Schwitzer (Europe) Limited

Accounts 31 December 1997
together with directors' and auditors' reports

Registered number: 2346109

Directors' report

For the year ended 31 December 1997

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 1997.

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 £35.8 million, showed an increase over 1996 of £2.5 million, due to the increased demand for all products.

During the year the company acquired 100% of the ordinary share capital of Kysor (Europe) Limited and Kysor BV for a combined consideration of £3,327,216.

Directors' report (continued)

Results and dividends

The profit for the financial year is £2,423,814 (1996 - £1,015,850).

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.

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.

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,

P.F. Spratt

Company Secretary

7 August 1998

Auditors' report

Leeds

To the Shareholders of Schwitzer (Europe) Limited:

We have audited the accounts on pages 4 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

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 1997 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

7 August 1998

Profit and loss account

For the year ended 31 December 1997

	Notes	1997 £	1996 £
Turnover	2	35,775,832	33,257,438
Cost of sales		(28,639,977)	(28,601,864)
Gross profit		7,135,855	4,655,574
Other operating expenses (net)	3	(3,517,679)	(3,050,482)
Operating profit		3,618,176	1,605,092
Investment income	4	73,684	2,206
Interest payable and similar charges	5	(198,346)	(77,922)
Profit on ordinary activities before taxation	6	3,493,514	1,529,376
Tax on profit on ordinary activities	8	(1,069,700)	(513,526)
Retained profit for the financial year	17	2,423,814	1,015,850

All of the above results relate to continuing operations and do not reflect the acquisitions during the year.

There are no recognised gains or losses in the years ended 31 December 1997 and 31 December 1996 other than the profit for those years.

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

There is no difference between the profit on ordinary activities before taxation and the retained profit for each of the years ending 31 December 1997 and 31 December 1996 and their respective historical cost equivalents.

Balance sheet

31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	9	6,118,194	5,914,197
Investments	10	3,327,218	2
		9,445,412	5,914,199
Current assets			
Stocks	11	3,896,465	4,265,508
Debtors	12	12,238,330	11,326,913
Cash at bank and in hand		373,833	108,417
		16,508,628	15,700,838
Creditors: Amounts falling due within one year	13	(8,281,353)	(6,144,270)
Net current assets		8,227,275	9,556,568
Total assets less current liabilities		17,672,687	15,470,767
Creditors: Amounts falling due after more than one year	14	(55,112)	(277,006)
Provision for liabilities and charges	15	(613,471)	(613,471)
Net assets		17,004,104	14,580,290
Capital and reserves			
Called-up share capital	16	10,190,002	10,190,002
Profit and loss account	17	6,814,102	4,390,288
Equity shareholders' funds	18	17,004,104	14,580,290

Signed on behalf of the Board

P.G. Sanderson Director

P.F. Spratt Director

7 August 1998

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

Notes to accounts

31 December 1997

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's ultimate parent 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 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.

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

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 dimunition in value.

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)

	1997 £	1996 £
Selling and marketing costs	993,891	894,608
Research and development costs	1,164,679	1,136,796
Administrative expenses	1,359,109	1,244,574
	3,517,679	3,275,978
Other operating income	-	(225,496)
	3,517,679	3,050,482

4 Investment income

	1997 £	1996 £
Interest receivable and similar income	73,684	2,206

5 Interest payable and similar charges

	1997 £	1996 £
Finance leases and hire purchase contracts	-	10,844
On bank loans and overdrafts	198,346	67,078
	198,346	77,922

Notes to accounts (continued)

6 Profit on ordinary activities before taxation

	1997 £	1996 £
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets - owned	1,195,040	1,158,076
- held under finance leases	13,901	22,395
Hire of plant and machinery under operating leases	71,937	82,696
Other operating lease rentals	48,661	23,400
Auditors' remuneration - audit	17,500	28,386
- other	4,200	6,180
Staff costs (Note 7)	6,677,484	5,961,519

7 Staff costs

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

	1997 £	1996 £
Employee costs during the year amounted to:		
Wages and salaries	5,559,660	4,991,656
Social security costs	419,160	386,008
Other pension costs	698,664	583,855
	6,677,484	5,961,519

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

	1997 Number	1996 Number
Production and engineering	263	256
Sales	18	18
Administration	11	10
	292	284

Directors' remuneration:

	1997 £	1996 £
Emoluments	199,536	182,523

Notes to accounts (continued)

7 Staff costs (continued)

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

	1997	1996
Defined benefit scheme	2	2

8 Tax on profit on ordinary activities

	1997 £	1996 £
The tax charge is based on the profit for the year and comprises:		
Corporation tax	1,114,214	488,225
Adjustment of corporation tax in respect of prior year	(44,514)	25,301
	1,069,700	513,526

9 Tangible fixed assets

	Freehold land and buildings £	Plant and Machinery £	Total £
Cost			
At 1 January 1997	1,598,753	12,798,360	14,397,113
Additions	15,674	1,401,441	1,417,115
Disposals	-	(26,977)	(26,977)
At 31 December 1997	1,614,427	14,172,824	15,787,251
Depreciation			
At 1 January 1997	556,259	7,926,657	8,482,916
Charge	59,276	1,149,665	1,208,941
Disposals	-	(22,800)	(22,800)
At 31 December 1997	615,535	9,053,522	9,669,057
Net book value,			
At 31 December 1997	998,892	5,119,302	6,118,194
At 31 December 1996	1,042,494	4,871,703	5,914,197

Freehold land amounting to £107,500 (1996 - £107,500) has not been depreciated.

