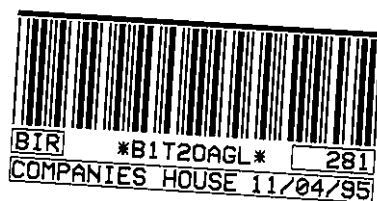


Magneti Marelli Electrical Limited

Report and Accounts

31 December 1994

Registered No. 2094216



Magneti Marelli Electrical Limited

DIRECTORS' REPORT

The directors present their report together with the audited accounts of the company for the year ended 31 December 1994.

PRINCIPAL ACTIVITY

The principal activity of the company is the manufacture of starters and alternators, for both the original equipment and aftermarket sectors.

With effect from 31 December 1994 the business and net assets of the company were transferred to the holding company Magneti Marelli (UK) Limited at book value.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The loss after tax for the year was £2,052,000 (1993: £8,717,000) and is dealt with as shown in the profit and loss account. During the year to 31 December 1994 the company while under product margin pressure, benefited from considerable cost reductions, increased efficiency and reduction in interest payable arising from the improvement in cash balances held.

The continuing strategy for the company, as defined in the announcement of 3 December 1993, is the running down of the original equipment business at the Shaftmoor Lane site over the short term and the long term concentration of production based on small volume and aftermarket needs.

Local management are currently engaged in discussions with the Department of Trade and Industry concerning the application for a regional selective assistance grant. The outcome of these discussions is not yet known.

The company continues to place a high priority on research and development.

DIVIDENDS

No dividend has been declared or recommended.

DIRECTORS

The directors of the company during the year and up to the date of this report were as follows:

		<i>Nationality</i>
Mr G Di Napoli	(Chairman)	Italian
Mr M Carello	(Resigned 24 March 1995)	Italian
Mr G Conti	(Appointed 1 January 1994 and resigned 24 March 1995)	Italian
Mr A J Connelly	(Appointed 23 March 1994)	British

No director had a declarable interest in the share capital of the company or parent undertaking during the year.

Magneti Marelli Electrical Limited

DIRECTORS' REPORT

FIXED ASSETS

The movement in fixed assets during the year is set out in note 8 to the accounts. On 31 December 1994 the directors agreed to reverse the revaluation of land and buildings and reinstate them at cost. The comparative figures have been restated to reflect this prior year adjustment. In the opinion of the directors there is no significant difference between the market and book values of land and buildings at 31 December 1994.

EMPLOYEES

The company places considerable value on the involvement of its employees and discusses with them matters affecting them as employees and the various factors affecting the performance of the company.

It is the policy of the company to give full and fair consideration to applications for employment made by disabled persons. Wherever possible the employment and training of members of staff becoming disabled during their employment with the company is continued to further the development and promotion of all such persons.

CLOSE COMPANY PROVISIONS

As far as the directors are concerned, the close company provisions of the Income and Corporation Taxes Act 1988 as amended do not apply to the company. There has been no change in this respect since the end of the financial year.

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:

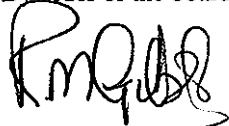
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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. 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.

AUDITORS

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



R M Gilbert
Secretary

24 March 1995

REPORT OF THE AUDITORS

to the members of Magneti Marelli Electrical Limited

We have audited the accounts on pages 4 to 13 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2 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.

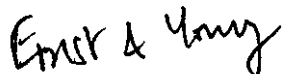
Basis of opinion

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 the company's affairs as at 31 December 1994 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
Birmingham

24 March 1995

Magneti Marelli Electrical Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1994

	Notes	1994 £'000	1993 £'000
TURNOVER	2	72,252	67,383
Change in stocks of finished goods and work in progress		(1,767)	467
		70,485	67,850
Other operating income		1,201	1,234
		71,686	69,084
Raw materials and consumables		45,339	43,074
Other external charges		527	1,157
		45,866	44,231
		25,820	24,853
Staff costs	5	13,636	15,748
Depreciation		2,671	6,334
Other operating charges		4,080	4,956
		20,387	27,038
OPERATING PROFIT/(LOSS)	3	5,433	(2,185)
Exceptional item - restructuring costs		(7,397)	(5,678)
		(1,964)	(7,863)
Interest payable and similar charges	4	(88)	(854)
LOSS FOR THE YEAR		<u>(2,052)</u>	<u>(8,717)</u>
STATEMENT OF ACCUMULATED LOSSES			
Opening balance		(57,651)	(48,934)
Loss for the year		(2,052)	(8,717)
		<u>(59,703)</u>	<u>(57,651)</u>

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the loss attributable to shareholders of the company of £2,052,000 in the year ended 31 December 1994 and in the year ended 31 December 1993 £8,717,000 loss attributable to shareholders and £1,728,000 (note 15) relating to the reversal of the revaluation reserve.

