

TRENCH ELECTRIC B.V.  
FORM 20-F Equivalent  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

(Mark One)

☐ Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934.

OR

☐ Annual report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

For the fiscal year ended December 31, 2002

OR

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 333-8334-02

Trench Electric B.V.  
(Exact Name of Registrant as Specified in Its Charter)

The Netherlands  
(Jurisdiction of Incorporation or Organization)

Strawinskylaan 3105, 1077ZX, Amsterdam, The Netherlands  
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
None	—

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None (Title of Class)

Securities in respect of which this annual report is furnished:

Trench Electric SA/Trench Inc. 10 1/4% Senior Subordinated Notes due 2007  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer’s classes of capital or common stock as of the close of the period covered by the annual report.

40,000 Common Shares, 1 Dutch Guilder (0.45 €) par value per share

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes \_\_\_\_ No \_\_X\_\_

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 \_\_X\_\_ Item 18 \_\_\_\_

\* This Form 20-F Equivalent is furnished pursuant to an indenture agreement.

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PRESENTATION OF FINANCIAL INFORMATION

In this Form 20-F Equivalent, unless the context otherwise requires, we have used “Group”, “Trench”, “We” or “Our” to mean Trench Electric B.V. (“Trench Electric”) together with its direct or indirect subsidiaries and their predecessor companies. “Company” refers to the stand-alone Trench Electric B.V.

Unless otherwise indicated, we have prepared all historical financial statements included in this Form 20-F Equivalent in accordance with U.S. generally accepted accounting principles and these are set forth in U.S. dollars.

**Note:** THIS DOCUMENT CONTAINS FORWARD-LOOKING STATEMENTS AS ENCOURAGED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. ALL STATEMENTS CONTAINED IN THIS DOCUMENT, OTHER THAN HISTORICAL INFORMATION, ARE FORWARD-LOOKING STATEMENTS. IN ADDITION, WE OR OUR REPRESENTATIVES MAY FROM TIME TO TIME MAKE ORAL OR WRITTEN STATEMENTS, WHICH SHOULD ALSO BE CONSIDERED “FORWARD-LOOKING STATEMENTS.” THESE STATEMENTS REPRESENT MANAGEMENT’S CURRENT EXPECTATION AND BELIEFS CONCERNING FUTURE EVENTS IMPACTING US AND THEREFORE INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES. MANAGEMENT ACKNOWLEDGES THAT “FORWARD-LOOKING STATEMENTS” ARE NOT GUARANTEES AND THAT ACTUAL RESULTS COULD BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED. A VARIETY OF FACTORS COULD CAUSE BUSINESS CONDITIONS AND OUR RESULTS TO DIFFER MATERIALLY FROM THOSE EXPECTED BY US OR EXPRESSED IN OUR “FORWARD-LOOKING STATEMENTS”. THESE FACTORS INCLUDE WITHOUT LIMITATION, CHANGES IN MARKET PRICE OR MARKET DEMAND; CHANGES IN RAW MATERIAL COSTS OR AVAILABILITY; LOSS OF BUSINESS FROM CUSTOMERS; UNANTICIPATED EXPENSES; CHANGES IN FINANCIAL MARKETS; FOREIGN CURRENCY CHANGES; POTENTIAL EQUIPMENT MALFUNCTIONS AND THE OTHER FACTORS DISCUSSED IN OUR FORM 20-F EQUIVALENT.

WHILE WE PERIODICALLY REASSESS MATERIAL TRENDS AND UNCERTAINTIES AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION IN CONNECTION WITH THE PREPARATION OF MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS, FINANCIAL PROSPECTS AND FINANCIAL CONDITION AND CERTAIN OTHER SECTIONS CONTAINED IN OUR QUARTERLY, ANNUAL OR OTHER REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, WE DO NOT INTEND TO REVIEW OR REVISE ANY PARTICULAR “FORWARD-LOOKING STATEMENT” IN THE LIGHT OF FUTURE EVENTS.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable — Annual Report on Form 20-F Equivalent

Item 2. Offer Statistics and Expected Timetable

Not applicable — Annual Report on Form 20-F Equivalent

Item 3. Key Information:

A. Selected Financial Data:

The financial data as set forth below at December 31, 2002 and 2001 and for each of the years in the three-year period ended December 31, 2002 have been derived from our consolidated financial statements included in Item 17 of this Form 20-F Equivalent. Financial data at December 31, 1998, 1999 and 2000 and for each of the years in the two-year period ended December 31, 1999 have been derived from Trench’s previously published audited consolidated financial statements not included in this document.

The financial data at December 31, 2002 and 2001 and for each of the three years in the three-year period ended December 31, 2002 should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements.

	Years Ended				
	Dec. 31 2002	Dec. 31 2001	Dec. 31 2000	Dec. 31 1999	Dec. 31 1998
(in millions of U.S. dollars, unless stated otherwise)					
<b>Statements of Operations Data:</b>					
Sales	\$ 255.9	\$ 224.3	\$ 200.8	\$ 211.7	\$ 240.8
Cost of sales	178.2	160.8	141.2	146.9	167.8
Gross profit	77.7	63.5	59.6	64.8	73.0
Contract termination	—	—	0.6	—	—
Selling, general and administrative expenses (1)	45.1	46.4	44.4	42.9	49.5
Restructuring provision	—	—	—	1.6	—
Gain on sale of assets	(0.7)	—	—	(1.8)	—
Operating income (2)	33.3	17.1	14.6	22.1	23.5
Foreign exchange losses (gains) (3)	(2.3)	9.1	7.7	2.4	0.7
Gain on extinguishment of debt	—	—	(2.2)	—	—
Interest expense and other (4)	19.6	19.9	23.7	21.2	21.8
Income (loss) before income taxes and minority interest	16.0	(11.9)	(14.6)	(1.5)	1.0
Provision for income taxes	6.8	2.1	3.0	0.8	3.0
Net income (loss) before minority interest	9.2	(14.0)	(17.6)	(2.3)	(2.0)
Minority interest	2.8	1.2	0.3	—	—
Net income (loss)	\$ 6.4	\$ (15.2)	\$ (17.9)	\$ (2.3)	\$ (2.0)
<b>Balance Sheet Data (End of Period):</b>					
Total assets	\$ 345.7	\$ 317.0	\$ 328.6	\$ 307.2	\$ 381.1
Total debt	185.1	192.3	194.3	181.6	233.8
Share capital (in thousands of U.S. dollars)	20.0	20.0	20.0	20.0	20.0
Shareholders equity	41.8	23.4	39.1	61.0	76.7
<b>Other Financial Data:</b>					
Depreciation and goodwill amortization	7.0	10.4	12.1	9.1	9.8
Capital expenditures	5.2	7.7	3.7	3.7	3.6
Number of common shares outstanding (in thousands)	40.0	40.0	40.0	40.0	40.0
Basic and diluted earnings (loss) per common share (in U.S. dollars)	162.05	(380.68)	(447.95)	(56.63)	(51.13)
<b>Cash flows provided by (used in):</b>					
Operating activities	13.8	2.8	8.4	6.4	15.9
Investing activities	(0.3)	(9.5)	(11.6)	19.2	(2.2)
Financing activities	(10.4)	(2.1)	6.4	(47.9)	6.2

- (1) Starting in 2002, under FAS 142 “Goodwill and Other Intangible Assets,” we are no longer required nor permitted to record goodwill amortization. Goodwill now has an indefinite useful life and will not be amortized but rather will be tested at least annually for impairment. Accordingly, we did not incur goodwill amortization expense this year, whereas, in 2001, we incurred goodwill amortization expense of \$3.5 million, which is included in selling, administrative and general expense. The other information provided on goodwill amortization is intended to enable the user to understand the effect of this accounting change on net income from 2001 to 2002. Please refer to the accompanying Item 17, notes 2 and 6 for more information.
- (2) Operating income for the year ended December 31, 2002 includes \$0.1 million (2001 — \$4.2 million) in costs associated with inventory provisions, fixed asset impairments and other restructuring costs relating to Trench Switzerland.
- (3) Foreign exchange gains/losses include a gain of \$5.8 million (2001 — loss of \$8.9 million, 2000 — loss of \$6.9 million) relating to the 10 1/4 Senior Notes due 2007,

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being the year to year revaluation of the debt using exchange rates as of December 31, 2000 and 2001 and December 31, 2002. There is no immediate cash benefit as a result of this gain.

- (4) Interest expense includes amortization of deferred financing costs and writeoffs of deferred financing costs associated with our outstanding senior subordinated notes and the senior facilities agreement.

### B. Capitalization and indebtedness.

Not applicable — Annual Report on Form 20-F Equivalent

### C. Reasons for the offer and use of proceeds.

Not applicable — Annual Report on Form 20-F Equivalent

### D. Risk Factors

#### Substantial Leverage

We have incurred significant indebtedness. In addition, we may incur additional indebtedness in the future, subject to limitations imposed by existing indebtedness.

In 1997, we issued 10 1/4 percent Senior Notes due 2007 (the “Notes”) in the aggregate amount of \$160,000,000, which are listed on the Luxembourg Stock Exchange. The Notes will mature on December 15, 2007. In connection with the issuance of the Notes, we entered into a certain Indenture (“Indenture”) that places certain limitations on our operations. The Indenture outlines certain limitations that restrict our ability to, including without limitation, assume indebtedness, make payments of certain types, grant liens, enter into certain types of transactions with subsidiaries, sell assets, enter into mergers or consolidations, issue preferred and capital stock, and enter into sale/leaseback transactions. These covenants may restrict our ability to enter into future transactions as easily as other entities because of these limitations.

Our ability to improve our operating performance and financial results depends upon economic, financial, competitive and other factors beyond our control, including fluctuations in interest rates and general economic conditions. There can be no assurance that we will generate sufficient cash flow from our operations in the future to service our debt, to make necessary capital expenditures and initiate acquisitions.

We incurred significant indebtedness in connection with the 1997 acquisition of the shares of five companies representing the Trench group, all wholly owned subsidiaries of BBA Group plc and have consolidated indebtedness that is substantial in relation to our shareholder’s equity. As at December 31, 2002, our consolidated total debt and shareholder’s equity were \$185.1 million and \$41.8 million, respectively. The consolidated debt net of cash was \$169.7 million at December 31, 2002. At December 31, 2002, \$27.7 million, excluding letters of credit and bank guarantees, was available to us for borrowings under a revolving credit facility governed by the Facilities Agreement dated April 18, 2000 (“Facilities Agreement”) with our Senior Lenders, arranged by CIBC World Markets Plc, providing for Term Loan Facilities and Revolving Credit Facilities. Of the \$27.7 million available, \$6.3 million is restricted, and we would require the consent of the Senior Lenders to access this portion (2001 — \$7.2 million). If CIBC letters of credit and bank guarantees are factored in, the net available revolving credit facility was \$7.5 million compared to \$2.0 million in 2001. There are other guarantees in another subsidiary that do not affect the available revolving credit facility. The change in the net available revolving credit facility year over year is mainly due to cash generated from operations during 2002. Any borrowings under the Revolving Credit Facility are guaranteed by the Group and other subsidiary guarantors. In addition, we may incur additional indebtedness in the future, subject to limitations imposed by the Facilities Agreement and the Indenture. Please refer to Item 17, Note 22 for more information.

There can be no assurance that Trench will generate sufficient cash flow from our operations in the future to service our debt and to allow us to make necessary capital expenditures. If we are unable to generate sufficient cash flow in the future we may be required to refinance all or a portion of our existing debt, including the Notes, to sell assets or to obtain additional financing. There can be no assurance that any such refinancing would be possible or that any such sales of assets or additional financing could be achieved. For additional information, see Item 5.B. — Liquidity and capital resources and Item 17, note 8.

## **Debt Service**

Our high level of debt will have several important effects on future operations, including the following: (a) we will have significant cash requirements to service debt, reducing funds available for operations and future business opportunities and increasing the vulnerability of Trench to adverse general economic and industry conditions; (b) we may be restricted in the future from obtaining additional financing, whether for acquisitions, working capital or other purposes; (c) we will be required to comply with certain financial covenants and other restrictions contained in the Facilities Agreement and the Indenture, certain of which become more restrictive with the passage of time or the achievement of certain targets; and (d) due to the fact that borrowings under the Facilities Agreement bear interest at floating rates, increases in interest rates under the Facilities Agreement will reduce amounts available for acquisitions, working capital, capital expenditures and general corporate purposes. For additional information, see Item 5.B. — Liquidity and capital resources.