Plant and machinery includes fixed assets held under finance leases with a net book value of £97,315 (1996 - £153,682).

Notes to accounts (continued)

10 Fixed assets investments

Subsidiary undertakings

	Subsidiary undertakings £
Cost	
At 1 January 1997	2
Additions	3,327,216
At 31 December 1997	3,327,218

The company holds an investment in the equity of the following companies.

	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	Non trading	£1 ordinary shares	100%
Schwitzer Pension Trustee Limited	England & Wales	Trustee of the group Pension Fund	£1 ordinary shares	100%

On 10 March 1997 the company acquired 100% of the issued share capital of Kysor (Europe) Limited and Kysor BV for cash consideration of £2,832,900 and £494,316 respectively. In accordance with the FRS7, the company has recorded the investments at fair value. The results of the companies are consolidated in the accounts of the parent company, Schwitzer (Europe) Holdings Limited.

11 Stocks

	1997 £	1996 £
Raw materials	1,421,180	999,221
Work in progress	101,138	103,545
Finished goods and goods for resale	2,374,147	3,162,742
	3,896,465	4,265,508

Notes to accounts (continued)

12 Debtors

	1997 £	1996 £
Trade debtors	7,391,400	7,080,272
Amounts owed by other group undertakings	4,205,212	3,651,596
VAT	374,424	497,272
Prepayments and accrued income	267,294	97,773
	12,238,330	11,326,913

13 Creditors: Amounts falling due within one year

	1997 £	1996 £
Obligations under finance leases and hire purchase contracts	19,776	15,212
Bank loans and overdraft	-	326,471
Trade creditors	4,607,408	4,046,903
Amounts owed to other group undertakings	924,417	150,024
Other creditors		
- UK Corporation Tax payable	1,176,816	489,542
- social security and PAYE	453,192	290,221
Accruals and deferred income	1,099,744	825,897
	8,281,353	6,144,270

Included in creditors due within one year are pension costs of £80,613 (1996 - £50,862) which were incurred but not paid at 31 December 1997.

14 Creditors: Amounts falling due after more than one year

	1997 £	1996 £
Obligations under finance leases and hire purchase contracts	55,112	62,116
Bank loans	-	214,890
	55,112	277,006

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

Notes to accounts (continued)

15 Provision for liabilities and charges

This comprises a provision for deferred taxation attributable to:

	1997 £	1996 £
Excess of tax allowances over book depreciation of fixed assets	613,471	613,471

There is no unprovided deferred taxation liability as at 31 December 1997.

16 Called-up share capital

	1997 £	1996 £
Authorised		
20,000,000 ordinary shares of £1 each	20,000,000	20,000,000
Allotted, called-up and fully paid		
10,190,002 ordinary shares of £1 each	10,190,002	10,190,002

17 Reserves

	Profit and loss account £
At 1 January 1997	4,390,288
Retained profit for the year	2,423,814
At 31 December 1997	6,814,102

The company has taken advantage of the exemption under Financial Reporting Standard No.8, Related Party Disclosures, as it is a wholly owned subsidiary of Schwitzer Inc. which produces publicly available consolidated accounts.

18 Reconciliation of movements in equity shareholders' funds

	1997 £	1996 £
Profit for the financial year	2,423,814	1,015,850
Opening equity shareholders' funds	14,580,290	13,564,440
Closing equity shareholders' funds	17,004,104	14,580,290

Notes to accounts (continued)

19 Guarantees and other financial commitments

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

	1997	1996
	£	£
Contracted for but not provided for	328,523	354,424

b) Contingent liabilities

The company has unsecured guarantees to third parties outstanding amounting to £250,000 (1996 - £200,000).

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 1997 was £62,300 (1996 - £82,696). 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.

In addition, the company leases certain buildings on short term operating leases. The annual rental on these leases was £98,400 (1996 - £23,400). 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:

	1997		1996	
	Property £	Plant and machinery £	Property £	Plant and machinery £
Operating leases which expire:				
- within 1 year	-	12,100	-	6,976
- within 2-5 years	75,000	64,700	-	67,570
- after 5 years	23,200	-	23,200	7,810
	98,200	76,800	23,200	82,356

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 1995.

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 future salary increases 7%; assumed rate of post retirement pension increases 0%; assumed rate of dividend growth 4.5%.

21 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.