			
Intangible assets	114	12	105
Tangible assets	5,563	5,275	5,435
Financial assets	336	335	322
Total fixed assets	**6,013**	**5,622**	**5,862**
Inventories	**5,096**	**3,571**	**4,427**
Current receivables			
Accounts receivable	3,834	2,781	4,183
Other receivables	402	210	495
Prepaid costs and accrued income	177	175	151
Total current receivables	**4,413**	**3,166**	**4,829**
Short-term investments	**169**	**258**	**79**
Cash and bank	**378**	**476**	**481**
Total current assets	**10,056**	**7,471**	**9,816**
TOTAL ASSETS	**16,069**	**13,093**	**15,678**
EQUITY AND LIABILITIES			
Equity	**8,615**	**7,214**	**8,168**
Minority interests	**68**	**63**	**66**
Provisions			
Provisions for pensions and similar commitments [1]	528	376	522
Provisions for deferred taxation	951	583	800
Other provisions	215	452	235
Total provisions	**1,694**	**1,411**	**1,557**
Long-term liabilities			
Liabilities to credit institutions	1,805	1,188	2,203
Other liabilities – interest-bearing	31	134	112
Other liabilities – non-interest-bearing	58	68	52
Total long-term liabilities	**1,894**	**1,390**	**2,367**
Current liabilities			
Accounts payable	1,986	1,600	2,145
Liabilities to credit institutions	439	295	235
Other liabilities– non-interest-bearing	445	378	357
Accrued costs and prepaid income	928	742	783
Total current liabilities	**3,798**	**3,015**	**3,520**
TOTAL EQUITY AND LIABILITIES	**16,069**	**13,093**	**15,678**

[1])Provisions include SEK 384m (333m at 30.09.99 and 353m at 31.03.00) of interest-bearing pension liabilities

CASH FLOW STATEMENT

SEK million	April–Sept 00	April–Sept 99	Jan–Sept 00	April 99–March 00
Operating income and costs				
Result before appropriations and tax	870	86	1,857	1,206
Non-cash items	233	242	268	311
Paid tax	-11	-89	-27	-28
	1,092	**239**	**2,098**	**1,489**
Working capital				
Increase(-)/reduction(+) in inventories	-664	-539	-722	-1,336
Increase(-)/reduction(+) in interest-free receivables	413	9	-363	-1,529
Increase(+)/reduction(-) in interest-free liabilities	6	77	-80	560
	-245	**-453**	**-1,165**	**-2,305**
From operations	**847**	**-214**	**933**	**-816**
Change in fixed assets	**-242**	**-185**	**-354**	**-365**
Sale/Acquisition of subsidiary companies	**-58**	**-**	**-58**	**-135**
	-300	**-185**	**-412**	**-500**
Cash Flow	**547**	**-189**	**521**	**-1,316**
External financing	**-560**	**330**	**-374**	**1,283**
Change in liquid assets	**-13**	**141**	**147**	**-33**
LIQUID ASSETS AT PERIOD END	**547**	**734**	**547**	**560**