## **Restrictions Imposed by the Facilities Agreement and the Indenture**

The Facilities Agreement requires Trench Electric Holding BV (the “Parent”) and the Group to maintain specified financial ratios and tests, among other obligations, including a minimum interest coverage ratio, a minimum fixed charge coverage ratio and a maximum leverage ratio. In addition, the Facilities Agreement restricts, among other things, our ability to incur additional indebtedness, make certain payments or dividends, merge, consolidate or make acquisitions. A failure to comply with the restrictions contained in the Facilities Agreement could lead to an event of default which would result in the acceleration of such indebtedness. Such an acceleration would constitute an event of default under the Indenture relating to our Notes. In addition, the Indenture restricts, among other things, the incurrence of additional indebtedness by subsidiaries of the Company (“Subsidiaries”), the payment of dividends and other restricted payments by Subsidiaries, transactions with affiliates, the sale or issuance of Subsidiaries’ capital stock and preferred stock, the creation of restrictions on distributions from Subsidiaries, asset sales, other senior subordinated indebtedness, the incurrence of liens and sale/leaseback transactions, and mergers, consolidations or sales of assets and other matters customarily restricted in such agreements. A failure to comply with the restrictions in the Indenture could result in an event of default under the Indenture.

## **Risk of Growth Strategy**

A significant component of our business strategy is the growth of our product and customer base through the acquisition of companies in similar lines of business. Although the Group believes that opportunities currently exist for such acquisitions, there can be no assurance that we will be able to successfully exploit any such opportunities (due to, among other things, an inability to obtain sufficient financing) or that such opportunities will be available in the future. In order to capitalize on any such acquisition opportunities, we may need to obtain additional capital. To raise such capital, we may elect to undertake additional debt financing, which would result in additional leverage. The issuance of additional debt securities or borrowings are restricted by the terms of the Indenture and the Facilities Agreement. Also, growth through acquisition, as well as internal expansion, will place demands on our management, employees, operations and physical and financial resources.

## **Exchange Rate Fluctuations**

Our operations are conducted by operating subsidiaries in many countries, and accordingly our results of operations are subject to currency translation risk and currency transaction risk. With respect to currency translation risk, the financial condition and results of operations of each of these entities is reported in the relevant local currency and then translated into U.S. dollars at the applicable currency exchange rate for inclusion in the financial statements. Fluctuations in the U.S. dollar against certain currencies, particularly the Euro, the Brazilian real, the Canadian dollar, the Chinese renminbi, the Swiss franc and the British pound could have a positive or negative impact on our reported sales and operating income.

Significant changes in the value of the U.S. dollar relative to other currencies in which we conduct our operations could also have an adverse effect on our ability to meet interest and principal payments on debt in U.S. dollar denominations, including the Notes. Because our indebtedness may be denominated in different currencies, changes in the values of such currencies relative to other currencies in which we conduct our operations could have an adverse effect on our ability to meet principal and interest obligations on such indebtedness.

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In addition to currency translation risks, we incur currency transaction risk whenever one of our Subsidiaries enters into either a purchase or a sales transaction using a different currency than its functional currency, which is generally the local currency of the operating company. Currency transaction risk is reduced by matching sales revenues and manufacturing costs in the same currency. Given the volatility of exchange rates, there can be no assurance that we will be able to effectively manage our currency transaction risks or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of operations.

**Dependence on Key Customers**

A substantial portion of our business relationships are informal and certain of our contractual arrangements may be terminated at will. Although we believe that our business relationships with our major customers are currently mutually satisfactory, there can be no assurance that sales to our major customers will continue at the same level of volume or pricing or that one or more major customers will not terminate or seek to materially alter the terms of their relationship with us. There can be no assurance that any of our major customers will not shift their sourcing to other suppliers, develop in-house manufacturing capabilities for our products or take other actions which could adversely affect us. The loss of any of our major customers or a substantial decrease in any of such customer’s purchases from us, or a material deterioration in our ability to obtain orders, could have a material adverse effect on our financial condition and results of operations.

Several of our customers, including many of our largest customers, have strict manufacturing and quality standards (some of which are imposed by government regulation) with which we must comply. In many cases, our compliance with such standards must be demonstrated prior to supplying the product. Failure by us to maintain compliance or to obtain approvals for new products could result in a material loss of sales to such customers. Such opportunities would be lost by any failure to maintain product approvals. The occurrence of any of the foregoing events could have a material adverse effect on our financial condition and results of operations.

**Competition**

The market for high voltage transmission products in which Trench operates is relatively fragmented in terms of both geographical location and product line. Segments of the power transmission equipment industry are subject to intense competition, on a price, quality and customer service basis. We face competition from other manufacturers, many of which are diversified manufacturing companies that have significantly greater financial and other resources than ourselves. We continually experience price pressures from competitors in certain product lines and geographic markets. As a result, our ability to increase prices in certain product lines is limited.

**Dependence on Certain Raw Materials**

Aluminium, copper, insulating paper, oils, gases, resin, porcelain and silicone are each key raw materials for our products. Because changes in the prices of such raw materials may be passed through to our customers, increases or decreases in such prices generally cause corresponding increases and decreases in reported net sales, causing fluctuations in reported revenues that are unrelated to the level of business activity. However, if we are unable to pass through such changes in raw material prices to our customers in the future, we could be materially adversely affected. Any major dislocation in the supply and/or price of such raw materials could have a material adverse effect on our business and financial condition.

**Dependence on Key Personnel**

We are dependent on the continued services of our senior management team and certain key engineers. Although we believe that we could replace key employees in an orderly fashion should the need arise, the loss of such key personnel could have a material adverse effect on Trench. We do not have key man insurance to insure against the loss of key personnel.

**Electric Utility Deregulation**

Government deregulation of the electric utility industry in North America and Europe, and to a lesser extent in Southeast Asia, Latin America, Australia and New Zealand, has impacted current and potential customers in such markets to limit their long-term capital expenditures on power transmission products. Until the impact of deregulation becomes more apparent, electric utilities and Independent Power Producers



are reluctant to commit resources for capital expenditures because they are uncertain as to which aspects of the transmission and distribution processes they will ultimately be able to own or manage. While management believes that capital expenditures on power transmission products will increase once the effects of deregulation in such regions become apparent, it remains unclear how the market for such products will be affected as such deregulation progresses.

Operating Performance

Our ability to improve our operating performance and financial results depends upon financial, competitive and other factors beyond our control, fluctuations in foreign currency vis-à-vis the U.S. dollar, interest rates, material costs and general economic conditions. For additional information, please see Item 4.B. — Business Overview.

Environmental, Health and Safety Matters

Our facilities, like similar manufacturing facilities, are subject to a range of federal, state, local and foreign environmental and occupational health and safety laws including those laws relating to air emissions, wastewater discharges, the handling and disposal of solid and hazardous waste, and the remediation of contamination associated with the current and historic use of hazardous substances or materials. If a release of hazardous substances or materials occurs on or from our properties or any offsite disposal location used by Trench, or if contamination from prior activities is discovered at any of our properties, we may be held liable for the costs of remediation (including any response costs), natural resource damages and associated transaction costs. While the amount of such liability could be material, we devote resources to ensure that our current operations are conducted in a manner that reduces such risks.

We believe that we are currently in compliance with, and not subject to liability under, any environmental laws, except where such non-compliance or liability would not reasonably be expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Item 4. Information on the Company:

A. History and development of the company

Corporate Information:	
Name:	Trench Electric B.V.
Date Incorporated:	December 3, 1997 formally approved. Process began September 6, 1997.
Country of Incorporation:	The Netherlands
Address of registered office:	Strawinskylaan 3105, 1077ZX Amsterdam, The Netherlands. Telephone number + 31 2040 64400.
Key investor contact:	Michael Bissell, Southfield, York Place, Station Parade, Harrogate, England, HG1 1HL Telephone number + 44 1423 531000.

History

In 1962, Anthony Trench founded Trench Electric (Canada) in Toronto to manufacture an innovative high voltage coil product (the air-core reactor) used to smooth current fluctuations in high voltage systems. Since then, we have expanded our business to include a variety of other high voltage transmission products.

Beginning in the 1980s, our principal competitors began to consolidate, with many smaller competitors exiting the market and several large, diversified companies selling or outsourcing their high voltage equipment businesses — in many cases to Trench. As a result, we have continued to build our presence in the market for high voltage equipment with the following strategic add-on acquisitions and divestitures listed below:

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Date	Acquisition	Location	Strategic Benefits
1990	Spezielektra GmbH	Austria	Established a European manufacturing base for coil products.
1990	The reactor equipment unit of ABB, USA	Assets purchased and transferred to Canada	Consolidated our position as the only major producer of air-core reactors in North America.
1991	The line trap equipment unit of ABB, USA	Assets purchased and transferred to Canada	Consolidated our position as the only major producer of line traps in North America.
1993	Haefely Holdings AG	Switzerland and France	Established our position as the largest independent producer of instrument transformers in the world & as a global leader in high voltage test equipment.
1993	Messwandlerbau GmbH	Bamberg Germany	Established Trench as a world leader in explosion-proof gas-insulated instrument transformers.
1996	Instrument transformer business of Square D Company, a subsidiary of Groupe Schneider	Assets purchased and transferred to Canada	Enhanced our market position and broadened its range of metering instrument transformers in North America.
1999	Power Line Carrier (PLC) business from GE	Assets purchased and transferred to Canada	Enhanced our market position and broadened its range of communications products.
2000	Bushing Division of VA Tech Reyrolle, a subsidiary of VA Tech Elin	Hebburn, England	Enhanced our market position and broadened our range of bushing products.
2000	Coil business	Belo Horizonte, Brasil — New Manufacturing Facility	Enhanced our market position in South America.
2000	Instrument transformer business	Shanghai, China	Increased ownership to 65% from 40% and broadened our range of instrument transformer products in China as well as start up of bushing manufacturing. As a result of this SITW ownership was reduced from 60% to 35%.
2001	Bushing business	Fushun, China	50.4% joint venture ownership of bushings manufacturer. Enhanced our market position in China.
2002	Bushing business	Fushun, China	Increased ownership to 65% with SITW taking 33% and leaving 2% to the original joint venture partner (FEPW).
2002	Coil business	Shanghai, China	Expanded the scope and size of the current joint venture to add Coil technology to Trench’s Shanghai operations.

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In July 1999, we announced the completion of the sale of the test equipment business in Switzerland and the USA to Hubbell Incorporated. The sale of the test business allowed us to concentrate on our core business areas of coil products and transmission products.

Our capital expenditures for the years ending December 31, 2002, 2001 and 2000 were \$5.2 million, \$7.7 million and \$3.7 million, respectively. For details on acquisitions in 2002, please refer to Item 10.C., “Material Contracts.”

Purchase of property, plant and equipment

(in thousands of U.S. dollars)	2002	2001	2000
American operations	\$ 1,429	\$ 867	\$ 1,603
European operations	2,098	3,520	2,041
International operations	1,663	3,338	72
	\$ 5,190	\$ 7,725	\$ 3,716

B. Business Overview

Trench is an industry leader in the design and production of electrical equipment for high current/high voltage substation environments, for outdoor use under severe environmental and climatic conditions, for improving power quality, and for the measurement of electrical properties and characteristics. Trench’s highly integrated manufacturing capability allows us to respond quickly and efficiently to the demand for the custom products that form a significant part of our sales.

Throughout the world, the demand for high voltage transmission and distribution products is growing — spurred by deregulation, privatization and power industry restructuring. Trench has built a diversified presence in the industry with various strategic acquisitions over the past several years (refer to Item 4A above-History and Development of the Company). Today, we serve our customers from our plants in Austria, Brasil, Canada, China, England, France, Germany and Switzerland.

Trench hopes to continue its strategy for growth with particular emphasis on expanding international markets. We will also focus on developing and marketing an extended range of technologically advanced, specialized electrical products for the utility and industrial markets worldwide.

In an era of deregulation, the global utility and industrial markets are becoming much more active and accessible. Our manufacturing presence in eight countries on four continents is one of our main competitive strengths. The rapid evolution from markets proscribed by political borders to an open, global marketplace, brings with it a much wider range of opportunities.

Trench operates in one market segment, Transmission and Distribution. Our sales by year and by geographical area are as follows:

Main Category of Activity

(dollars in millions):	2002	2001	2000
Transmission and Distribution	\$ 255.9	\$ 224.3	\$ 200.8

Sales by Customer Location

(dollars in millions):	2002	2001	2000
Americas	\$ 94.7	\$ 92.6	\$ 88.1
Europe	88.0	86.1	79.7
Asia	61.1	38.9	23.4
Other	12.1	6.7	9.6
Total Sales by Customer location	\$ 255.9	\$ 224.3	\$ 200.8

Markets and Review of Business Performance

Corporate Strategy and Market Trends

As the world’s utility companies continue to undergo different degrees of transformation in the wake of deregulation and market liberalization, we will continue to pursue our vision of being “the leading supplier of specialist products and services to the global power industry.” We now have operations in both North America and Europe that are capable of producing all of our main products, and we hope to continue to build or acquire facilities in those geographic areas that reflect both low costs of manufacture and a high indigenous market potential. We are currently focused on China and South America in this regard. We have now initiated the construction of a new facility in Shanghai to expand our current business to include Coil manufacturing. This will essentially complete the transfer of our core know-how to China.

