Borg-Warner Automotive Turbo Systems Limited
(formerly Schwitzer (Europe) Limited)

Accounts 31 December 1998

together with directors' and auditors' reports

Registered number: 2346109

Directors' report

For the year ended 31 December 1998

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 1998.

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 £44.4 million, showed an increase over 1997 of £8.6 million, due to the increased demand for all products.

Year 2000

The Company is in the process of upgrading certain aspects of its operations to ensure that business systems do not fail to function when the Year 2000 arrives or at other date intervals. The Company has completed an inventory of key systems and equipment with potential Year 2000 issues in the areas of business operating systems, manufacturing operations, operating infrastructure, customers and suppliers. This included an identification of mission critical systems, an assessment of the readiness of applications for Year 2000 and the corrective action needed, if any.

The Company's programme to become Year 2000 compliant is being operated on an enterprise-wide basis. A coordinator has been assigned overall administrative responsibility, however, each operating unit is responsible for compliance at its location. Inventories and assessments have been completed at substantially all locations. Corrective action is underway. The majority of items identified as non-compliant would not significantly interfere with the Company's operations if not updated. In addition, the exposure to an enterprise-wide failure is less likely because of the relative autonomy of the operating units. The Company is operating on a schedule to have substantially all non-compliant items remedied by mid 1999 and is also seeking confirmation from key suppliers and other third parties that their systems and applications that affect the Company will be Year 2000 compliant by mid-1999.

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.

Subsequent event

Details of an important event since 31 December 1998 is described in Note 21.

Results and dividends

The profit for the financial year is £2.2 million (1997 - £2.4 million).

The directors do not propose the payment of a dividend (1997 - £nil).

Directors and their interests

The directors who served during the year are shown below:

P.G. Sanderson
P.F. Spratt
G. Dillon (resigned 1 March 1999)

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

Directors' report (continued)

Charitable donations

The company made £1,380 donations to charity in 1998.

Roydsdale Way
Euroway Industrial Estate
Bradford
BD4 6SE

By order of the Board,

P.F. Spratt

Company Secretary

15 July 1999

Auditors' report

Leeds

To the Shareholders of Borg-Warner Automotive Turbo Systems 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 City Square
Leeds
LS1 2AL

15 July 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	44,411	35,776
Cost of sales		(36,223)	(28,640)
Gross profit		8,188	7,136
Other operating expenses (net)	3	(4,979)	(3,518)
Operating profit		3,209	3,618
Investment income	4	5	74
Interest payable and similar charges	5	(93)	(198)
Profit on ordinary activities before taxation	6	3,121	3,494
Tax on profit on ordinary activities	8	(963)	(1,070)
Retained profit for the financial year	17	2,158	2,424

All of the above results relate to continuing operations.

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

There are no recognised gains or losses in the years ended 31 December 1998 and 31 December 1997 other than the profit for those years.

There is no difference between the profit on ordinary activities before taxation and the retained profit for each of the years ending 31 December 1998 and 31 December 1997 and their respective historical cost equivalents.

Balance sheet

31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	9	6,685	6,119
Investments	10	3,327	3,327
		10,012	9,446
Current assets			
Stocks	11	4,570	3,896
Debtors	12	14,044	12,238
Cash at bank and in hand		313	374
		18,927	16,508
Creditors: Amounts falling due within one year	13	(8,391)	(7,589)
Net current assets		10,536	8,919
Total assets less current liabilities		20,548	18,365
Creditors: Amounts falling due after more than one year	14	(35)	(55)
Provision for liabilities and charges	15	(1,351)	(1,306)
Net assets		19,162	17,004
Capital and reserves			
Called-up share capital	16	10,190	10,190
Profit and loss account	17	8,972	6,814
Equity shareholders' funds	18	19,162	17,004

Signed on behalf of the Board

P.G. Sanderson Director

P.F. Spratt Director

15 July 1999

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

Notes to accounts

31 December 1998

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 BWA Turbo Systems Holdings Limited (formerly Schwitzer (Europe) Holdings Limited), a company registered in England and Wales. This company's parent Borg-Warner Automotive Turbo Systems Corporation (formerly Schwitzer Inc.), 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 BWA Turbo Systems Holdings Limited, a company registered in England and Wales, which prepares consolidated accounts. Further information relating to the company's subsidiary undertakings 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.

