

ARTHUR ANDERSEN

Schwitzer (Europe) Limited

Accounts 31 December 1996
together with directors' and auditors' reports

Registered number: 2346109



Directors' report

For the year ended 31 December 1996

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1996.

Directors' responsibilities

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; and
- 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 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.

Principal activity and business review

The principal activity of the company is the manufacture and sale of turbochargers, dampers and cooling system products.

Turnover for the year, at £33.3 million, showed an increase over 1995 of £0.8 million, due to the increased demand for all products. Operating profits decreased £1.3 million over 1995, due to operational problems experienced during the year and provisions against anticipated costs.

The directors do not expect market conditions to change significantly during the coming year but the level of profitability should improve.

Directors' report (continued)

Results and dividends

The company's results are as follows:

	£
Retained profit, beginning of year	3,374,438
Profit for the financial year	1,015,850
Retained profit, end of year	<u>4,390,288</u>

The directors do not propose the payment of a dividend.

Directors and their interests

The directors who served during the year are shown below:

P.G. Sanderson

P.F. Spratt

G.G. Dillon

None of the directors had any interests which are required to be disclosed by Section 234 of the Companies Act 1985.

Charitable contributions

The company contributed £856 (1995 - £1,185) to charities during the year.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through circulation of information to employees via notice boards, production of a quarterly newsletter and monthly staff committee meetings.

Directors' report (continued)

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Roydsdale Way
Euroway Industrial Estate
Bradford
BD4 6SE

By order of the Board,

A handwritten signature in dark ink, appearing to be 'P.F. Spratt', written over the printed name.

Company Secretary

28 May 1997

Auditors' report

Leeds

To the Shareholders of Schwitzer (Europe) Limited:

We have audited the accounts on pages 5 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 1 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.

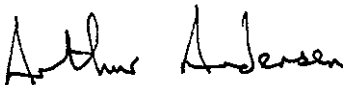
Basis of opinion

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 company's state of affairs at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

St. Paul's House
Park Square
Leeds
LS1 2PJ

28 May 1997

Profit and loss account

For the year ended 31 December 1996

	Notes	1996 £	1995 £
Turnover	2	33,257,438	32,437,581
Cost of sales		(28,601,864)	(26,783,518)
Gross profit		4,655,574	5,654,063
Other operating expenses (net)	3	(3,050,482)	(2,741,993)
Operating profit		1,605,092	2,912,070
Investment income	4	2,206	45,524
Interest payable and similar charges	5	(77,922)	(16,186)
Profit on ordinary activities before taxation	6	1,529,376	2,941,408
Tax on profit on ordinary activities	8	(513,526)	(955,098)
Profit for the financial year		1,015,850	1,986,310
Dividends paid and proposed		-	(1,370,000)
Retained profit for the year		1,015,850	616,310
Retained profit, beginning of year		3,374,438	2,758,128
Retained profit, end of year		4,390,288	3,374,438

All of the above results relate to continuing operations and there were no acquisitions during the year.

There are no recognised gains or losses in the years ended 31 December 1996 and 31 December 1995 other than the profit for those years.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1996

	Notes	1996 £	1995 £
Fixed assets			
Tangible assets	9	5,914,197	5,470,540
Investments	10	2	2
		<u>5,914,199</u>	<u>5,470,542</u>
Current assets			
Stocks	11	4,265,508	4,167,878
Debtors	12	11,326,913	10,656,593
Cash at bank and in hand		108,417	56,761
		<u>15,700,838</u>	<u>14,881,232</u>
Creditors: Amounts falling due within one year	13	(6,144,270)	(6,096,536)
Net current assets		<u>9,556,568</u>	<u>8,784,696</u>
Total assets less current liabilities		<u>15,470,767</u>	<u>14,255,238</u>
Creditors: Amounts falling due after more than one year	14	(277,006)	(77,327)
Provision for liabilities and charges	15	(613,471)	(613,471)
Net assets		<u>14,580,290</u>	<u>13,564,440</u>
Capital and reserves			
Called-up share capital	16	10,190,002	10,190,002
Profit and loss account		4,390,288	3,374,438
Equity shareholders' funds	17	<u>14,580,290</u>	<u>13,564,440</u>