We have market-leading positions in high voltage instrument transformers, bushings and a number of coil-based products. We continue to seek expansion of our product offerings to the utility companies and the prime turnkey contractors, and to this end we hope to continue to build on our communications products.

American Operations

North American Operations

The Trench facilities based in Canada include specialist factories producing instrument transformers, bushings, coil products as well as communication equipment for electric utility applications.

Our operations enjoyed another successful year, with year over year volume remaining relatively flat. The overall order book also remained the same however the mix of business has changed somewhat. The overall strong demand for high accuracy instrument transformers as well as bushings began to drop mid-way through the year as a result of the developing uncertainties surrounding deregulation and the Independent Power Producers markets in the United States.

The coil business showed signs of recovery offsetting the above market weakness. Our management believes this will be the trend for the next 12 to 18 months until market conditions stabilize.

The Utility Communication market experienced another strong year and the Power Line Carrier product line acquired from GE in 1999 continues to be our main offering. In addition, Trench introduced a new check back system with on-line diagnostics which is being well received. We will continue to invest in this area in 2003 and expect to introduce a new generation of transmitter by the year end.

For some time now our management has been reviewing the business of Power Quality which includes the Adaptive Var Compensator. For a variety of market reasons we decided to exit this product line and concluded the sale of this know-how in 2002.

Brasil

The Trench Brasil coil facility located in Belo Horizonte showed improvement in 2002 with increased sales and a small profit. The establishment of Trench Brasil has had a positive impact on our ability to do business in a market that is otherwise difficult to access.

The Brazilian market is in a period of uncertainty due to economic issues in the region as well as the political situation in Brasil. The latter seems to be stabilizing and the demand for our type of product is expected to be very strong through the mid to latter part of the decade. We have recently pioneered new applications in Brasil for coils and our management feels confident in the creation of this new market over the long term.

**European Operations**

We have transmission product facilities in Switzerland, France, Germany and England and a coil facility in Austria. Towards the end of 1999, we started to integrate the French and Swiss operations into a single management unit in order to bring the overhead of the units more in line with expected sales volume. The combined business is referred to as Trench Suisse-France (“TSF”). We decided early in 2001 that the Group should close all main production operations on the Swiss site. This process is now complete. The Swiss site continues to be our main centre of engineering for instrument transformers and will also be the base for R&D activities in new designs and measurement technologies, in addition to the production of specialized measurement transformers. In order to further reduce costs at TSF a restructuring was announced on January 13, 2003, which will reduce our administrative headcount by 34 and reduce the number of temporary jobs in the production area.

The Western European market continued to be sluggish throughout 2002. The strong demand from North America in 2001 through mid 2002 provided opportunities that enabled Trench Germany and Trench UK to increase sales year over year. The re-structured TSF had improved operating results in spite of a lower turnover. Trench Austria enjoyed another good year with a growth in sales resulting from strong demand in new European markets for our specialized coil product line.

Our entering order book for 2003 is down somewhat from 2002 in transmission products resulting from the drop off in new orders from North America. As in Canada, however, the coil order book has improved due to continued demand in Europe for specialty coils as well as global demand for High Voltage DC & AC projects.

Many Eastern European countries are now in the process of modernizing their electrical grids and we expect this increasing demand to continue throughout 2003.

**International Operations**

**China**

Trench Shanghai completed its first full year of production in its new facility. The demand for transmission and distribution products in China continues to show strong growth of 7 to 10% per annum. Trench Shanghai, with its newly introduced products, experienced greater than 35% year over year overall growth in sales. In late 2002, Trench (65%) and SITW (Shanghai Instrument Transformers Works — 35%) agreed to further expand the Trench operation in Shanghai through the introduction of coil technology. A new production facility for the coil business will be constructed adjacent to the Transmission facility and we expect this to be completed and in production by the end of 2003.

The technology transfer transaction will result in Trench receiving approximately \$10 million in proceeds. We received \$5 million of the proceeds in late 2002 and the balance will be received over the next four years. The income arising from the sale of technology is recognized over 10 years in the Group accounts as required by U.S. GAAP.

In late 2002 we further increased our ownership of the Fushun Reyrolle Bushing Co. in North East China from 50.4% to 65% for a consideration of \$0.8 million.

In addition, SITW acquired 33% of the shares of the Fushun Reyrolle Bushing Co. leaving the original partner with the remaining 2%. Fushun is a specialized manufacturer of bushings with some overlap in product with Trench Shanghai. This ownership change has allowed a common Board structure and an integration of the business management of the businesses in Shanghai and Fushun. The Fushun company has been re-named and approval has been received to change the name to the Trench Fushun Bushing Co. Ltd.

In 2002, the first full year of Trench ownership, the Fushun company generated good operating results with increased sales.

The outlook for China remains strong and our management feels it has a solid position, with a state-of-the-art facility in Shanghai and a capable management team able to capitalize on the opportunity.

**Outlook**

The 2003 business outlook is rather mixed. We expect the North American demand for Instrument Transformers and Bushings to remain soft. Fortunately, even in North America, the demand for Coil products is increasing as more utilities are trying to increase the power handling capabilities of the existing transmission grid. This is evident in the demand for high voltage AC coils as well as upgrades in the major DC interconnections.

The uncertainties of deregulation along with the reduction of the Independent Power Producers (IPP) market will continue throughout 2003 and increased capital spending in North America is not expected before 2004. Mexico enters a new phase of integration into NAFTA (North American Free Trade Agreement) in 2003 and demand for transmission construction remains strong combined with greater market access. Parts of South America are expected to be active in 2003; however, a number of the larger projects in Brasil are not expected to materialize until 2004.

Parts of Western Europe are experiencing increased demand for specialty coils which we expect to continue throughout 2003. In addition, German demand for Instrument Transformers is also showing an increase. The real opportunities for Instrument Transformers in Europe are in the former Union of Soviet Socialist Republics as the Western fringe companies upgrade their electrical grids. Although much of this demand is for oil insulated equipment as produced in France and Canada, it is also expected there will be opportunities for the newer gas products manufactured in Germany. We expect that this demand will help offset the drop in North America.

Due to the overall dependence of transformer manufacturers on the North American market, we expect 2003 to result in somewhat lower Bushing sales from the European facilities in France and England as well as Canada. Our Canadian business has increased its capabilities in Bushing design and production and demand in China remains strong. As a result, we expect the Group’s overall Bushing turnover to be similar to 2002.

The market in China is not showing any signs of slow down and we expect growth in the Trench operations to continue throughout 2003.

**Products**

We manufacture products primarily for high voltage applications in the transmission and distribution of electricity. Electric transmission systems carry electric power from a generating plant into a high voltage utility grid, which ultimately distributes power to customers. Typically, electricity is generated at high currents (generally between 8,000 and 20,000 amps) and medium voltages (approximately 15,000 or 27,000 volts) but can be transmitted efficiently over long distances only at substantially lower currents (typically 800 to 3,000 amps) and higher voltages (ranging from approximately 69,000 to 800,000 volts) that minimize the loss of power in the transmission process. To facilitate such high voltage transmission, the voltage leaving a generating plant must be increased substantially, transmitted over high voltage lines and then reduced to customer utilization levels through the use of substations that require large capacity power transformers, high voltage switchgear, and other network measurement, control, protection and correction products.

Seismic specifications for electrical equipment are becoming increasingly demanding as utilities throughout the world seek better earthquake protection. Our products are recognized worldwide for their seismic design capabilities.

Trench is the world’s largest independent producer of specialty high-voltage technology products and we believe that we have attained a worldwide reputation for the quality, reliability and cost-effectiveness of our engineered products which include:

*Instrument Transformers.* Instrument transformers consist of specialized windings of conductors and foils insulated with paper and oil or gas, housed in either a hollow porcelain bushing or a fibreglass tube with silicone rubber skirts. Our transformers have two basic functions: (i) to decrease voltages from the high transmission and distribution levels to a common secondary voltage (120 volts and one to five amps) to permit the measurement of voltage (voltage transformer) or current (current transformer) on high voltage transmission lines through the use of meters, relays and other secondary control devices and (ii) to provide insulation between primary and secondary circuits to protect meters from exposure to high voltages and to increase safety for personnel. Our instrument transformers are used mainly in high voltage substations, although some products are used at the beginning of the transmission line at the power plant site. Generally, oil-soaked paper or a

non-conducting gas (such as SF<sub>6</sub>, sulfur hexafluoride gas) is used as the insulating medium to insulate high voltage components from low voltage components. We produce a broad range of transformers, including inductive voltage transformers, capacitive voltage transformers, current transformers, and combined instrument transformers. Low Power Instrument Transformers (LOPO) are a “next generation” product and open up a new business area for Trench. Based on our many years of experience with high voltage products, our LOPO line of instrument transformers is designed for Air & Gas Insulated Systems and HV Gas Insulated Systems. The initial applications are for medium voltage switchgear.

*Bushings.* In many power systems, high voltage cables must be routed through different mediums. Bushings are connectors that both conduct and insulate an electric current whenever a high voltage conductor passes from one medium to another (for example, through a wall or from inside to outside a substation). A bushing consists of a transformer stem with a conductive core and can be oil, resin or gas-insulated. Trench manufactures a complete line of bushing products, including transformer bushings (for outdoor applications and indoor gas-insulated substations), generator bushings, wall bushings, railway power distribution system bushings and special bushings designed to customer specifications. Bushing Product Line improvements include advanced insulation and winding techniques for enhanced performance of our high current line. Our high voltage designs have been tested successfully to the extreme 765 kV transmission voltage level.

*Composite Insulators.* Composite (silicone rubber) insulators are increasingly replacing porcelain or glass insulators in utility markets worldwide. They weigh less and provide improved electrical properties in polluted environments. Trench is a leader in the application of composite (silicone rubber) insulators and we now offer an entire bushing and instrument transformer line with composite insulator shells incorporating a unique design and backed by more than 10 years of installed experience.

*Reactors.* Reactors consist of circumferentially wound coils of aluminum separated by insulating materials. The core or centre of the winding may be iron, but our main market is for air-core reactors. Air-core reactors are used to smooth current fluctuations in high voltage systems and to limit current loads for safety.

*Line Traps.* Line traps are smaller aluminum coils designed to facilitate communication along a high voltage transmission line by blocking and limiting signals at certain frequencies without affecting other frequencies. Effective management of power generation and distribution systems depends on rapid and reliable communication. The frequencies carrying the data to be transmitted are superimposed on the high voltage line via a coupling capacitor, where the direction and destination of those frequencies are controlled by line traps and line tuners.

*Power Line Carrier (PLC).* The use of high voltage transmission lines for the transmission of communication signals is a global utility practice, utilizing technology called power line carrier transmission. PLC equipment uses the high voltage line as the transmission medium for high frequency signals of supervisory control, relay and voice communications. PLC products offer an exciting area for future growth as well as complementing our line trap products in similar applications.

*Reactor and Electronic Control Systems.* Another specialty power quality product manufactured by Trench includes a reactor and electronic control system to minimize the fault current that can flow through the system when underground cable is damaged. Manufactured exclusively in our Austrian factory, this product is growing in usage in Europe as utilities continue to develop higher levels of operating quality and reliability in the electrical network.

## **Sales and Marketing**

Our global sales network is centrally coordinated. This structure is designed to provide accessible and responsive support to our customers. It also allows us to ‘bundle’ products and services for enhanced customer value.

Trench’s Executive Vice President of Sales and Marketing, based in Toronto, coordinates our sales efforts, via General Sales Managers (“GSMs”) located at each of our manufacturing plants. The GSMs manage a number of Regional Sales Managers (“RSMs”) who have a geographical or direct customer responsibility for all of our products. The RSMs receive support at each plant from a marketing department responsible for the products manufactured at the particular plant as well as the order handling of products sold from remote plants. Responsibility for the preparation of all the documentation related to the sale rests with the marketing department, including preparation of price quotations, contract negotiations, the gathering of data from the sales force, literature on the plant’s products and interfacing with operations.

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Trench’s international sales network is strongly represented in each of the world’s major markets and is complemented by over 150 independent representatives in strategic locations worldwide. The unique combination of quality, low-cost products, geographically diversified manufacturing, close customer contact, and an intimate knowledge of local conditions gives our professional sales and marketing staff a powerful competitive advantage that translates into a strong market position.