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 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
Short leasehold property	20 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 provision for permanent diminution in value.

k) Research and development

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

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)

	1998 £'000	1997 £'000
Selling and marketing costs	1,087	994
Research and development costs	1,422	1,165
Administrative expenses	2,470	1,359
	4,979	3,518

The research and development costs all relate to current year expenditure.

4 Investment income

	1998 £'000	1997 £'000
Interest receivable and similar income	5	74

5 Interest payable and similar charges

	1998 £'000	1997 £'000
On bank loans and overdrafts	88	193
Finance lease interest	5	5
	93	198

6 Profit on ordinary activities before taxation

		1998 £'000	1997 £'000
Profit on ordinary activities before taxation is stated after charging:			
Depreciation of tangible fixed assets	- owned	1,302	1,195
	- held under finance leases	14	14
Operating lease rentals	- plant and machinery	90	72
	- other	117	49
Auditors' remuneration	- audit	19	18
	- other	5	4

7 Staff costs

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

	1998 £'000	1997 £'000
Employee costs during the year amounted to:		
Wages and salaries	7,735	5,560
Social security costs	556	419
Other pension costs	892	699
	9,183	6,678

The average monthly number of persons employed by the company (including executive directors) during the year was:

	1998 Number	1997 Number
Production and engineering	311	263
Sales	24	18
Administration	14	11
	349	292

Directors' remuneration:

	1998 £'000	1997 £'000
Emoluments	231	200

Highest paid director:

The above amounts for remuneration include the following in respect of the highest paid director:

	1998 £'000	1997 £'000
Emoluments	168	116

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 1998 was £29,797 (1997: £25,631).

7 Staff costs (continued)

The number of directors who were members of the company's defined benefit schemes was as follows:

	1998 Number	1997 Number
Defined benefit scheme	2	2

8 Tax on profit on ordinary activities

	1998 £'000	1997 £'000
The tax charge is based on the profit for the year and comprises:		
Corporation tax at 31% (1997: 31%)	878	1,114
Deferred taxation	73	-
Adjustment of corporation tax in respect of prior year	12	(44)
	963	1,070

9 Tangible fixed assets

	Land and buildings			
	Short Leasehold £'000	Freehold £'000	Plant and Machinery £'000	Total £'000
Cost				
At 1 January 1998	-	1,614	14,174	15,788
Additions	67	-	1,815	1,882
Disposals	-	-	(54)	(54)
At 31 December 1998	67	1,614	15,935	17,616
Depreciation				
At 1 January 1998	-	615	9,054	9,669
Charge	3	60	1,253	1,316
Disposals	-	-	(54)	(54)
At 31 December 1998	3	675	10,253	10,931
Net book value,				
At 31 December 1998	64	939	5,682	6,685
At 31 December 1997	-	999	5,120	6,119

Freehold land amounting to £107,500 (1997 - £107,500) has not been depreciated.

Plant and machinery includes fixed assets held under finance leases with a net book value of £83,414 (1997 - £97,315).

Notes to accounts (continued)

10 Fixed assets investments

Subsidiary undertakings

	1998 £'000	1997 £'000
Cost	3,327	3,327

The company holds an investment in the equity (but no other share capital or capital loan) of the following subsidiary undertakings.

	Country of incorporation/ registration	Principal activity	Description of shares held	Proportion of shares held
Kysor (Europe) Limited	England & Wales	Manufacture and sale of fan drives	£1 ordinary shares	100%
Kysor BV	Belgium	Trading company	£1 ordinary shares	100%
Schwitzer Pension Trustee Limited	England & Wales	Trustee of the group Pension Fund	£1 ordinary shares	100%

The results of the companies are consolidated in the accounts of the parent company, BWA Turbo Systems Holdings Limited.

