

Textron Automotive Company Limited

Report and Accounts

31 DECEMBER 1998

 ERNST & YOUNG



Textron Automotive Company Limited

REGISTERED NUMBER: 03402476

DIRECTORS

B Arnold
G F Daniels
J C Griffith

SECRETARY

P A Preston

AUDITORS

Ernst & Young
Southgate House
Wood Street
Cardiff
CF10 1EX

BANKERS

Midland Bank
168 High Street
Guildford
Surrey
GU1 3YU

SOLICITORS

Warren Murton
23 Bedford Road
London
W1N 1LN

REGISTERED OFFICE

Warren Murton
23 Bedford Road
London
W1N 1LN

Textron Automotive Company Limited

DIRECTORS' REPORT

The directors present their report and accounts for the period from incorporation on 8 July 1997 to 31 December 1998. This period represents the first accounting period for which accounts have been prepared.

INCORPORATION

On 8 July 1997, Textron Limited established Textron Automotive Company Limited. The assets of Pirelli UK Tyres Limited were purchased on 12 September 1997 for a consideration of £10,329,459. The investment in Pirelli UK Tyres Limited has been included in the company's balance sheet at its fair value at the date of acquisition.

On 1 December 1997, the assets of the McCord Winn division of Textron Limited were transferred to the company for a consideration of £5,567,700.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is the manufacture and distribution of washer systems for the automotive industry and lumber support for the automotive and furniture industry.

RESULTS AND DIVIDENDS

The profit for the period after taxation amounted to £2,443,854. The directors do not recommend a final ordinary dividend.

FUTURE DEVELOPMENTS

The directors aim to maintain the management policies which have resulted in the company's substantial growth.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the period to 31 December 1998 were as follows:

B Arnold (Appointed 15 June 1998)
J H Bracken (Appointed 21 July 1997) (Resigned 15 June 1998)
G F Daniels (Appointed 21 July 1997)
J C Griffith (Appointed 15 June 1998)
C J G Lewis (Appointed 7 July 1997) (Resigned 15 June 1998)
A C Miller (Appointed 21 July 1997) (Resigned 15 June 1998)
P A Preston (Appointed 7 July 1997) (Resigned 15 June 1998)
C A R Staveley (Appointed 9 July 1997) (Resigned 15 June 1998)

None of the directors had any interest in the shares of the company at any time during the period.

YEAR 2000

The following outlines the aims and current status of the company's Year 2000 program. This covers the aims of Textron Automotive world-wide.

AIMS

The company has achieved Level V readiness as stated by the Automotive Industry Action Group. This effectively says that the ability of Textron Automotive to function will not be affected by the Millennium and that business continuity will be maintained. Textron Automotive will seek to ensure that it will continue to supply its customers and to pay its employees and suppliers without interruption.

Textron Automotive Company Limited

DIRECTORS' REPORT

AIMS (continued)

To achieve this aim Textron Automotive put in place a world-wide program to ensure that the personnel and finances are available.

PLAN

Audit all hardware and software that could be affected by Y2K. Identify the criticality of the equipment and target those with the greatest risk to the business continuity. Test these items to ensure their readiness and where there is a problem achieve readiness by either upgrade or replacement. Test items to ensure readiness.

STATUS

Project teams have been established by the company to ensure all areas of potential risk are covered. An audit of all equipment has been carried out, areas of risk have been identified, testing and remediation has taken place. The documentation of contingency plans is in the final stages.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled employees where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

During the period, the policy of providing employees with information about the company has been through the Textron newsletter "The Link".

Employees are also encouraged to contribute their suggestions and views on the performance of the businesses within the company.

Meetings are held between local management and employees to ensure information is provided and to encourage the involvement of the employees in the overall performance of the business.

AUDITORS

The articles provide for the deemed reappointment of the auditors and Ernst & Young have expressed their willingness to continue as auditors.