For information on sales by customer location, refer to Item 4.B. For information on total sales and operating income by geographical areas in which we operate, refer to note 17 in Item 17.

Seasonality of Trench’s Main Business

There is no specific pattern of seasonality in our main business. However, lower production and revenues typically occur in our third quarter, due to scheduled plant shutdowns, mainly as a result of the summer vacation period. In addition, some products experience higher fourth quarter sales as utility construction and maintenance departments utilize their current year budgets.

Sources and Availability of Raw Materials

Aluminium, copper, insulating paper, oils, gases, resin, porcelain and silicone are all key raw materials for our products. There is no centralized purchasing for raw materials and it is up to each individual sub-unit to do its own procurement. Many raw materials are purchased on short-term and long-term contracts in the normal course of business and are subject to price fluctuations.

Competitive Position

Trench is the largest independent producer of specialized electrical products serving customers worldwide in the utility and industrial markets. We believe that the Group is ideally positioned to capitalize on the ongoing industry realignment and further enhance our market positions around the globe.

- **Products.** Our areas of specialization include: air core reactors, line traps, high voltage measurement transformers, and bushings.
- **Market Position.** There are no available “industry” statistics regarding these specific product lines. We maintain our own database of statistics, based on actual market requirements, won orders and lost orders. We also maintain a database on competitors in the various product categories. In addition, with the electrical utility business being a global business, we have extensive geographical representation, which ensures that we are invited to tender on almost all requirements in commercially open markets. This would include the Americas, Western Europe, parts of Eastern Europe, Asian countries as well as Australia and New Zealand. In addition, given that the countries where we have activities are members of the World Trade Organization, Trench is invited to participate in closed markets on all internationally financed projects. We also enjoy a preferred supplier status with several utility and turnkey system suppliers and in many cases we have been the supplier of choice for more than six consecutive years.
- **Industry Realignment.** Industry realignment has been ongoing on both the supply side and the customer side. We have demonstrated the capability and the resources to capitalize on the supply side restructuring through the acquisition of companies or assets of companies producing these types of products for a period in excess of 20 years. Trench Austria, Trench Germany, Trench France, Trench UK, Trench Switzerland and Trench Fushun are all examples of previous acquisitions. In addition to these acquisitions of on-going concerns we have also made asset acquisitions whereby the assets were transferred to existing operations and integrated within the existing facilities. Some examples of these include Square “D” instrument transformer assets, GE CVT and line trap assets, WEC line trap assets, and GE PLC product lines.
- **Customer Base Realignment.** Given our reputation for quality and technical capabilities, we are well positioned to achieve a prominent supplier position as well-established utilities expand their business globally and implement common design practices.

Material Effects of Government Regulations

Recent government deregulation of the electric utility industry in North America and Europe, and to a lesser extent in Southeast Asia, Latin America, Australia and New Zealand, have had the immediate effect of leading many current and potential customers in such markets to limit their capital expenditures on power transmission products. Until the impact of deregulation becomes more apparent, electric utilities and independent power producers are reluctant to commit resources for capital expenditures because they are uncertain as to which aspects of



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the transmission and distribution processes they will ultimately be able to own or manage. While we believe that capital expenditures on power transmission products will increase once the effects of deregulation in such regions become apparent, it remains unclear how the market for such products will be affected as such deregulation progresses. In certain markets the demand for higher accuracy instrument transformers led to an up swing in demand. Trench management views this buoyancy as a step function that may or may not be repeated in other states or countries.

C. Organizational Structure

Control of Registrant — Trench Electric

The following table sets forth certain information with respect to the Parent’s equity interest in Trench Electric.

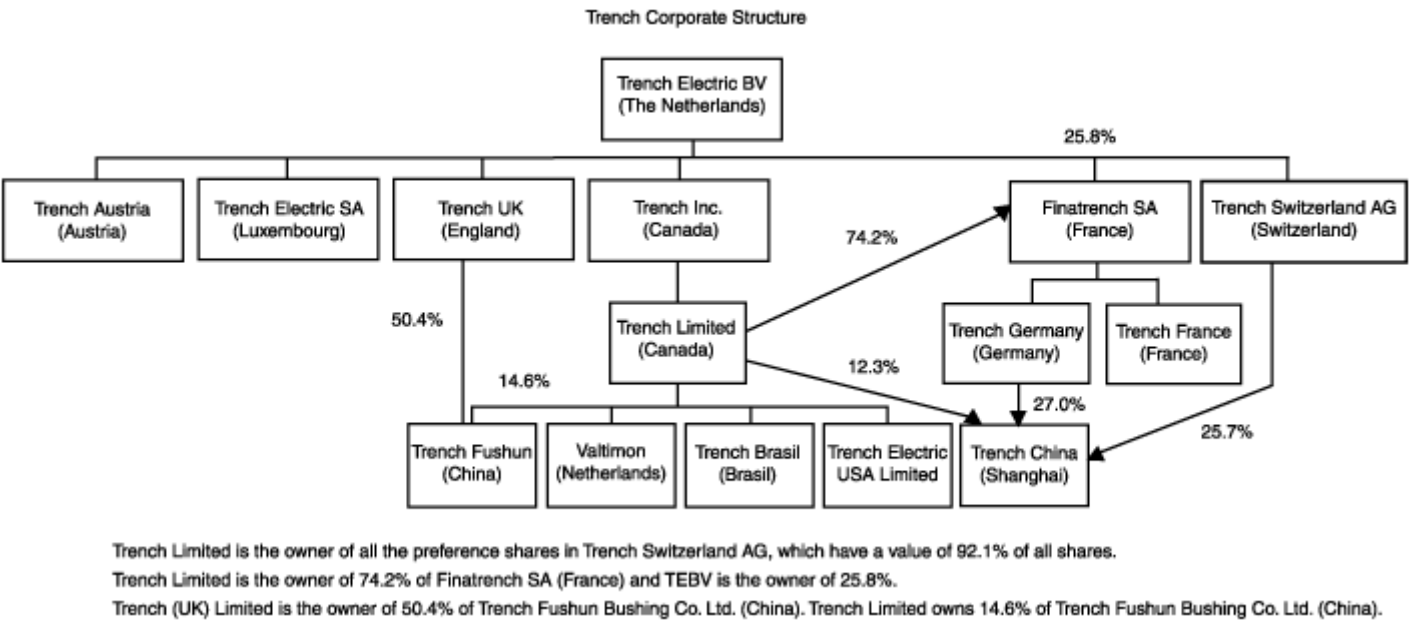
Title of Class	Identity of Person or Group	Par Value of Share	Number of Shares Owned	Percent of Class
Common shares	Parent — Trench Electric Holding B.V.	One Dutch Guilder (0.45 €)/ share	40,000	100%

The Parent

The principal shareholders of the Parent, Trench Electric Holding B.V., are four entities which are managed or advised by CVC Capital Partners Limited: Citicorp Capital Investors Europe Limited, CVC European Equity Partners (Jersey) L.P., CVC European Equity Partners L.P. and Capital Ventures Nominees Limited (collectively “CVC”).

Organization Chart of the Company.

An organization chart for Trench Electric B.V. is shown below, identifying the position of the Company within the structure. Ownership of each entity by its parent is 100%, except where indicated otherwise.



D. Property, plant and equipment

Description of Property

We have fourteen facilities: one in Belo Horizonte, Brasil, two in Shanghai, China, one in Fushun, China, four in North America and five in Europe. Our North American facilities are located in Toronto, Ontario. Our European facilities are located in Linz (Austria), Basel (Switzerland), St. Louis (in France, across the border from Basel), Bamberg (Germany) and Harrogate and Hebburn (England). All our manufacturing facilities are ISO 9001 certified, with the exception of Fushun, which is currently undergoing certification and anticipates achieving the award in 2003. The following table provides an overview of our manufacturing facilities.

Facility	Products	Production Space (m <sup>2</sup> )	Owned/ Leased	Lease Expiry
Toronto	Oil-insulated instrument transformers	3,902	Leased	Jul. 1, 2012
Toronto	Bushings	2,792	Leased	Apr. 30, 2012
Toronto	Reactors, line traps	10,277	Leased	Jun. 30, 2012
Toronto	PLC	739	Leased	Apr. 30, 2005
Basel (Note 1)	Low power instrument transformers	15,515	Owned	N/A
St. Louis	Oil-insulated instrument transformers, bushings	22,260	Owned	N/A
Bamberg	Gas-insulated current and voltage transformers	8,449	Owned	N/A
Linz	Reactors, arc suppression coils, line traps	7,296	Leased	Nov. 31, 2015
Belo Horizonte	Reactors, line traps	3,500	Leased	Sep. 30, 2005
Hebburn	Bushings	11,560	Owned	N/A
Shanghai	None — Property for sale	8,345	Owned	N/A
Shanghai	Gas-insulated current and voltage transformers	13,812	Leased	Mar. 31, 2026
Fushun	Bushings	4,115	Owned	N/A
TOTAL		112,562		

Note 1 — The Test Equipment business sold to a third party in mid July 1999, continues to function on the Basel site under a series of lease and service agreements. On January 24, 2001, the Board of Directors approved and the Company announced the closure of all main production operations for Trench Switzerland. This was completely finished by the end of 2001. The Swiss site continues to be our main centre of engineering for instrument transformers and is the base for our R&D activities in new designs and measurement technologies, in addition to the production of specialized measurement transformers. For information on the year end balance sheet value of property, plant and equipment, refer to Item 17, note 5 to the financial statements.

The assets of Trench are distributed geographically as shown in the following table:

(in thousands of U.S. dollars)	As at December 31,	
	2002	2001
Total assets		
American operations	\$119,492	\$116,238
European operations	177,105	158,263
International operations	49,123	42,536
	\$345,720	\$317,037

Manufacturing

Technical and manufacturing leadership are critical to maintaining our competitive edge. Our global scope, integrated structure, extensive engineering expertise and demonstrated manufacturing efficiencies allow us to respond quickly and effectively to market opportunities and customer needs for custom products. We strive to be a ‘one stop’ source for a variety of our customer’s requirements. Our product lines share similar high voltage insulation technology and manufacturing requirements and are keyed to the specific needs of individual markets around the world.

Through our subsidiaries, we are an active participant in international standards associations for electrical products and requirements. Trench has also established strategic alliances with many customers, universities, test laboratories and suppliers around the globe. As a result, we

believe that Trench is always at the leading edge of emerging world market regulations, technical developments and trends. This ‘advanced intelligence’ allows us to focus research, development and manufacturing on product areas with the most potential for global success.

Trench is at the forefront of manufacturing expertise for air-core reactors. Anthony Trench invented the fibreglass encapsulated air-core reactor in 1962 and since that time, we have remained a world leader in these products. Trench manufactures all the components necessary for most coil products and only needs to purchase the raw materials. In addition, we have the technical capabilities and manufacturing expertise to build our coil products to customer specifications.

**Environmental, Health and Safety Matters**

Our facilities, like similar manufacturing facilities, are subject to a range of federal, state, local and foreign environmental and occupational health and safety laws including those laws relating to air emissions, wastewater discharges, the handling and disposal of solid and hazardous waste, and the remediation of contamination associated with the current and historic use of hazardous substances or materials. If a release of hazardous substances or materials occurs on or from our properties or any offsite disposal location used by us, or if contamination from prior activities is discovered at any of our properties, we may be held liable for the costs of remediation (including any response costs), natural resource damages and associated transaction costs. While the amount of such liability could be material, we devote resources to ensure that our current operations are conducted in a manner that reduces such risks.

We believe that we are currently in compliance with, and not subject to liability under, any environmental laws, except where such noncompliance or liability would not reasonably be expected to have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Group.

We have also completed the implementation of ISO 14001 environmental protection standards at some of our manufacturing locations.

**Item 5. Operating and Financial Review and Prospects**

**A. Operating Results**

The following discussion generally relates to the historical consolidated results of operations and financial position of the Trench group of companies and our consolidated results of operations and financial position and should be read in conjunction with the audited consolidated financial statements in Item 17 included elsewhere herein. Operating results in the three years ended December 31, 2002 have been impacted by the following significant events:

In December 2002, we increased our ownership of Trench Fushun Bushing Co. Ltd by an additional 14.6% to 65.0%

During the year our operating income has benefited by a net gain of \$755 arising from the sale of assets.

In November 2001 we completed the acquisition of 50.4% of the Fushun Reyrolle Bushing Company Ltd (“Fushun”), based in North East China. This new business will further expand our participation in the Chinese market. This business has since been renamed as the Trench Fushun Bushing Co. Ltd.