11 Stocks

	1998 £'000	1997 £'000
Raw materials	1,144	1,421
Work in progress	148	101
Finished goods and goods for resale	3,278	2,374
	4,570	3,896

There is no material difference between the balance sheet value of stocks and their replacement cost.

12 Debtors

Amounts all falling due within one year:

	1998 £'000	1997 £'000
Trade debtors	8,784	7,391
Amounts owed by group undertakings	4,205	4,205
VAT	889	374
Prepayments and accrued income	166	268
	14,044	12,238

13 Creditors: Amounts falling due within one year

	1998 £'000	1997 £'000
Obligations under finance leases and hire purchase contracts	20	20
Trade creditors	5,343	4,607
Amounts owed to other group undertakings	1,237	924
Other creditors		
- UK corporation tax payable	945	1,177
- social security and PAYE	518	453
Accruals and deferred income	328	408
	8,391	7,589

14 Creditors: Amounts falling due after more than one year

	1998 £'000	1997 £'000
Obligations under finance leases and hire purchase contracts	35	55

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

15 Provision for liabilities and charges

	Deferred taxation £	Product warranties £	Pensions £	Total £
At 1 January 1998	613	612	81	1,306
Charged to profit and loss account	73	-	892	965
Utilised in year	-	(32)	(888)	(920)
At 31 December 1998	686	580	85	1,351

The deferred taxation provision is attributable to an excess of tax allowances over book depreciation of fixed assets, timing differences on pension payments and utilisation of the doubtful debt provision.

There is no difference between the full and partial deferred taxation provision.

16 Called-up share capital

	1998 £'000	1997 £'000
Authorised		
20,000,000 ordinary shares of £1 each	20,000	20,000
Allotted, called-up and fully paid		
10,190,002 ordinary shares of £1 each	10,190	10,190

17 Reserves

	Profit and loss account £'000
At 1 January 1998	6,814
Retained profit for the year	2,158
At 31 December 1998	8,972

18 Reconciliation of movements in equity shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	2,158	2,424
Opening equity shareholders' funds	17,004	14,580
Closing equity shareholders' funds	19,162	17,004

19 Guarantees and other financial commitments

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

	1998 £'000	1997 £'000
Contracted for but not provided for	264	328

b) Contingent liabilities

The company has unsecured guarantees to third parties outstanding amounting to £250,000 (1997 - £250,000).

c) Lease commitments

The group leases certain assets under operating lease. The lease agreements provide that the company will pay all insurance, maintenance and repairs. The lease of land and buildings are subject to rent reviews at specified periods.

	1998		1997	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Operating leases which expire:				
- within 1 year	-	-	-	12
- within 2-5 years	75	65	75	65
- after 5 years	23	12	23	-
	98	77	98	77

Notes to accounts (continued)

20 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 1998.

The market value of the Plan's assets at this date was £6.9 million. The current level of funding is 12.7% of pensionable salaries. The valuation showed a surplus of £31,000 at the date of the valuation. The surplus on the scheme should be eliminated as a result of lower contributions.

The significant actuarial assumptions underlying the valuation are as follows: assumed rate of price inflation of 3%; assumed rate of interest 6%; assumed rate of future salary increases 4%; assumed rate of post retirement pension increases 3%; assumed rate of return on scheme investments 6.0%.

21 Ultimate parent company
The company is a wholly owned subsidiary of BWA Systems Holdings Limited (formerly Schwitzer (Europe) Limited), which heads the smallest group in to which the company is consolidated.

At 31 December 1998 the ultimate parent (and controlling) undertaking was Kuhlman Corporation which is incorporated in the State of Delaware, USA, produces publicly available consolidated accounts and heads the largest group in which Borg-Warner Automotive Turbo-Systems Limited was consolidated. Accordingly the company has taken advantage of the exemption from Financial Reporting Standard No. 8, Related Party Transactions.

The accounts of Kuhlman Corporation may be obtained from 3 Skidaway Village Square, Savannah, Georgia, 31411 USA.

Subsequent to the year end Borg-Warner Automotive Inc. acquired Kuhlman Corporation and became the ultimate parent (and controlling) undertaking.