Signed on behalf of the Board

P.G. Sanderson  Director

P.F. Spratt  Director

28 May 1997

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1996

1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are set out below:

a) Basis of accounting

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

A cash flow statement has not been prepared as the company is a wholly owned subsidiary undertaking of Schwitzer (Europe) Holdings Limited, a company registered in England and Wales. This company publishes consolidated accounts which include a consolidated cash flow statement dealing with the cash flows of the group.

b) Group accounts

The directors have not presented consolidated accounts because the company is a wholly owned subsidiary undertaking of Schwitzer (Europe) Holdings Limited, a company registered in England and Wales, which prepares consolidated accounts. Further information relating to the company's subsidiary undertaking is given in note 10 to the accounts.

c) Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods in the normal course of business.

d) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

e) Pension costs

Pension costs are charged against profits in a systematic manner over the service lives of the employees in the scheme.

Total pension costs comprise the regular pension costs, that is the consistent ongoing cost, calculated as a level percentage of the current and expected future pensionable payroll.

Any difference between the amounts charged to the profit and loss account and the amounts payable to the scheme for the year is shown as a separately identified liability or asset in the balance sheet.

Notes to accounts (continued)

1 Accounting policies (continued)

f) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation has been calculated under the liability method and is provided on timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

g) *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life as follows:

Freehold buildings	25 years
Plant and machinery	3 to 10 years

h) *Leases*

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after more than one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and the reduction of the liability.

Rentals under operating leases are charged on a straight line basis over the lease term.

i) *Stocks*

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

Cost represents expenses incurred in bringing each product to its present location and condition and includes a reasonable proportion of labour and manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

j) *Fixed asset investments*

Fixed asset investments are stated at cost less amounts written off.

k) *Research and development*

Research and development costs are written off in the year of expenditure.

Notes to accounts (continued)

2 Segment information

The analysis of turnover by geographical area has not been provided as in the opinion of the directors such disclosure would be seriously prejudicial to the business.

3 Other operating expenses (net)

	1996 £	1995 £
Selling and marketing costs	894,608	780,886
Research and development costs	1,136,796	905,366
Administrative expenses	1,244,574	1,078,507
	<u>3,275,978</u>	<u>2,764,759</u>
Other operating income	(225,496)	(22,766)
	<u>3,050,482</u>	<u>2,741,993</u>

4 Investment income

	1996 £	1995 £
Interest receivable and similar income	<u>2,206</u>	<u>45,524</u>

5 Interest payable and similar charges

	1996 £	1995 £
On bank loans, overdrafts and other loans		
- repayable within five years, by instalments	10,844	12,072
- repayable within five years, not by instalments	67,078	4,114
	<u>77,922</u>	<u>16,186</u>

Included in the above is the interest element of charges payable under finance leases and hire purchase contracts amounting to £10,844 (1995 - £12,072).

Notes to accounts (continued)

6 Profit on ordinary activities before taxation

	1996 £	1995 £
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets - owned	1,158,076	1,083,537
- held under finance leases	22,395	22,395
Hire of plant and machinery under operating leases	82,696	84,923
Other operating lease rentals	23,400	23,200
Auditors' remuneration - audit	28,386	19,000
- other	6,180	6,900
Staff costs (Note 7)	<u>5,961,519</u>	<u>5,665,594</u>

There is no difference between the profit on ordinary activities before taxation and the retained profit for each of the years ending 31 December 1996 and 31 December 1995 and their respective historical cost equivalents.

7 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1996 £	1995 £
Employee costs during the year amounted to:		
Wages and salaries	4,991,656	4,748,464
Social security costs	386,008	367,448
Other pension costs	583,855	549,682
	<u>5,961,519</u>	<u>5,665,594</u>

The average monthly number of persons employed by the company during the year was:

	1996 Number	1995 Number
Production and engineering	256	255
Sales	18	17
Administration	10	10
	<u>284</u>	<u>282</u>

Directors' remuneration:

	1996 £	1995 £
Directors of the company received the following remuneration:		
Other emoluments (including pension contributions)	<u>182,523</u>	<u>166,771</u>

Notes to accounts (continued)