In April 2000, we bought the U.K. based bushing operations of VA Tech that has since been renamed as Trench (UK) Limited (“Trench UK”). Shortly afterwards we completed negotiations to add a much wider range of products to our existing joint venture in Shanghai, China, and as a result we obtained approximately \$5.5 million of technology fee income. We increased our investment in the joint venture to raise our shareholding from 40% to 65%.

Towards the end of 1999 we started to integrate our French and Swiss operations into a single management unit in order to bring the overhead of the units more in line with expected sales volumes. The combined business is referred to as Trench Suisse-France (“TSF”). The personnel reductions that were announced in late 1999 were completed in the first quarter of 2000. However as the Group progressed through 2000 it became apparent that this would not be enough to restore the business to full profitability and it was decided early in 2001 that we should

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close all main production operations on the Swiss site. This phase of reorganization is now complete. The Swiss site continues to be our main centre of engineering for instrument transformers and is the base for R&D activities in new designs and measurement technologies, in addition to the production of specialized measurement transformers. In early 2003, we have decided to conduct a further restructuring in TSF, albeit on a much smaller scale.

Effect of Currency Fluctuations on Results of Operations

Trench conducts its business internationally, although our principal manufacturing operations are located in Austria, Brasil, Canada, China, England, France, Germany and Switzerland. For financial reporting purposes, Trench has chosen the U.S. dollar as its reporting currency. Therefore, changes in the rate of exchange between the U.S. dollar and the local currencies in which the financial statements of its international operations are maintained affect our results of operations and financial position as reported in our financial statements. We have translated the assets and liabilities into U.S. dollars at the exchange rate prevailing at the balance sheet date. Income statement items are translated at the average exchange rates for the periods. Given this broad geographical spread of its business, variations in exchange rates against the U.S. dollar have a major impact on our reported results. Refer to Item 11 for further details.

Results of Operations

For purposes of comparison, the following table includes our consolidated results of operations from January 1, 2000 to December 31, 2002.

Consolidated	Year Ended Dec. 31, 2002	Year Ended Dec. 31, 2001	Year Ended Dec. 31, 2000
	(in millions of U.S. dollars)		
Sales	\$255.9	\$224.3	\$200.8
Cost of sales	178.2	160.8	141.2
Gross profit	77.7	63.5	59.6
Contract termination	—	—	0.6
Selling, general and administrative expenses (1)	45.1	46.4	44.4
Gain on sale of assets	(0.7)	—	—
Operating income (2)	33.3	17.1	14.6
Foreign exchange losses (gains) (3)	(2.3)	9.1	7.7
Gain on extinguishment of debt	—	—	(2.2)
Interest expense and other (4)	19.6	19.9	23.7
Income (loss) before income taxes and minority interest	16.0	(11.9)	(14.6)
Provision for income taxes	6.8	2.1	3.0
Income (loss) before minority interest	9.2	(14.0)	(17.6)
Minority interest	2.8	1.2	0.3
Net income (loss)	\$ 6.4	\$ (15.2)	\$ (17.9)

- (1) Starting in 2002, under FAS 142 “Goodwill and Other Intangible Assets,” we are no longer required nor permitted to record goodwill amortization. Goodwill now has an indefinite useful life and will not be amortized but rather will be tested at least annually for impairment. Accordingly, we did not incur goodwill amortization expense this year, whereas, in 2001, we incurred goodwill amortization expense of \$3.5 million, which is included in selling, administrative and general expense. The other information provided on goodwill amortization is intended to enable the user to understand the effect of this accounting change on net income from 2001 to 2002. Please refer to the accompanying Item 17, notes 2 and 6 for more information.
- (2) Operating income for the year ended December 31, 2002 includes \$0.1 million (2001 — \$4.2 million) in costs associated with inventory provisions, fixed asset impairments and other restructuring costs relating to Trench Switzerland.
- (3) Foreign exchange gains/losses include a gain of \$5.8 million (2001 — loss of \$8.9 million, 2000 — loss of \$6.9 million) relating to the 10 1/4 Senior Notes due 2007, being the year to year revaluation of the debt using exchange rates as of December 31, 2000 and 2001 and December 31, 2002. There is no immediate cash benefit as a result of this gain.
- (4) Interest expense includes amortization of deferred financing costs and writeoffs of deferred financing costs associated with our outstanding senior subordinated notes and the senior facilities agreement.

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The following table sets forth, for the periods indicated, percentage relationships for certain items in our consolidated financial statements:

	Percentage of Sales Year Ended December,		
	2002	2001	2000
	%	%	%
Sales	100.0	100.0	100.0
Cost of sales	69.6	71.7	70.3
Gross profit	30.4	28.3	29.7
Selling, general and administrative expenses	17.6	20.7	22.2
Operating income	13.0	7.6	7.3

2002 Compared to 2001

Results of Operations

	(in millions of U.S. dollars)		Change
	2002	2001	
Sales	\$255.9	\$224.3	14.1%

**Sales** in 2002 were \$255.9 million, an increase of 14.1% from 2001. Excluding the effect of currency fluctuations, sales in 2002 increased 12.2% from 2001 due to an increase in the sales of the core product lines, but primarily the transmission products. There were increases in sales in the Americas, Europe and Asia. The increased sales in China accounted for nearly half of the 14.1% sales increase from the prior year, due to an increase in sales of \$15.7 million. Trench Fushun only became a part of Trench at the end of November 2001, whereas in 2002 it operated for the entire year.

	(in millions of U.S. dollars)		Change
	2002	2001	
Gross Profit	\$ 77.7	\$ 63.5	22.4%
Percentage of net sales	30.4%	28.3%	

**Gross Profit** in 2002 was \$77.7 million, an increase of \$14.2 million from 2001. Excluding the effect of currency fluctuations, gross profit increased by \$12.8 million or 20.2% from 2001. Gross profit as a percentage of sales in 2002 was 30.4% compared with 28.3% in 2001. A large part of the increase in gross profit was due to the units in China. Trench Fushun became a part of the Group at the end of November, 2001.

	(in millions of U.S. dollars)		Change
	2002	2001	
Selling, general and administrative expenses (including TSF integration)	\$ 45.1	\$ 46.4	(2.7)%
Percentage of net sales	17.6%	20.7%	
Selling, general and administrative expenses (excluding goodwill amortization in 2001 and including TSF integration charges in 2001)	\$ 45.1	\$ 42.8	5.3%
Percentage of net sales	17.6%	19.1%	
Selling, general and administrative expenses (excluding TSF integration charges and excluding goodwill amortization in 2001)	\$ 45.1	\$ 39.4	14.5%
Percentage of net sales	17.6%	17.6%	

**Selling, general and administrative expenses** in 2002 were \$45.1 million, a decrease of \$1.3 million from 2001. Excluding the effect of currency fluctuations, selling, general and administrative expenses in 2002 decreased by \$2.4 million. Selling, general and administrative expenses as a percentage of sales for 2002 at 17.6% are lower than the percentage achieved in 2001 of 20.7%. The major reason for this decrease in selling, general and administrative expenses in 2002 is that the 2001 result includes \$3.4 million in restructuring charges (none in 2002). Excluding the 2001 restructuring charges, selling, general and administrative expenses as a percentage of sales in 2001 was 19.1%. Also as explained in Note 6, in 2002, the selling, general and administrative expenses no longer includes a charge for amortization of goodwill. If the goodwill amortization charge and TSF integration charges were not included in 2001 results, then the selling, general and administrative expenses as a percentage in 2001 would have been 17.6%, the same as the 2002 percentage.

	(in millions of U.S. dollars)		
	2002	2001	Change
Operating Income	\$ 33.3	\$ 17.1	94.5%
Percentage of net sales	13.0%	7.6%	

**Operating Income** in 2002 was \$33.3 million, an increase of \$16.2 million from 2001. Excluding the effect of currency fluctuations, in 2002 operating income increased by \$16.0 million or 93.5%. The operating income in 2001 included a restructuring charge of \$4.2 million and goodwill amortization of \$3.5 million. Excluding the effect of the restructuring in 2001 and the goodwill amortization, the 2001 operating income as a percentage of net sales would have been 10.7%, which is closer to the 2002 operating income as a percentage of net sales of 13.0%. Refer to the gross profit, restructuring expenses, and the selling, general and administrative expenses sections above for more details.

2001 Compared to 2000

**Sales** for 2001 were \$224.3 million, an increase of 11.7% over 2000. Excluding the effect of currency fluctuations, sales in 2001 increased 15.4% over 2000. The increase in revenues is due to strong overall sales of transmission products. In addition to the solid demand for transmission products, Trench China and Trench UK benefited from their first full year of operation and posted a year-on-year increase of \$22.9 million. The joint venture in Fushun China, added to the Group at the end of November 2001, contributed another \$0.7 million in sales. The main sub-units contributing to the sales increase were Canada, Germany, China (Shanghai) and the UK. Austria and TSF did not generate strong sales growth. In 2000, both China (Shanghai) and the UK operated for part of the year from the date of acquisition. If China (Shanghai) and the UK had operated for a full year in 2000, the pro forma year over year increase in sales for China and the UK would be 23.8% and 11.9%, respectively. Excluding the effect of currency fluctuations, sales of transmission and coil products increased 23.0% and 1.4%, respectively in 2001.

**Gross Profit** for 2001 was \$63.5 million, an increase of \$3.9 million from 2000. Excluding the effect of currency fluctuations, gross profit was \$65.6 million in 2001, an increase of \$6.0 million from 2000. Gross profit as a percentage of sales, in 2001, was 28.3%, compared with 29.7% in 2000. One reason for the year on year decline in gross profit is the change in the sales mix as there was higher IT product sales and lower coil sales. The main sub-units contributing to the gross profit increase were Canada, Germany, China (Shanghai) and the UK.

**Selling, General and Administrative Expenses** (including the integration and/or reorganization costs of TSF), in 2001 were \$46.4 million, an increase of \$1.3 million over 2000. Excluding the effect of currency fluctuations, selling, general and administrative expenses (including the integration and/or reorganization costs of TSF) in 2001 were \$47.6 million, an increase of \$2.6 million over 2000. Trench Brasil, Trench China and Trench UK completed their first full year of operation and posted a year-on-year increase of \$4.2 million. The joint venture in Fushun, China added another \$0.1 million in selling, general and administrative expenses. In addition, the higher sales in 2001 also increased sales commissions by 15% compared to the prior year.

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**Operating Income** in 2001 was \$17.1 million, an increase of \$2.5 million from 2000 due to increased sales, mentioned above.

**Contractual Commitments**

The following represents contractual commitments associated with operating leases, capital leases and royalty and licensing agreements and debt.

In 000's of U.S. Dollars	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Operating leases	\$ 2,168	\$ 4,141	\$ 3,672	\$14,329
Capital leases	613	131	—	—
Royalty/licensing agreements	340	654	805	—
Debt	13,286	11,203	154,847	—
	\$16,407	\$16,129	\$159,324	\$14,329

**B. Liquidity and capital resources**

At December 31, 2002 the Group had total debt of \$185.1 million and accumulated cash of \$15.4 million, compared to \$192.3 million and \$11.7 million, respectively, at the end of 2001. Our cash and cash equivalents are held in the following currencies: Brazilian real, British pound, Canadian dollar, Chinese renminbi, Euro, Swiss franc and the U.S. dollar. There exists an annual cash interest expense of approximately \$19 million associated with borrowings under the Facilities Agreement and the Notes, as well as anticipated principal payments of term and other loans of \$13.3 million, \$5.6 million, \$5.6 million, \$3.8 million, and \$151.0 million in 2003, 2004, 2005, 2006 and 2007, respectively, which will increase our liquidity requirements. The scheduled repayment in 2003 of \$13.3 million includes \$8.7 million in China, consisting of two loans, which are renewed annually. Thus, only about \$4.6 million will be actually paid in cash and will be funded from cash flows from our operations. Please refer to Item 4A, for a listing of capital expenditures.

Trench has complied with the various financial covenants in our Facilities Agreement. Having taken account of amendment letters received from our Senior Lenders, we anticipate remaining in compliance with those covenants. The amendments permitted us to take the entire gain of approximately \$5.5 million over the six quarters ending March 2002 (for covenant calculation purposes only) on the 2000 sale of certain instrument transformer and bushings technologies in connection with our Shanghai operation. This amendment was consented to on the basis that substantially all of the gain has already been realized in cash. Under U.S. GAAP the gain will be recognized over a 10-year period. Similarly, we have obtained an amendment letter from our Senior Lenders to allow us to recognize (for covenant purposes only) the \$10 million gain from the sale of certain coil technologies in 2002 in connection with our Shanghai operation on an accelerated basis to the end of December 31, 2006. Under U.S. GAAP the gain will be recognized over a 10-year period.

In addition, our Senior Lenders have agreed to increase the headroom available to us within the financial covenants for the interest coverage and the leverage ratios from 31st March 2003 to 31st December 2005. For the avoidance of doubt no changes have been made to the Net Worth covenant or the Cash Flow to Debt Service covenant.