For and on behalf of the board

Textron Automotive Company Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Textron Automotive Company Limited

We have audited the accounts on pages 6 to 17, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Cardiff


5 August 1999

Textron Automotive Company Limited

PROFIT AND LOSS ACCOUNT

for the period ended 31 December 1998

	<i>Notes</i>	<i>1998</i> <i>£</i>
TURNOVER	2	35,317,458
Cost of sales		28,100,118
GROSS PROFIT		7,217,340
Other operating costs		3,414,445
OPERATING PROFIT	3	3,802,895
Interest receivable	6	74,536
Interest payable	7	16,577
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,860,854
Tax on profit on ordinary activities	8	1,417,000
PROFIT FOR THE FINANCIAL PERIOD	18	2,443,854

There are no recognised gains or losses other than those shown above.

Textron Automotive Company Limited

BALANCE SHEET

at 31 December 1998

	Notes	1998 £
FIXED ASSETS		
Intangible assets	9	8,172,544
Tangible assets	10	5,087,234
		<u>13,259,778</u>
CURRENT ASSETS		
Stocks	12	1,664,389
Debtors	13	5,333,344
Cash at bank and in hand		4,300,295
		<u>11,298,028</u>
CREDITORS: amounts falling due within one year	14	6,503,079
NET CURRENT ASSETS		<u>4,794,949</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>18,054,727</u>
CREDITORS: amounts falling due after more than one year	15	18,172
NET ASSETS		<u><u>18,036,555</u></u>
CAPITAL AND RESERVES		
Called up share capital	17	13,525,001
Share premium account	18	2,067,700
Profit and loss account	18	2,443,854
EQUITY SHAREHOLDERS FUNDS		<u><u>18,036,555</u></u>

 Director

4 August 1999 Date

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of the entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life of 20 years.

Know-how

Know-how represents the amount allocated by management to the expertise and know-how associated with the acquisition of the McCord Winn business. It is being written off in equal monthly instalments over its estimated life of 4 years.

Other Intangibles

Other intangibles are capitalised at cost and amortised on a straight line basis over their estimated useful economic lives.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life as follows:

Short Leasehold	over 5 years (straight line)
Plant and machinery	over 1 - 15 years (straight line)
Office Furniture and Equipment	over 2 - 15 years (straight line)
Tooling	over 3 - 5 years (straight line)
Fixtures and fixtures	over 3 years (straight line)

Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost includes all costs incurred in bringing each product to its present location and condition and is based on purchase cost on a first in, first out basis.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. All differences are taken to the profit and loss account.

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES (continued)

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual tooling project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Warranties

A provision has been established for warranty costs and warranty costs are charged to the profit and loss account when incurred.

Leasing and hire purchase commitments

Assets held under finance leases which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss accounts over the period of the lease and hire purchase contract and represent a constant proportion of the balance of capital payments outstanding. Rentals paid under operating leases are charged to the profit and loss account as incurred.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they became payable in accordance with the rules of the Scheme.

Former employers of the McCord Winn division were within the Valeo defined benefit scheme until their transfer into the defined contribution scheme on 1 April 1997. Former employees of Pirelli were within the Pirelli defined benefit scheme until their transfer into the defined contribution scheme on the same date.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to customers.

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

3. OPERATING PROFIT

This is stated after charging/(crediting):

	1998 £
Operating lease rentals - plant and machinery	33,946
Auditors' remuneration - audit services	24,000
- non audit services	6,870
Depreciation of owned fixed assets	1,588,730
Amortisation - know-how	325,000
- goodwill	475,714
- other intangibles	372,201
Government grants released	(56,680)
Research and development	156,297
	<u>156,297</u>

4. DIRECTORS EMOLUMENTS

	1998 £
Emoluments	84,500
	<u>84,500</u>
Company contributions paid to money purchase pension schemes	10,402
	<u>10,402</u>

	1998 No.
Members of money purchase pension scheme	2
	<u>2</u>

5. STAFF COSTS

	1998 £
Wages and salaries	6,227,435
Social security costs	544,990
Other pension costs (note 19)	(4,349)
	<u>6,768,076</u>

The average number of employees during the period was as follows:

	1998 No
Management and administration	19
Production	316
Sales and marketing	8
	<u>343</u>

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	1998 £
Bank interest	74,536
	<u>74,536</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £
Bank loans and overdrafts	16,577
	<u>16,577</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £
UK corporation tax	1,417,000
	<u>1,417,000</u>

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS at 31 December 1998

9. INTANGIBLE FIXED ASSETS

	<i>Knowhow</i> £	<i>Goodwill</i> £	<i>Other</i> £	<i>Total</i> £
Cost				
Transferred in	1,162,000	-	-	1,162,000
Additions	-	7,358,459	1,250,000	8,608,459
31 December 1998	1,162,000	7,358,459	1,250,000	9,770,459
Amortisation				
Transferred in	425,000	-	-	425,000
Additions	325,000	475,714	372,201	1,172,915
31 December 1998	750,000	475,714	372,201	1,597,915
Net book value				
31 December 1998	412,000	6,882,745	877,799	8,172,544

Other intangibles include £1 million in respect of amounts paid to Pirelli as part of the purchase agreement upon acquisition. This represents a guarantee against the devaluation of the German mark against sterling. The contract has been independently valued by the Bank of America and is being amortised over the length of the contract (5 years). The remainder of the balance relates to a Pirelli Licence Agreement.

10. TANGIBLE FIXED ASSETS

	<i>Short Leasehold</i> £	<i>Plant and Machinery</i> £	<i>Fixtures and Fittings</i> £	<i>Total</i> £
Cost :				
Transferred in	10,226	4,610,956	204,700	4,825,882
Additions	274,469	2,828,916	111,400	3,214,785
At 31 December 1998	284,695	7,439,872	316,100	8,040,667
Depreciation:				
Transferred in	-	1,282,337	82,366	1,364,703
Provided during the year	45,000	1,456,548	87,182	1,588,730
At 31 December 1998	45,000	2,738,885	169,548	2,953,433
Net book value:				
At 31 December 1998	239,695	4,700,987	146,552	5,087,234

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

11. INVESTMENTS

On 8 July 1997, Textron Limited established Textron Automotive Company Limited. The assets of Pirelli UK Tyres Limited were purchased on 12 September 1997 for a consideration of £10,329,459. The investment in the assets of Pirelli UK Tyres Limited has been included in the company's balance sheet at its fair value at the date of acquisition.

Analysis of the acquisition of the assets of Pirelli UK Tyres Limited:

Net assets at date of acquisition:

	Book value	Adjustments	Fair value to company
	£	£	£
Intangible assets	–	1,000,000 (a)	1,000,000
Fixed assets	670,395	668,605 (b)	1,339,000
Stocks	738,000	–	738,000
Other current assets	14,127	326,873 (c)	341,000
Other creditors	(392,000)	–	(392,000)
Finance leases	(55,000)	–	(55,000)
Net assets	975,522	1,995,478	2,971,000
Goodwill arising on acquisition			7,358,459
			10,329,459

	£
Discharged by:	
Cash	10,025,000
Costs associated with the acquisition financed by group	304,459
	10,329,459

Original goodwill recorded in Textron Limited's group accounts of £7,159,000 was subsequently increased by acquisition costs of £199,459.

Adjustments:

- (a) A formal contract has been taken out as insurance against exchange rate fluctuations of the German Mark which has been independently valued by the Bank of America.
- (b) Increase in value of the fixed assets acquired, as valued by an independent expert.
- (c) Adjustments reflect the value to the company of continued use of the Pirelli name by Textron Automotive Company Limited.

On 1 December 1997 the assets of the McCord Winn division of Textron Limited were purchased for a consideration of £5,567,700.