7 Staff costs (continued)

The directors' remuneration shown above (excluding pension contributions) included:

	1996 £	1995 £
Chairman	-	-
Highest paid director	92,764	84,425

The directors received emoluments (excluding pension contributions) in the following ranges:

	1996 Number	1995 Number
£0 - £ 5,000	1	1
£60,001 - £65,000	-	1
£70,001 - £75,000	1	-
£80,001 - £85,000	-	1
£90,001 - £95,000	1	-

The above figures for emoluments do not include any amount for the value of share options granted to or held by directors. Options to subscribe for ordinary shares of the ultimate parent company have been granted as follows:

	Number of options			
	Beginning of year	Granted	Exercised	End of year
P.G. Sanderson	37,159	3,000	16,633	23,526
P.F. Spratt	8,220	1,500	4,566	5,154

The options were granted between 18 April 1989 and 19 February 1996 and are exercisable at any time between 1 and 10 years from the date the options were granted at prices ranging from \$4.8101 to \$15.7305.

Notes to accounts (continued)

8 Tax on profit on ordinary activities

	1996 £	1995 £
The tax charge is based on the profit for the year and comprises:		
Corporation tax	488,225	930,351
Adjustment of corporation tax in respect of prior year	25,301	24,747
	<u>513,526</u>	<u>955,098</u>

The current tax charge has been reduced by approximately £12,500 (1995 - £23,453) due to the surrender of tax losses by Schwitzer (Europe) Holdings Limited free of charge.

9 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
At 1 January 1996	1,515,379	11,591,650	13,107,029
Additions	83,374	1,558,006	1,641,380
Disposals	-	(351,296)	(351,296)
At 31 December 1996	<u>1,598,753</u>	<u>12,798,360</u>	<u>14,397,113</u>
Depreciation			
At 1 January 1996	497,949	7,138,540	7,636,489
Charge	58,310	1,122,161	1,180,471
Disposals	-	(334,044)	(334,044)
At 31 December 1996	<u>556,259</u>	<u>7,926,657</u>	<u>8,482,916</u>
Net book value,			
At 31 December 1996	<u>1,042,494</u>	<u>4,871,708</u>	<u>5,914,197</u>
At 31 December 1995	<u>1,017,430</u>	<u>4,453,110</u>	<u>5,470,540</u>

Freehold land amounting to £107,500 (1995 - £107,500) has not been depreciated.

Plant and machinery includes fixed assets held under finance leases with a net book value of £153,682 (1995 - £176,077).

Notes to accounts (continued)

10 Fixed asset investments

	1996	1995
	£	£
Investment in subsidiary undertaking at cost	<u>2</u>	<u>2</u>

The company owns the entire issued £1 ordinary share capital of Schwitzer Pension Trustee Limited. This company is incorporated in England and Wales and its principal activity is acting as a trustee of the Schwitzer Pension Plan (1989). No income or expenditure has accrued to it since its incorporation.

11 Stocks

	1996	1995
	£	£
Raw materials	999,221	884,846
Work in progress	103,545	114,232
Finished goods and goods for resale	<u>3,162,742</u>	<u>3,168,800</u>
	<u>4,265,508</u>	<u>4,167,878</u>

12 Debtors

	1996	1995
	£	£
Trade debtors	7,080,272	6,851,127
Amounts owed by other group undertakings	3,651,596	3,310,825
VAT	497,272	330,856
Prepayments and accrued income	<u>97,773</u>	<u>163,785</u>
	<u>11,326,913</u>	<u>10,656,593</u>

Notes to accounts (continued)

13 Creditors: Amounts falling due within one year

	1996 £	1995 £
Obligations under finance leases and hire purchase contracts	15,212	27,592
Bank loans and overdraft	326,471	515,310
Trade creditors	4,046,903	3,853,028
Amounts owed to other group undertakings	150,024	235,994
Other creditors		
- UK Corporation Tax payable	489,542	930,351
- social security and PAYE	290,221	141,622
Accruals and deferred income	825,897	392,639
	<u>6,144,270</u>	<u>6,096,536</u>

Included in creditors due within one year are pension costs of £50,862 (1995 - £84,476) which were incurred but not paid at 31 December 1996.