Also, our Senior Lenders agreed that both the cash costs and the profit and loss write-offs associated with the reorganization in Switzerland in 2000 and 2001 can be excluded from all covenant calculations as originally defined. Items associated with the reorganization in Switzerland have been subject to separate additional covenant tests.

The amendments also create additional flexibility under our capital expenditures covenant in connection with the capital expenditures in China. The original capital expenditure covenant was set prior to Trench China, in Shanghai being consolidated into the Group results.

For the year 2001 only, our Senior Lenders agreed that the usage of fixed foreign exchange rates as applied in calculating the Net Worth covenant could be extended to include the interest coverage and leverage ratios. For the avoidance of doubt the affected covenants did not include the cash flow to debt service covenant, which remained unchanged.

Notwithstanding the foregoing, there can be no guarantee that we will remain in compliance with our financial covenants. Failure to remain in compliance, or to obtain additional amendments, would have a material adverse effect on our liquidity.

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Our primary sources of liquidity are cash flows from operations and borrowings under the revolving credit facility of our Facilities Agreement. At December 31, 2002, \$27.7 million was available to us for borrowings under the revolving credit facility compared to \$23.7 million in 2001, with both amounts calculated without the effect of letters of credit and bank guarantees. Of the amount available, \$6.3 million (2001 — \$7.2 million) is a restricted revolving credit facility, the use of which is not anticipated by Trench and is subject to the consent of our Senior Lenders. If CIBC letters of credit and bank guarantees are factored in, the net available revolving credit facility was \$7.5 million compared to \$2.0 million in 2001. There are other guarantees in another subsidiary that do not affect the available revolving credit facility. In addition, we are forecasting positive cash flows from operations in 2003, although there can be no assurances that our cash flows in 2003 will be positive or sufficient to meet our requirements. Our management believes that cash generated from operations, together with borrowings under the revolving credit facility, will be sufficient to meet our working capital, capital expenditure and debt servicing needs for the foreseeable future. Please refer to Item 17, Note 22 for more information.

### Off-Balance Sheet Arrangements

We do not have transactions, arrangements or other relationships with unconsolidated entities or persons that are reasonably likely to materially affect our liquidity or the availability of or requirements for capital resources. Unconsolidated entities are often referred to as structured finance or special purpose entities and we do not engage in activities with such entities.

### C. Research and development, patents and licenses, etc.

Trench conducts research and development (“R&D”) mainly on a decentralized basis (at the manufacturing units) with our primary focus on design and process engineering in order to continuously improve our manufacturing efficiency to maintain our cost advantage in our product lines. At each of our manufacturing locations, several engineers are partly or fully dedicated to R&D activities and our R&D expense consists of an allocation of the engineers’ time spent on product development as well as the cost of building prototypes. In 2001, Trench Switzerland was designated to be our base for R&D activities in new designs and measurement technologies. In addition, we collaborate with leading research institutes on the development of new products and new technologies. Trench also collaborates with certain primary contractors for the development of new products and applications. These initiatives, as well as our customer-oriented approach to our R&D work, have positioned us as a leader in high voltage technology products. Our R&D expenses for the years ended December 31, 2002, 2001, and 2000 were \$4.5 million, \$3.5 million, and \$2.8 million, respectively.

### D. Trend information — For Trend information responsive to this item, refer to Items 3.A. and 4.B. above

### E. Critical Accounting Policies

Our significant accounting policies are more fully described in Note 2 to the consolidated financial statements in Item 17. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that we make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, our actual results could differ from these estimates.

#### Revenue Recognition:

The Securities and Exchange Commission’s Staff Accounting Bulletin (SAB) No. 101, “Revenue Recognition” provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. We have concluded that our revenue recognition policy is appropriate and in accordance with generally accepted accounting principles and SAB No. 101.

We perform ongoing credit evaluations of our customers’ financial condition and generally do not require collateral. We maintain provisions for potential credit losses and historically such losses have been within expectations.



**Allowance for Doubtful Accounts Receivable:**

Accounts receivable are reduced by an allowance for amounts that may prove not to be collectable in the future. Substantially all of our receivables are due from the utility and industrial markets worldwide. The estimated allowance for doubtful accounts is based primarily on our evaluation of the financial condition of the customer.

**Goodwill, Intangible and Other Long-Lived Assets:**

Property, plant and equipment, intangible and certain other long-lived assets are amortized over their useful lives. Useful lives are based on our management’s estimates of the period that the assets will generate revenue. Our management periodically reviews the carrying value of the long-lived assets and investments for continued appropriateness. This review is based upon projections of anticipated future cash flows. While we believe that estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.

Trench assesses the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that we consider to be important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business;
- significant negative industry or economic trends;

When we determine that the carrying value of intangibles, long-lived assets and related goodwill and enterprise level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, a writedown may be required. In January, 2002, Statement of Financial Accounting Standards (“FAS”) No. 142, “Goodwill and Other Intangible Assets” became effective and we were required to perform an initial impairment review of goodwill in 2002 and an annual impairment review thereafter. We completed the initial review by the second quarter of 2002. We did not record an impairment charge upon completion of the initial impairment review as our initial impairment testing of goodwill did not indicate any impairment.

**Deferred income taxes:**

As part of the process of preparing our consolidated financial statements, we are required to estimate the income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. Trench must then assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, a valuation allowance must be recorded. To the extent a valuation allowance is established or this allowance is increased in a period, there must be an expense within the tax provision in our statement of profit and loss.

Income taxes have been provided using the full liability method whereby current tax liabilities or assets are recognized for the estimated taxes payable or refundable tax for the current year and deferred tax liabilities or assets are recognized for the estimated future tax effects attributable to temporary differences and carry forwards. Current and deferred tax liabilities and assets are measured based on provisions of the enacted tax laws. Trench records valuation allowances against deferred tax assets where management does not expect such assets to be realized based upon current forecasts. In the event that actual results differ from these estimates or management adjusts these estimates in future periods, we may need to establish an additional valuation allowance that could materially impact financial our position and the results of operations

The net deferred tax asset as of December 31, 2002 was \$12,071, net of a valuation allowance of \$7,852.

**Provisions for warranties and inventory obsolescence:**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent

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assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Trench records provisions for warranties based upon historical trends and any known warranty issues and is our management’s best estimate of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. The inventory obsolescence provision is based upon a thorough analysis by our management of inventory, especially slow moving inventory, and taking into account estimated future usage and sales. While our management believes that the provisions for warranties and inventory obsolescence are adequate and the judgment applied is appropriate, the estimated amounts could differ materially from what will actually transpire in the future.

### **Pension and other post retirement benefits:**

The determination of our obligations and expenses for pension and other post retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Notes 10 and 11 to the consolidated financial statements and include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and healthcare costs. In accordance with generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While we believe that the assumptions are appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other post retirement obligations and the future expense.

### **Accounting policies**

In July 2001, FAS 143, “Accounting for Asset Retirement Obligations,” was issued. This requires recording the fair value of a liability for an asset retirement obligation in the period incurred. The amount recorded as a liability is capitalized by increasing the carrying amount of the related long-lived asset, which is then depreciated over its useful life. If the liability is settled for an amount other than the recorded balance, either a gain or loss will be recognized at settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application permitted. We are presently evaluating the impact of this standard on our financial position and results of operations but we do not expect the adoption of FAS 143 to have a material impact on our operating results or financial position.

In April 2002, FAS 145, “Rescission of FAS 4, 44 and 64, Amendment to FAS 13, and Technical Corrections,” was issued. This standard updates, clarifies and simplifies existing accounting pronouncements. It rescinds FAS 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related taxes. Upon adoption, the criteria in APB 30 will be used to classify such gains and losses. Gains or losses on extinguishments of debt that were classified as extraordinary in prior periods presented that do not meet APB 30 criteria for classification as extraordinary must be reclassified into earnings from operations. FAS 145 also rescinds FAS 64, which amended FAS 4 and FAS 44, which established accounting requirements for the transition of the Motor Carrier Act of 1980. FAS 145 amends FAS 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. We have early adopted this new standard. We believe that this standard does not have a material impact on our financial position and results of operations.

In July 2002, FAS 146, “Accounting for Costs Associated with Exit or Disposal Activities” was issued. This addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and that an entity’s commitment to a plan, by itself, does not create a present obligation to others. We must adopt this standard for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of FAS 146 to have a material impact on our operating results or financial position.

In November 2002, FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial

measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor’s fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002 and we have complied with the disclosure requirements. We do not expect the future adoption of other parts of this standard to have a material impact on our operating results or financial position.

In December 2002, FASB issued Statement 148, “Accounting for Stock-Based Compensation — Transition and Disclosure.” This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. Under the provisions of Statement 123 that remain unaffected by Statement 148, companies may either recognize expenses on a fair value based method in the income statement or disclose the pro forma effects of that method in the footnotes to the financial statements. We are still assessing this new standard but do not believe that it will have a material effect on our results of operation or financial condition upon adoption.

In January 2003, FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. Many variable interest entities have commonly been referred to as special-purpose entities or off-balance sheet structures, but the guidance applies to a larger population of entities. The interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. Some disclosures apply to financial statements issued after January 31, 2003. We have assessed this new standard and do not believe that it has a material effect on our results of operations or financial condition.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

As at December 31, 2002, the sole director of Trench Electric BV was Trench Electric Holding BV.

Executive Officers

The following table sets forth certain information regarding the executive officers of Trench Electric (ages as of December 31, 2002):

Name	Age	Position	Date appointed to current position
Howard Poulson	59	Chairman and Chief Executive Officer	June 1999
John H.G. Finlay	63	Executive Vice President, North America & International	April 2000
Allan Finn	51	Executive Vice President, Sales and Marketing	July 1999
Michael Bissell	51	Group Finance Director	April 2000
Alfred Wittenhofer	62	Chief Executive — European Operations	April 2001

*Mr. Howard Poulson* was appointed Chairman of Trench Electric in March 1998 at the request of the main investor CVC. On June 1st 1999 Mr. Poulson took over the post of Chief Executive following the retirement of Ron Montgomery from that office. Prior to joining Trench, Mr. Poulson has had a long career as a director and Chief Executive of a number of public companies largely operating in the electronics industry and is currently the Chairman of Aramis Ltd.

*Mr. John H.G. Finlay* became Executive Vice President and Chief Financial Officer of Trench Electric at the time of its formation in

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September 1997. Mr. Finlay joined Trench Limited in Canada in 1988 as Chief Financial Officer. He was Chief Financial Officer and Executive Vice President of Trench and its predecessors from its formation in 1993. In 2000 he was made Executive Vice President, North America and International of Trench Electric.

*Mr. Allan Finn* became Vice President, Sales and Marketing of Trench Electric at the time of its formation in September 1997. He joined Trench Electric Canada in 1970 and has held the senior sales executive position at Trench since 1993. Mr. Finn has been with Trench and its predecessors for 30 years and has held a number of management positions including manufacturing throughout his tenure. In July 1999 he became Executive Vice President, Sales and Marketing.

*Mr. Michael J. Bissell* joined the Group in April 2000, as Group Finance Director. Prior to joining Trench, Mr. Bissell held various senior financial positions with multi-site, international manufacturing businesses and spent a period of time based in the U.S.A. His experience included being Group Finance Director of GEI International PLC, a public traded British company, Finance Director of one of Britain’s pre-eminent private engineering companies and also various substantial divisions of global contracting and capital goods businesses.

*Mr. Alfred Wittenhofer* was appointed Chief Executive of Trench European Operations in 2001. Mr. Wittenhofer has been Managing Director of Trench Austria GmbH and its predecessor Group-member Spezialelektra since 1976.

**Non-executive Officers**

*Mr. Marc Boughton*, 39, joined CVC in 1995, having worked previously for Electra Fleming Ltd. and PricewaterhouseCoopers (London) where he qualified as a Chartered Accountant and worked as a manager in the Corporate Finance Division. He joined the Board on September 3, 1997. Mr. Boughton is a director of CVC Capital Partners Ltd, Amatek Holdings, Acordis BV and Herbspring (December 2000 Sale) Ltd.

*Mr. James F. Joy*, 65, is Managing Director, European Business Development for CVC Capital Partners Limited. Mr. Joy is a non-executive director for Metzeler Automotive Profile Systems and a director of First Republic Bank (US). Mr. Joy was appointed to the Board on February 16, 2000.

*Mr. Gijsbert Vuursteen*, 29, was appointed to the Board on August 14, 2000 as one of the CVC board members. He joined CVC in 2000 and is Investment Director of CVC Capital Partners Ltd and a member of the supervisory board of Verdugt Holding BV.