NOTE OF HISTORICAL COST PROFIT AND LOSSES

There is no material difference between the reported losses and the historical cost losses.

Magneti Marelli Electrical Limited

BALANCE SHEET

at 31 December 1994

	Notes	1994 £'000	1993 £'000
FIXED ASSETS			
Tangible assets	8	-	15,405
CURRENT ASSETS			
Stocks	9	-	4,976
Debtors	10	11,063	11,904
Cash at bank and in hand		-	3,432
		<u>11,063</u>	<u>20,312</u>
CREDITORS: amounts falling due within one year	11	-	20,394
NET CURRENT ASSETS/(LIABILITIES)		<u>11,063</u>	<u>(82)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		11,063	15,323
CREDITORS: amounts falling due after one year			
Obligations under finance leases	12	-	(1,058)
PROVISIONS FOR LIABILITIES AND CHARGES	13	-	(1,150)
		<u>11,063</u>	<u>13,115</u>
CAPITAL AND RESERVES			
Called up share capital	14	70,200	70,200
Discount on acquisition	15	566	566
Accumulated losses	15	(59,703)	(57,651)
		<u>11,063</u>	<u>13,115</u>

A J Connelly

Director

A. J. Connelly

24 March 1995

NOTES TO THE ACCOUNTS

at 31 December 1994

1. ACCOUNTING POLICIES

Basis of preparation

These accounts are prepared under the historical cost convention, and are in accordance with applicable accounting standards. These accounts are prepared on a going concern basis, on the grounds that Magneti Marelli S.p.A., an intermediate holding company, has undertaken to give the company continued financial support to meet in full its liabilities as they fall due.

This parent undertaking has included a cash flow statement in its accounts, thus eliminating the need for the company to prepare this statement.

Depreciation

Depreciation is charged on a straight line basis upon the estimated useful lives of assets and is charged at the following rates based on cost, as follows:

Land	—	Nil
Buildings	—	3%
Plant, equipment and motor vehicles	—	10% - 20%
Tooling	—	25%

Plant and equipment excludes the cost of low value loose plant, office equipment and fixtures and fittings which are charged against revenue when incurred.

Research and development

All revenue expenditure on research and development is written off when incurred.

Reorganisation costs

Reorganisation costs are provided from the date the decision is taken.

Leasing

Assets under finance leases are treated as tangible fixed assets and depreciation is provided accordingly. The deemed capital element of future lease payments is included in creditors. Deemed interest, calculated on a reducing balance basis is charged as interest payable over the period of the lease. Rental costs of operating leases are charged against trading profit as incurred.

Pensions

The company operates three defined benefit pension schemes, all of which require contributions to be made to separately administered funds. Contributions to these funds are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives.

Stocks

Stocks are consistently valued at the lower of cost, including all appropriate production overheads, and net realisable value.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences arising in the ordinary course of business are included in trading profit. Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at exchange rates ruling at the balance sheet date.

Magneti Marelli Electrical Limited

NOTES TO THE ACCOUNTS

at 31 December 1994

1. ACCOUNTING POLICIES *(continued)*

Deferred taxation

Provision for deferred taxation is made, on the liability method, on the excess of capital allowances over depreciation and other timing differences where the liability will become payable in the foreseeable future less any accumulated tax losses.

2. TURNOVER

Turnover represents the invoiced value of goods and services charged to customers excluding value added tax. All turnover and loss on ordinary activities before taxation is attributable to the company's discontinued principal activity.

All turnover arises from operations carried out in the United Kingdom.

