

ALPHASTEEL

There are no easy options, each route carries either commercial, political or EC penalties. The principal choices are:

1. Do nothing on Alphasteel or Ravenscraig:
politically good, commercially poor and could result in an EC row, but may be sustainable.
2. Close just the hot rolling mill at Ravenscraig:
politically bad (an extra 750 redundancies in a workforce of 4,000). Commercially sensible, EC good.
3. Buy Alphasteel: politically difficult, commercially doubtful, EC satisfactory. (But this would only defer a decision on Ravenscraig, not avoid it).

Alphasteel has lost huge amounts of money (accounts to end 1982 attached), and is only kept open by the prospect of being purchased by BSC. The financial justification for buying (even if one does not expect it to close of its own accord) is questionable. The main constituents are: quota - £18m a year (but this assumes that the quota regime will continue and if Alpha closed of its own accord, BSC would get none of it), and avoiding a price war - £22m a year (but only a nationalised industry could suffer losses on this scale year after year!)

Politically it would be very difficult to justify paying £150m to buy such loss-making assets, only then to scrap most of them. (When BL wants to sell companies below asset

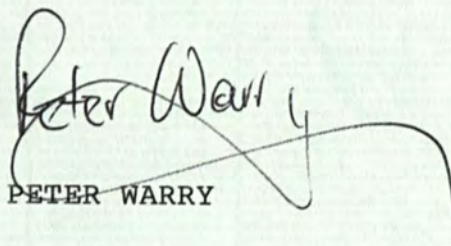
value this is difficult - Alphasteel has a negative asset value of £18m!). The PAC will have a field day.

Yet doing nothing (which we might get away with) would place the UK amongst the laggards in Europe on steel. Alphasteel would then probably close of its own accord.

The judgements that have to be made are:

1. Could we avoid EC infraction procedures if we do nothing? Would it be better to fight against the quota regime?
2. Could the hot strip mill at Ravenscraig be closed without political consequences significantly worse than the row that the Alphasteel purchase and closure will cause?
3. Should we rely on BSC's calculation of Alphasteel's worth?

On balance, we favour not buying Alphasteel, and in any event would recommend that no final decision be made until Bob Haslam has completed his negotiation.


PETER WARRY

ALPHASTEEL LIMITED
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 31ST DECEMBER 1982

	<u>Notes</u>	<u>1982</u>	<u>1981</u>
TURNOVER		£ 30,411,907.75	£ 21,427,075.97
OPERATING PROFIT/(LOSS)		<u>2,434,174.31</u>	<u>(2,430,860.25)</u>
Less: EXCHANGE DIFFERENCES		(3,967,406.66)	130,560.43
INTEREST ON PROMISSORY NOTES	5	(8,092,663.50)	(7,955,914.76)
LOSS FOR THE YEAR	2	<u>£¹ (9,625,895.85)</u>	<u>£ (10,256,214.56)</u>

STATEMENT OF ACCUMULATED DEFICIT

ACCUMULATED REVENUE DEFICIT AT 1ST JANUARY 1982		(43,178,247.19)	(32,922,032.61)
LOSS FOR THE YEAR		<u>(9,625,895.85)</u>	<u>(10,256,214.58)</u>
ACCUMULATED REVENUE DEFICIT AT 31ST DECEMBER 1982		<u>£ (52,804,143.04)</u>	<u>£ (43,178,247.19)</u>

The notes on pages 9 to 12 form part of these Accounts.
 Auditors' report page 4.

ALPHASTEEL LIMITED

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BALANCE SHEET

31ST DECEMBER 1982

	<u>Notes</u>	<u>1982</u>	<u>1981</u>
○ FIXED ASSETS AT COST	3	83,707,003.65	83,677,553.65
CURRENT ASSETS			
Stock	4	3,853,639.78	5,420,264.66
○ Debtors		3,991,867.42	4,916,337.62
Cash		2,275,155.98	3,884,379.68
Bills receivable		4,968,971.77	1,476,511.53
		<u>15,089,634.95</u>	<u>15,697,493.49</u>
CURRENT LIABILITIES			
Bills payable		302,869.28	302,869.29
Short term loans	5	2,181,060.04	-
Creditors		2,416,054.27	2,564,393.71
		<u>4,899,983.59</u>	<u>2,867,263.00</u>
NET CURRENT ASSETS		<u>10,189,651.36</u>	<u>12,830,230.49</u>
		93,896,655.01	96,507,784.14
LESS: DEFERRED LIABILITIES			
Loans	5	(111,700,798.05)	(114,586,031.33)
		<u>£(17,804,143.04)</u>	<u>£(18,078,247.19)</u>
SHAREHOLDERS' FUNDS			
Share Capital	6	35,000,000.00	25,100,000.00
Accumulated deficit		(52,804,143.04)	(43,178,247.19)
Directors:	<i>Heinrich T. Spahr</i>		
Approved by the board:-	15th Dec. 1983		
		<u>£(17,804,143.04)</u>	<u>£(18,078,247.19)</u>

The notes on pages 9 to 12 form part of these accounts.
Auditors' report on page 4.

REPORT OF THE AUDITORS
TO THE MEMBERS OF
ALPHASTEEL LIMITED

1. We report on the financial statements set out on pages 5 to 12 which have been prepared under the historical cost convention. Our audit has been carried out in accordance with approved Auditing Standards.
2. As stated in note 3 to the financial statements on page 9, no provision is made for the depreciation of fixed assets. This is not in accordance with Statement of Standard Accounting Practice No. 12. Based on depreciation rates estimated to write down the assets over their expected useful working lives, the depreciation charge for the year should have been £5,243,082 and accumulated depreciation at 31st December 1982 £22,639,723. The effect of this is to decrease the loss for the year from £14,868,978 to £9,625,896 and to decrease the accumulated deficit to date by £22,639,723. The fixed assets are correspondingly overstated in the balance sheet.
3. As stated in note 1 to the financial statements on page 9, the financial statements have been prepared on a going concern basis. However, we have been unable to satisfy ourselves that, in the event that the company ceased to trade, the fixed assets would realise their net book value of £83,707,004.
4. For the reasons set out in paragraphs 2 and 3 above, in our opinion the financial statements do not give a true and fair view of the state of affairs of the Company at 31st December 1982 or of the results and source and application of funds for the year then ended. In all other respects the financial statements comply with the Companies Acts 1948 to 1981.
5. Supplementary Current Cost Accounts have not been prepared by the company as required by Statement of Standard Accounting Practice No. 16.

15. December 1983
London

[Signature]
Chartered Accountants