**B. Compensation**

The aggregate compensation paid to executive officers of the Group including benefits in kind for the year ended December 31, 2002 was approximately \$1.5 million (2001 — \$1.8 million).

For the year ended December 31, 2002 the highest executive officer received approximately \$0.5 million (2001 — \$0.6 million) including benefits in kind. All executive officers of the Company take part in bonus schemes that pay according to profit targets set by the non-executive officers. The amount that was paid in 2002 is included in the above paragraph.

**C. Board Practices**

Officers of Trench are appointed on a continuing basis and are not required to retire by rotation.

The Company has established an Audit Committee and a Remuneration Committee. The members of both committees comprise Mr. Marc Boughton and Mr. James Joy who are both non-executive officers of Trench.

The Audit Committee will meet at least four times per year or more frequently as circumstances dictate. In addition, the Audit Committee will meet at least annually with management and the independent auditor in separate sessions to discuss any matters that the Audit Committee or either of these groups believes should be discussed privately.

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The Audit Committee’s responsibilities are to monitor the integrity of our financial reporting process and systems of internal controls regarding accounting, finance and legal compliance and to monitor the independence and performance of Trench’s independent auditors. The Audit Committee has to approve any non-audit work performed by Trench’s auditors.

The Remuneration Committee’s responsibilities include ensuring that the remuneration and service contract terms of the executive officers and senior management are appropriate.

Service contracts for officers of Trench do not provide for any benefits upon termination of employment other than the right to notice.

D. Employees

As of December 31, 2002, 2001 and 2000 respectively Trench employed 1,832, 1,839, and 1,770 employees worldwide. The increase from 2000 to 2001 was mainly due to obtaining a majority position in Fushun, at the end of November 2001.

	Number of Employees Year Ended December 31,		
	2002	2001	2000
American operations	571	559	558
European operations	852	895	915
International operations	409	385	297
Total	1,832	1,839	1,770

Historically, we have had very good relations with our workforce. There are no independent unions at the Canadian coil and bushing facilities, or at the Brazilian, Chinese, English and Swiss operations. Workers at our Canadian instrument transformer facility are unionized with the Canadian Auto Workers union, and those at our French, Austrian and German facilities are unionized with national or local work councils. All of our manufacturing sites have good health and safety records, with no significant employee accidents reported at any of the facilities since they became a part of the Group.

E. Share Ownership

Although no shares in Trench Electric B.V. have been issued to persons listed in subsection 6A above, there are arrangements to grant stock options in the Parent that would increase the issued shares of the Parent by a maximum of 12%. During the year, the Parent did not grant any stock options. No stock options had been exercised as at December 31, 2002. For more information on stock options, please refer to Item 17, note 21. Shares were issued on January 24, 2002 that increased the number of issued Ordinary “A” shares by 10,749 and the Ordinary “B” Shares by 2,096. On the same date the par value of the shares was converted from Dutch Guilders to Euros at the official exchange rate of NLG 2.20371 to one Euro (€).

The share capital of Trench Electric Holding B.V., the parent of the Company is as follows:

Authorized		No. of Shares	
Ordinary shares “A” ten votes/share	4.54 Euro / share par value	27,285	
Ordinary shares “B” one vote/share	0.45 Euro / share par value & 4.09 Euro premium	4,986	
Preference shares “A” (non-voting)	4.54 Euro / share par value	1,700,000	
Preference shares “B” (non-voting)	0.45 Euro / share par value & 4.09 Euro premium	5,700,000	
Issued		Stated value Euro	Stated value US\$
		No. of Shares	
Ordinary shares “A” ten votes/share — Issued by January 24, 2002 and outstanding		24,317	110,399
Ordinary shares “B” one vote/share — Issued January 24, 2002 and outstanding		4,984	2,263
Preference shares “A” — Issued on December 31, 1997 and outstanding		1,682,413	7,638,155
Preference shares “B” — Issued on December 31, 1997 and outstanding		560,804	254,605
Share premium on ordinary shares “B” (4.09 Euro / share)		8,005,422	7,129,628
Share premium on ordinary shares “B” (4.09 Euro / share)		20,365	18,137
Share premium on Preference shares “B” (4.09 Euro / share)		2,291,445	2,040,761
Total shareholders’ equity		10,317,232	9,188,526

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There are four principal shareholders, namely, CVC European Equity Partners L.P., CVC European Equity Partners (Jersey) L.P., Citicorp Capital Investors Europe Limited and Capital Ventures Nominees Limited. For additional information, see Item 7.A. — Major shareholders.

Item 7. Major Shareholders and Related Party Transactions

A. Major shareholders

The parent company of Trench Electric B.V. is Trench Electric Holding B.V., which owns all the outstanding shares of the Company.

There are nine shareholders of the Parent, namely, CVC European Equity Partners L.P., CVC European Equity Partners (Jersey) L.P., Citicorp Capital Investors Europe Limited, Capital Ventures Nominees Limited, Mr. Ronald Montgomery, Mr. Howard Poulson, Mr. John Henry George Finlay, Mr. Allan Michael Finn and Mr. Alfred Wittenhofer. There was an issue of shares on 24 January 2002. The total number of shares owned by each shareholder and the value in Euros is as follows.

	'A' Ordinary # of shares	'B' Ordinary # of shares	'A' Prefer. # of shares	'B' Prefer. # of shares	Total Euro	Proportion of voting rights
CVC European Equity Partners L.P.	19,009	—	1,501,609	—	6,903,606	76.60%
CVC European Equity Partners (Jersey) L.P.	2,289	—	180,804	—	831,242	9.22%
Citicorp Capital Investors Europe Limited	695	4,984	—	560,804	2,571,833	4.81%
Capital Ventures Nominees Limited	1,420	—	—	—	6,447	5.72%
Mr. Ronald Montgomery	300	—	—	—	1,362	1.21%
Mr. Howard Poulson	242	—	—	—	1,099	0.98%
Mr. John Henry George Finlay	130	—	—	—	590	0.52%
Mr. Allan Michael Finn	116	—	—	—	527	0.47%
Mr. Alfred Wittenhofer	116	—	—	—	527	0.47%
	24,317	4,984	1,682,413	560,804	10,317,233	100.00%

The voting rights associated with each class of share are indicated in Item 6.E. — Share ownership.

B. Related Party transactions

During the year, the CVC group of companies charged the Company a monitoring fee in the amount of \$0.6 million (2001 — \$0.6 million, 2000 — \$0.4 million).

There are various loans between the Trench group companies that are mainly related to financing the original acquisition from BBA in 1997.

The loans between Trench group members as of December 31, 2002 consist of the following:

Trench Limited (Canada): loans from Trench Inc. related to financing the original acquisition from BBA

- Cdn\$29,546K loan from Trench Inc. (Rate 10.0625%)
- US\$129,171K loan from Trench Inc. (Rate 10.3125% — 11.73%)

Trench Inc. (Canadian Holding Co.): loan related to financing the original acquisition from BBA

- Cdn\$29,546K loan to Trench Limited (Rate 10.0625%)
- US\$129,171K loan to Trench Limited (Rate 10.3125% — 11.73%)
- Cdn\$28,283K loan from TEBV (Company) (Rate 10.00%)
- US\$1,427K loan from TEBV (Company) (Rate 11.667%)

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Finatrench (France): loan related to financing the original acquisition from BBA

- Euro 32,799K loan from Valtimon (Rate 8.75%)

Valtimon: loan related to financing the original acquisition from BBA

- Euro 32,623K loan from TEBV (Rate 8.625%)
- Euro 32,799K loan to Finatrench (Rate 8.75%)

TEBV: loan related to financing the original acquisition from BBA

- Euro 32,623K loan to Valtimon (Rate 8.625%)
- Cdn\$28,283K loan to Trench Inc. (Rate 10.00%)
- US\$1,427K loan to Trench Inc. (Rate 11.667%)
- Euro 700K loan to Trench UK (Rate 5.0%)
- Euro 1.6 m loan from Trench Germany (Rate 5.0%)
- Euro 4.6 m loan to Trench France (Rate 5.0%)

Trench Electric SA (“TESA”)

- US\$24 m investment in 10.5% Trench Austria bonds
- US\$275K loan to Trench Switzerland (Rate 5.5%)

Trench Switzerland

- US\$275K loan from TESA (Rate 5.5%)

Trench UK

- Euro 700K loan from TEBV (Rate 5.0%)

Trench Germany

- Euro 1.6 m loan to TEBV (Rate 5.0%)

Trench France

- Euro 4.6 m loan from TEBV (Rate 5.0%)

Dividends were paid by Trench China (Shanghai) to various members of our group as well as to our joint venture partner, SITW. Trench China paid RMB 15,474 (\$1,870) to SITW, of which \$1,176 related to an equalization dividend payment in respect of the increase in ownership by Trench from 40% to 65% in 2000. At the time of closing, Trench agreed to adjust the payment of a dividend in favour of SITW to properly reflect SITW’s entitlement to the profits of the joint venture, which had accrued before the transfer of equity. It was not until 2002 that we were able to obtain clear legal advice that it was legal under Chinese company law to pay an equalization dividend to only one party. Due to the unusual nature of this dividend and because too long a time had elapsed to allow this item to be charged to goodwill, this amount was expensed in the selling, general and administrative expenses. The remaining \$694 relates to SITW’s 35% share of a dividend paid to all of Trench China’s shareholders. In 2002, Trench China paid RMB 10,658K (\$1,287K) to Trench companies (Trench Canada, Trench Germany and Trench Switzerland) according to their ownership levels. The following table summarizes the dividends paid by Trench China:

In 000’s of U.S. Dollars	Paid to SITW	Paid to Trench Companies
Equalization dividend	\$1,176	\$ —
Regular dividends	694	1,287
Total	\$1,870	\$1,287

C. Interest of experts and counsel

Not applicable — Annual Report on Form 20-F Equivalent

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Refer to Item 17 — Financial Statements.

Export Sales

Trench is incorporated in The Netherlands and we export all of our sales by way of our manufacturing facilities located elsewhere in the world.

Legal Proceedings

Neither Trench Electric nor any of its subsidiaries is currently a party to any pending legal proceedings other than such proceedings incidental to its business. Management believes that such proceedings would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

Dividend Distribution Policy

We are required under the articles of the joint venture agreements with our Chinese joint venture partners to declare and pay dividends upon the approval of the Board of Directors. Of the total dividends paid by Trench China in Shanghai, 35% will accrue to our joint venture partner, SITW and of the total dividends paid by Trench Fushun, 33% will accrue to SITW and 2% to FEPW.

B. Significant Changes

On January 13, 2003, we announced a restructuring plan for Trench Suisse-France (TSF). This restructuring plan aims to improve the long-term competitiveness of TSF in the market. The restructuring includes the termination of 34 jobs in the administrative area and in the production area the number of temporary jobs will be reduced. The estimated costs associated with this restructuring is approximately \$1 million.

Item 9. The Offer and Listing

A. Offer and listing details

Five Year History

The Notes were originally issued on December 15, 1997.

Par = \$100.00	2002	2001	2000	1999
Annual High Market Price	\$82.00	\$71.00	\$74.00	\$101.00
Annual Low Market Price	\$71.00	\$54.00	\$58.00	\$ 70.00

Quarterly History

The high and low sell prices by quarter for 2002 and 2001 are as follows:

2002	High	Low
(Par = \$100.00)		
Qtr 1	\$75.00	\$74.00
Qtr 2	80.00	78.00
Qtr 3	82.00	79.00
Qtr 4	76.00	71.00



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2001	High	Low
Qtr 1	\$60.00	\$54.00
Qtr 2	71.00	64.00
Qtr 3	71.00	69.00
Qtr 4	70.00	69.00

Monthly History

The high and low sell prices for the last six months are as follows:

	High	Low
(Par = \$100.00)		
2003		
February	75.00	74.00
January	75.00	74.00
2002		
December	76.00	75.00
November	72.00	71.00
October	72.00	71.00
September	82.00	81.00

B. Plan of distribution

Not applicable — Annual Report on Form 20-F Equivalent

C. Markets

The Notes are listed on the Luxembourg Stock Exchange.

We do not intend to list the Notes on any national securities exchange other than the Luxembourg Stock Exchange or to seek the admission thereof to trading in the National Association of Securities Dealers Automated Quotation System. Accordingly, no assurance can be given that an active market will develop for any of the Notes or as to the liquidity of the trading market for any of the Notes. If a trading market does not develop or is not maintained, holders of the Notes may experience difficulty in reselling such Notes or may be unable to sell them at all. If a market for the Notes develops, any such market may be discontinued at any time. If a trading market develops for the Notes, future trading prices of such Notes will depend on many factors, including among other things, prevailing interest rates, our results of operations and the market for similar securities. Depending on prevailing interest rates, the market for similar securities and other factors, including the financial condition of the Group, the notes may trade at a discount from their principal amount.