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

11. INVESTMENTS (continued)

Analysis of the acquisition of the assets of the McCord Winn division:

Net assets at date of acquisition:

	<i>Book Value £</i>	<i>Fair Value to Company £</i>
Intangible assets	737,000	737,000
Fixed assets	3,461,179	3,461,179
Stocks	665,675	665,675
Other current assets	3,772,410	3,772,410
Other creditors	(3,068,564)	(3,068,564)
Net assets	<u>5,567,700</u>	<u>5,567,700</u>
Discharged by:		
Ordinary shares of £1 each		3,500,000
Share premium		2,067,700
		<u>5,567,700</u>

12. STOCK

	<i>1998 £</i>
Raw materials and consumables	1,136,090
Work in progress	253,823
Finished goods and goods for resale	274,476
	<u>1,664,389</u>

The directors believe that the difference between the purchase price or production cost of stocks, and their replacement cost, is not material.

13. DEBTORS

	<i>1998 £</i>
Trade debtors	4,316,678
Other debtors	945,407
Prepayments and accrued income	71,259
	<u>5,333,344</u>

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

14. CREDITORS: amounts falling due within one year

	1998 £
Bank overdraft	18,441
Trade creditors	2,593,632
Amounts due to parent undertakings	373,754
Amounts due on hire purchase contracts	18,173
Corporation tax	1,417,000
Other taxes and social security costs	208,849
Other creditors	600,045
Accruals	1,273,185
	<u>6,503,079</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £
Amounts due on hire purchase contracts	18,172
	<u>18,172</u>

16. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	1998 £
Amounts payable:	
Within one year	21,450
In two to five years	21,450
	<u>42,900</u>
Less: finance charges allocated to future periods	(6,555)
	<u>36,345</u>

Finance leases and hire purchase contracts are analysed as follows:

	1998 £
Current obligations	18,173
Non current obligations	18,172
	<u>36,345</u>

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS at 31 December 1998

17. SHARE CAPITAL

	1998 £
Authorised Ordinary shares of £1 each	15,000,000
Allotted, called up and fully paid Ordinary shares of £1 each	13,525,001

The company was incorporated with 1 share of £1. On 23 July 1997 the authorised share capital was increased to 12,000,000 and the number allotted was increased by 10,025,000 on 12 September 1997. The payment for shares was satisfied by cash.

A further increase in the authorised share capital of the company was made on 1 December 1997 to 15,000,000 and a further 3,500,000 shares were allotted to Textron Limited on this date. The shares were issued at a premium of £2,067,700. The payment for the shares was satisfied by the transfer of the net assets of the McCord Winn division.

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital</i> £	<i>Share premium account</i> £	<i>Profit and Loss account</i> £	<i>Total</i> £
Issue of shares	13,525,001	2,067,700	-	15,592,701
Profit for the period	-	-	2,443,854	2,443,854
At 31 December 1998	13,525,001	2,067,700	2,443,854	18,036,555

19. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme, the Textron Limited Pension Scheme, for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The Company is currently experiencing a contributions holiday as a result of the allocation of apportion of the surplus existing under the Textron Limited defined benefit pension scheme.

20. OPERATING LEASE COMMITMENTS

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as set out below :

	<i>Land & Buildings</i> 1998 £	<i>Other</i> 1998 £
Operating leases which expire:		
Within 1 year	-	2,585
In 2 to 5 years	265,000	145,184
	265,000	147,769

Textron Automotive Company Limited

NOTES TO THE ACCOUNTS at 31 December 1998

22. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £72,789.

23. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is Textron Limited, a company registered in England and Wales. The ultimate parent undertaking is Textron Inc, a company incorporated in the United States of America. This is the largest group of which the company is a member and for which group accounts are prepared, and their accounts are available from the registered office at 40 Westminster Street, Providence, RI 02903, USA.

The smallest group of which the company is a member and for which group accounts are prepared is Textron Limited, a company incorporated in England and Wales. These accounts are available from the registered office at 23 Bedford Road, London W1N 1LN.

24. RELATED PARTY DISCLOSURES

In accordance with the exemption permitted under Financial Reporting Standard 8, as all of the voting rights are contained within Textron Inc group and the group accounts of Textron Inc are publicly available, no related party transactions have been disclosed within these accounts.

25. CASHFLOW STATEMENT

The company has been included in the group accounts of the ultimate parent undertaking Textron Inc. and therefore has taken advantage of the exemptions under FRS1 (revised) to not prepare a statement of cashflows.