An analysis of turnover by geographical market is given below:

	1994 £'000	1993 £'000
United Kingdom	47,342	48,059
EEC countries	21,296	19,022
North America	2,773	272
Rest of the World	841	30
	<u>72,252</u>	<u>67,383</u>

3. OPERATING PROFIT/(LOSS)

This is stated after charging:

	1994 £'000	1993 £'000
Rental payable for leased land and buildings	13	13
Rental for hire of plant, equipment and vehicles under operating leases	266	357
Auditors' remuneration - audit services	30	30
- non audit services	6	5
Depreciation on owned assets	2,193	5,359
Depreciation on assets under finance leases	478	975
	<u></u>	<u></u>

Magneti Marelli Electrical Limited

NOTES TO THE ACCOUNTS

at 31 December 1994

4. INTEREST PAYABLE

	1994	1993
	£'000	£'000
Short term loans and overdraft	25	719
Finance leases	63	135
	<u>88</u>	<u>854</u>

5. STAFF COSTS

	1994	1993
	£'000	£'000
Wages and salaries	11,889	14,152
Social Security costs	962	1,139
Other pension costs	169	544
	<u>13,020</u>	<u>15,835</u>

The average number of persons employed during the year was:

	1994	1993
Works	685	792
Staff	92	141
	<u>777</u>	<u>933</u>

6. DIRECTORS' REMUNERATION

The emoluments of the directors, including pension contributions, paid by the company amounted to:

	1994	1993
	£'000	£'000
Emoluments for executive services	<u>69</u>	<u>183</u>

The emoluments, excluding pension contributions, of directors were as follows:

	1994	1993
	£'000	£'000
Highest paid director	<u>63</u>	<u>162</u>

The emoluments (excluding pension contributions) of the directors, whose duties were within the UK, fell within the following ranges:

	1994	1993
	Number	Number
£60,001 - £65,000	1	-
£160,001 - £165,000	-	1

Magneti Marelli Electrical Limited

NOTES TO THE ACCOUNTS

at 31 December 1994

7. TAXATION

No charge for taxation or deferred taxation arises during the year. At 31 December 1994 the company has accumulated tax losses of approximately £30,800,000 (1993: £27,500,000) available for offset against future taxable profits of the same trade.

8. TANGIBLE ASSETS

	<i>Freehold land and buildings £'000</i>	<i>Plant, equipment and motor vehicles £'000</i>	<i>Tooling £'000</i>	<i>Capital work in progress £'000</i>	<i>Total £'000</i>
Cost or valuation:					
At 1 January 1994	7,511	32,808	6,856	709	47,884
Prior year adjustments	372	-	-	-	372
As restated	7,883	32,808	6,856	709	48,256
Additions	-	-	-	1,253	1,253
Transfers from capital work in progress	-	489	1,170	(1,659)	-
Disposals	-	(7,406)	-	(60)	(7,466)
Transfers to holding company	(7,883)	(25,891)	(8,026)	(243)	(42,043)
At 31 December 1994	-	-	-	-	-
Accumulated depreciation:					
At 1 January 1994	906	24,429	5,416	-	30,751
Prior year adjustments	2,100	-	-	-	2,100
As restated	3,006	24,429	5,416	-	32,851
Charge for the year	366	1,400	905	-	2,671
Disposals	-	(3,182)	-	-	(3,182)
Transfer to holding company	(3,372)	(22,647)	(6,321)	-	(32,340)
At 31 December 1994	-	-	-	-	-
Net book values:					
At 31 December 1994	-	-	-	-	-
At 31 December 1993	4,877	8,379	1,440	709	15,405

The net book value of assets above includes an amount of £Nil (1993: £1,409,000) in respect of assets held under finance leases.

The prior year adjustment relates to the reinstatement of land and buildings at historic cost.

Magneti Marelli Electrical Limited

NOTES TO THE ACCOUNTS

at 31 December 1994

9. STOCKS

	1994	1993
	£'000	£'000
Raw materials and consumables	-	989
Work in progress	-	1,300
Finished goods and goods for resale	-	2,687
	<u>-</u>	<u>4,976</u>

The directors consider that the replacement value of stocks is not materially different to their balance sheet values as at 31 December 1994 and 31 December 1993.

10. DEBTORS

	1994	1993
	£'000	£'000
Receivable within one year:		
Trade debtors	-	7,858
Amounts due from group undertakings	-	3,094
Other debtors	-	846
Prepayments and accrued income	-	106
	<u>-</u>	<u>11,904</u>
Receivable after one year:		
Amounts due from group undertakings	11,063	-
	<u>11,063</u>	<u>11,904</u>

The amount due from group undertakings after one year is represented by:

	£'000	£'000
Amounts due from group undertakings		392
Net assets transferred to holding company:		
Tangible assets (note 8)	9,703	
Stocks	2,920	
Trade debtors	10,695	
Other debtors	311	
Prepayments and accrued income	86	
Trade creditors	(7,189)	
Other taxes and social security	(466)	
Other creditors	(620)	
Accruals	(1,955)	
Obligations under finance leases	(994)	
Provisions for liabilities and charges	(10,697)	
Cash at bank and in hand	<u>8,877</u>	
		<u>10,671</u>
		<u>11,063</u>