14 Creditors: Amounts falling due after more than one year

	1996 £	1995 £
Obligations under finance leases and hire purchase contracts	62,116	77,327
Bank loans	214,890	-
	<u>277,006</u>	<u>77,327</u>

Creditors falling due after more than one year are all repayable within 2-5 years.

15 Provision for liabilities and charges

This comprises a full provision for deferred taxation attributable to:

	1996 £	1995 £
Excess of tax allowances over book depreciation of fixed assets	<u>613,471</u>	<u>613,471</u>

Notes to accounts (continued)

16 Called-up share capital

	1996 £	1995 £
<i>Authorised</i>		
20,000,000 ordinary shares of £1 each	<u>20,000,000</u>	<u>20,000,000</u>
<i>Allotted, called-up and fully paid</i>		
10,190,002 ordinary shares of £1 each	<u>10,190,002</u>	<u>10,190,002</u>

17 Reconciliation of movements in equity shareholders' funds

	1996 £	1995 £
Profit for the financial year	1,015,850	1,986,310
Dividends paid and proposed	-	(1,370,000)
Net addition to equity shareholders' funds	<u>1,015,850</u>	<u>616,310</u>
Opening equity shareholders' funds	<u>13,564,440</u>	<u>12,948,130</u>
Closing equity shareholders' funds	<u>14,580,290</u>	<u>13,564,440</u>

18 Guarantees and other financial commitments

a) Capital commitments at the end of the year were:

	1996 £	1995 £
Contracted for but not provided for	<u>354,424</u>	<u>1,069,662</u>

b) Contingent liabilities

- i) The company has unsecured guarantees to third parties outstanding amounting to £200,000 (1995 - £200,000).
- ii) The company has given an unlimited guarantee to its banker as security for a loan of £369,501 (1995 - £739,002) given by the bank to the company's parent company, Schwitzer (Europe) Holdings Limited.

c) Lease commitments

The company has entered into non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period of up to 5 years. The total annual rental for 1996 was £82,696 (1995 - £84,923). The lease agreements provide that the company will pay all insurance, maintenance and repairs. The company may continue, at its option, to use the plant and machinery after the expiration of the initial lease period at a nominal rental.

Notes to accounts (continued)

18 Guarantees and other financial commitments (continued)

In addition, the company leases certain buildings on short term operating leases. The annual rental on these leases was £23,400 (1995 - £23,200). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing operating leases are as follows:

	1996		1995	
	Property £	Plant and machinery £	Property £	Plant and machinery £
Operating leases which expire:				
- within 1 year	-	6,976	-	2,147
- within 2-5 years	-	67,570	-	68,250
- after 5 years	23,200	7,810	23,400	-
	<u>23,200</u>	<u>82,356</u>	<u>23,400</u>	<u>70,397</u>

19 Pension scheme

The group has a defined benefits plan for its employees. The Plan is fully funded. Pension costs are assessed with the advice of a qualified actuary using the projected unit funding method. The most recent actuarial valuation was at 1 May 1996.

The market value of the Plan's assets at this date was £2,885,000. The current level of funding is 12.7% of pensionable salaries. The valuation showed a deficit of £105,000 at the date of the valuation. It is anticipated that the current level of funding will remove this deficit without the need for any additional action.

The significant actuarial assumptions underlying the valuation are as follows: assumed rate of price inflation of 4.5%; assumed rate of interest 9%; assumed rate of growth of future salaries 7%; assumed rate of post retirement pension increases 0%; assumed rate of dividend growth 4.5%.

20 Parent and ultimate holding company

The company is a wholly owned subsidiary undertaking of Schwitzer (Europe) Holdings Limited, incorporated and registered in England and Wales. The ultimate holding company is Kuhlman Corporation, which is incorporated in the State of Delaware, USA.

The largest and smallest groups in which Schwitzer (Europe) Limited is consolidated are those headed by Kuhlman Corporation and Schwitzer (Europe) Holdings Limited respectively. The accounts of Kuhlman Corporation are available to the public and may be obtained from Kuhlman Corporation, 3 Skidaway Village Square, Savannah, Georgia 31411, USA.