Magneti Marelli Electrical Limited

NOTES TO THE ACCOUNTS

at 31 December 1994

11. CREDITORS

	1994	1993
	£'000	£'000
Trade creditors	-	10,666
Amounts due to group undertakings	-	2,284
Other taxes and social security	-	507
Other creditors	-	4,973
Accruals	-	1,241
Short term obligations under finance leases (see note 12)	-	723
	<u>-</u>	<u>20,394</u>

12. OBLIGATIONS UNDER FINANCE LEASES

The future minimum lease payments to which the company is committed as at 31 December 1994 under finance leases are as follows:

	1994	1993
	£'000	£'000
Within one year	-	861
Between two and five years	-	1,188
	<u>-</u>	<u>2,049</u>
Less: interest charges allocated to future periods	-	(268)
	<u>-</u>	<u>1,781</u>
Less: short term obligations included in creditors (see note 11)	-	(723)
	<u>-</u>	<u>1,058</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

A provision of £Nil (1993: £1,150,000) is included in provisions for liabilities and charges, this being the excess of the accumulated pension costs over the amount funded.

14. SHARE CAPITAL

	Authorised		Issued and fully paid	
	1994	1993	1994	1993
	No	No	£'000	£'000
Ordinary shares of £1 each	75,000,000	75,000,000	70,200	70,200
	<u>75,000,000</u>	<u>75,000,000</u>	<u>70,200</u>	<u>70,200</u>

Magneti Marelli Electrical Limited

NOTES TO THE ACCOUNTS

at 31 December 1994

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £'000	Discount on acquisition £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 1993	60,200	566	1,728	(48,934)	13,560
Loss for the year	-	-	-	(8,717)	(8,717)
Shares issued	10,000	-	-	-	10,000
At 1 January 1994					
As previously stated	70,200	566	1,728	(57,651)	14,843
Prior year adjustment (note 8)	-	-	(1,728)	-	(1,728)
At 1 January 1994 - as restated	70,200	566	-	(57,651)	13,115
Loss for the year	-	-	-	(2,052)	(2,052)
At 31 December 1994	70,200	566	-	59,703	11,063

16. CAPITAL EXPENDITURE

Capital expenditure sanctioned by the Board and outstanding at 31 December 1994 amounts to £Nil (1993: £210,000).

Contracts placed against these sanctions so far as not provided for in these accounts amounts to £Nil (1993: £178,000).

17. CONTINGENT LIABILITY

The company, its immediate holding company and certain UK based fellow subsidiaries of the Fiat S.p.A. group of companies have entered into a composite group accounting agreement with their UK bankers, whereby the company may be called upon to assume the responsibility for the borrowings of any company party to the agreement.

18. OPERATING LEASES

At 31 December 1994 the company had annual commitments under non-cancellable operating leases as set out below:

	1994		1993	
	Land and buildings £'000	Other than land and buildings £'000	Land and buildings £'000	Other than land and buildings £'000
Commitment expiring:				
Within one year	-	-	-	40
In two to five years	-	-	13	81
	-	-	13	121

Magneti Marelli Electrical Limited

NOTES TO THE ACCOUNTS

at 31 December 1994

19. PENSIONS

The company operates three defined benefit schemes, the assets of which are held in separate trustee administered funds. The contributions to the schemes are determined with the advice of independent qualified actuaries, using the projected unit method, based on a valuation at 31 March 1992.

It was assumed that the investment return would be 9% p.a., that earnings increases would be between 6% and 7% p.a., and that pension increases would be at the rates required in the pension scheme rules. The market value of the pension scheme assets as at 31 March 1992 was £25,911,200 and the actuarial value of those assets represented 106% of the value of benefits that had accrued to members of the pension scheme based on service to 31 March 1992 after allowing for future increases in earnings.

20. ULTIMATE HOLDING COMPANY

The parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the company is a member is Fiat S.p.A., incorporated in Italy, and the parent undertaking of the smallest such group is Magneti Marelli Components B.V., incorporated in Holland. Copies of Fiat S.p.A.'s accounts can be obtained from Fiat S.p.A., Corso Marconi, 10125, Turin, Italy and copies of Magneti Marelli Components B.V.'s accounts can be obtained from Magneti Marelli Components B.V., Geboun Bouwcentrum, Weena 750, Rotterdam, Holland.