D. Selling shareholders

Not applicable — Annual Report on Form 20-F Equivalent

E. Dilution

Not applicable — Annual Report on Form 20-F Equivalent

F. Expenses of the issue

Not applicable — Annual Report on Form 20-F Equivalent

**Item 10. Additional Information**

**A. Share Capital**

Not applicable — Annual Report on Form 20-F Equivalent

**B. Memorandum and Articles of Association**

The Articles of Association (“Articles of Association”) have been filed as an exhibit to the report (see Item 19). The highlights of the Articles of Association are as follows:

**Company and Objects**

The registered office of Trench Electric B.V. is in Amsterdam, The Netherlands at Strawinskylaan 3105, 1077ZX. As per Article 2 of the Articles of Association, the objects for which the Group is established are:

- (a) to finance companies and other enterprises, to borrow, to lend and to raise funds, to participate in all types of financial transactions, including the issue of bonds, promissory notes or other securities or evidences of indebtedness, to bind the company and to grant security over its assets for obligations of companies and other enterprises with which it forms a group and of third parties;
- (b) to incorporate and to participate in any way whatsoever in, to manage, to supervise and to cooperate with companies and other enterprises, to acquire, to keep, to divest or in any other manner to manage all sorts of participations and interests in other companies and other enterprises, to enter into joint ventures with other companies and enterprises;
- (c) to acquire, to manage, to operate, to encumber and to divest personal and real property and any right to or interest in personal and real property;
- (d) to obtain, to exploit and to sell patents and other intellectual property rights, to acquire and to grant licences, sub-licences and similar rights of whatever name and description and if necessary, to protect rights derived from patents and other intellectual property rights, licences and similar rights against infringement by third parties; and
- (e) to engage, in any way whatsoever, in trading activities, including the import, export, purchase, sale, distribution and marketing of products and raw materials.

**Directors Role and Decision-Making Power**

The Company shall be managed by a Board of Management consisting of one or more members, who shall be appointed by the General Meeting of Shareholders and may be suspended or removed from office by meeting at any time. A legal entity may be a member of the Board of Management. The remuneration of the members of the Board of Management, any rights to bonuses and the further terms of appointment shall be determined by the General Meeting of Shareholders for each member of the Board of Management individually.

If the Board of Management has more than one member, then the following provisions will take place with respect to decision making. Resolutions of the Board of Management are adopted by absolute majority of the votes validly cast. Meetings of the Board of Management can be convened by any member giving notice to all other members of the Board in writing, at least three days prior to the date of the meeting.

The Board of Management shall be responsible for the management and administration of the Company. The General Meeting of Shareholders may give instructions to the Board of Management regarding the general directions of the financial, social, economic and personnel policies to be pursued. The Board of Management shall act in accordance with such instructions.

Loans for the purpose of acquiring shares in its capital may be granted by the Company up to the amount of its distributable reserves, provided that the Company shall maintain a non-distributable reserve equal to the amount outstanding on such loans.

Share Description

The authorized capital of the Company is two hundred thousand Dutch Guilders (NLG 200,000 = € 90,756) divided into two hundred thousand (200,000) common shares of one Dutch Guilder (NLG 1.00 = € 0.45) each. There is no other class of shares. The shares shall be indivisible, shall be registered shares, and shall be numbered consecutively from one onwards. No share certificates shall be issued. Shares not yet issued shall be issued at such price, upon such conditions and at such times as the General Meeting of Shareholders, or another body to which the General Meeting of Shareholders has transferred its power in relation thereto, shall determine, provided that the shares shall not be issued at a price below par value. In the event of new shares being issued, each existing shareholder shall have a preferential right to subscribe to them in proportion to his existing shareholding.

Each share carries the right to one vote, subject to the following two conditions.

- Shares held by the Company or by a subsidiary carry no right to vote in a General Meeting.
- In determining what proportion of shareholders exercise their votes, are present or represented, or what proportion of the share capital is provided or represented, the shares in respect of which no voting rights can be exercised shall not be taken into account.

The transfer of shares requires a written instrument, taking into account the provisions of Article 196 of the Dutch Civil Code, Book 2.

There are no limitations on the rights to own securities.

Meeting for Annual Accounts

Within five months after the end of the financial year, except for an extension of a maximum of six months on account of special circumstances, the Board of Management shall draw up the annual accounts, which shall be available at the office of the Company for inspection by shareholders. General Meetings of Shareholders shall be convened by means of notices sent not later than fifteen days prior to the meeting by a Managing Director to the shareholders at the address specified in the shareholders' Register.

Distribution of Profit and Dividends

A portion of the profits as determined by the approved profit and loss account shall be reserved by the Company at the General Meeting of Shareholders on a proposal of the Board of Management. The remainder shall be the distributable profits, the appropriation of which shall be determined by the General Meeting of Shareholders.

The Company may only make distributions to its shareholders and to others entitled to receive part of its distributable profits, if and to the extent that the Company's shareholders' equity exceeds the aggregate of its paid up share capital (including calls made) and the amount of such reserves as it is required by statute or by the Articles of Association to maintain. Insofar as the Company has a profit, the General Meeting of Shareholders, on the proposal of the Board of Management, may decide to pay an interim dividend, provided that it complies with paragraph 3 of the Article dealing with distribution of profit and dividends. Dividends (including interim dividends) shall be made payable at the Company's offices from the date the dividend is declared, unless the resolution concerned shall provide for a different date or place. Dividends which have not been claimed within five years of being payable shall be forfeited and shall accrue to the benefit of the Company.

C. Material Contracts

On December 12, 2002, we completed the acquisition of an additional 14.6% share in the "Trench Fushun Bushing Co. Ltd" (Fushun), previously known as Fushun Reyrolle Bushing Co. Ltd, by Trench Limited in Canada. This brings our total investment in the Fushun joint venture to 65%.

Our Canadian subsidiary, Trench Limited, has sold certain coil technology to SITW for proceeds of approximately \$10,000 to be received between 2002 and 2006. Of the total proceeds, \$5,000 was received in December 2002.

D. Exchange Controls

Exchange Controls and Other Limitations Affecting Security Holders

(a) There are currently no governmental laws, decrees or regulations in The Netherlands, Canada or Luxembourg that restrict the export or import of capital, including, but not limited to, foreign exchange controls, or that affect the remittance of interest or other payments to non-resident holders of the Notes.

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(b) There are no limitations under Dutch, Canadian or Luxembourg law or Trench Electric’s Articles of Association on the right of non-resident or foreign owners to hold Trench Electric’s Notes.

E. Taxation

Material Non-U.S. Income Tax Considerations

This summary is of a general nature and is included herein solely for informational purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. No representation with respect to the consequences to any particular holder of the Notes is made. Prospective purchasers should consult their own tax advisors with respect to their particular circumstances and the effects of local, state, federal and foreign (including Luxembourg and Canadian) tax laws to which they may be subject. Non-United States holders should consult their own tax advisors with respect to both their local tax considerations and non-local tax considerations.

Canada

The following describes the material Canadian federal income tax consequences generally applicable to a holder of a Note who for the purposes of the Income Tax Act (Canada) (the “Canadian Tax Act”), and at all relevant times, is a non-resident of Canada, deals at arm’s length with Trench Canada and does not use or hold and is not deemed to use or hold the Note in the course of carrying on business in Canada and is not an insurer that carries on an insurance business in Canada and elsewhere. This summary is based on the current provisions of the Canadian Tax Act and the regulations there under (the “Regulations”) in force on the date hereof, counsel’s understanding of the current administrative and assessing practices and policies published by Canada Customs and Revenue Agency, and all specific proposals to amend the Canadian Tax Act and the Regulations publicly announced by the Canadian Minister of Finance prior to the date hereof (the “Proposed Amendments”). This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Proposed Amendments, does not take into account or anticipate changes in the law or the administrative or assessing practices of Canada Customs and Revenue Agency, whether by judicial, governmental or legislative action or interpretation, nor does it take into account provincial, territorial or foreign tax legislation or considerations.

**This summary is of a general nature only and is not intended to be, and should not be interpreted as, legal or tax advice to any particular holder of a Note. Accordingly, prospective purchasers are urged to consult their own tax advisors with respect to their particular circumstances.**

The payment by Trench Canada (under or with respect to its Guarantee) of interest, principal or premium (if any) on the Notes will be exempt from Canadian withholding tax. No other tax on income (including taxable capital gains) will be payable under the Canadian Tax Act in respect of the holding, redemption or disposition of the Notes or the receipt of interest, principal or premium (if any) thereon.

Luxembourg

Payments of interest on the Notes will not be subject to withholding taxes in Luxembourg. A holder of Notes who is not a resident of Luxembourg, does not have a permanent establishment in Luxembourg and does not hold Notes in connection with the conduct of a business in Luxembourg, will not be subject to income or withholding taxes imposed by jurisdictions in respect of gains realized on the sale, exchange or other disposition of Notes.

Transfers of interests in the Notes outside Luxembourg will not be subject to any stamp duties or other transfer taxes imposed by Luxembourg.

F. Dividends and Paying Agents

Not applicable — Annual Report on Form 20-F Equivalent

G. Statement by Experts

Not applicable — Annual Report on Form 20-F Equivalent

**H. Documents on display**

Certain documents concerning the Group which are referred to in the document will be either on file with the SEC or available for inspection at the Company’s principal place of business as shown in Item 4.A.

**I. Subsidiary Information**

Not applicable — Annual Report on Form 20-F Equivalent

**Item 11. Quantitative and Qualitative Disclosure about Market Risks**

The following discussion of our financial risk management activities includes “forward-looking” statements that involve risks and uncertainties. Actual results could differ materially from those projected in the forward looking statements.

As a result of its global operating and financial activities, we are exposed to market risk by way of changes in interest rates and foreign currency exchange rates. Theses changes may adversely affect our consolidated financial position and results of operations. We seek to manage market risk by using various financial instruments to manage its primary market exposures associated with our underlying assets and liabilities as well as anticipated transactions. These financial instruments are used to reduce risk by essentially creating offsetting market exposures. These contracts are entered into with financial institutions in accordance with Group treasury policies and procedures, thereby reducing the risk of credit loss. Derivative financial instruments are used only for purposes other than trading.

The following discussion contains sensitivity analyses which present the hypothetical loss in cash flows or fair values of the financial instruments and derivative financial instruments held by our Group as of December 31, 2002 that were subject to changes in interest rates and foreign currency exchange rates. The range of sensitivities chosen for these analyses reflects our view of changes that are reasonably possible over a one-year period.

In the normal course of business, we also face risks that are either non-financial or non-quantifiable. These risks principally include country, commodity, credit and legal risks and are not represented in the following analyses.

**Interest Rate Risk**

Our exposure to changes in interest rates result from our borrowing activities used to meet our liquidity needs. Long-term debt is generally used to finance long-term investments, while short-term debt is used to meet our working capital requirements.

The majority of our long-term borrowings are in fixed-rate instruments that are not exposed to changes in interest rates. Other long-term and short-term borrowings have floating interest rates (e.g. LIBOR (London Interbank Offering Rate) plus 2.0% to 2.5%). There is inherent rollover risk for short-term borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. Assuming an interest rate increase of 1% on the outstanding term loan facility and revolving credit facility, as at December 31, 2002, our additional annualized interest costs would be approximately \$0.243 million (2001 — \$0.357 million).

**Foreign Currency Exchange Rates**

We conduct our business internationally, and our principal manufacturing and sales operations are located in Austria, Brasil, Canada, China, England, France, Germany, Malaysia, Switzerland and the United States. For financial reporting purposes, we have chosen the U.S. dollar as our reporting currency. Therefore, changes in the rate of exchange between the U.S. dollar and the local currencies in which the financial statements of our international operations are maintained affect our results of operations and financial position as reported in our financial statements.

Our long term debt is denominated in U.S. dollars, Euros, Chinese renminbis and British pounds while our subsidiary operations account for their businesses in local currencies; namely, Brazilian reals, British pounds, Canadian dollars, Chinese renminbis, Swiss francs and U.S. dollars. Only as payments are made against long term debt over the next several years will an actual loss or gain crystallize. We also utilize

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U.S. denominated commercial paper and borrowings as well as foreign currency denominated borrowings to fund our working capital and investment needs.

We occasionally enter into foreign currency forward contracts to manage foreign currency exposures related to sales to foreign customers. These contracts are designed to hedge firm commitments to pay European, Asian, Australian and North American currencies within a one-year period. The maturities of these contracts are planned to coincide with the receipts of the foreign funds. As at December 31, 2002, the Company had incurred net foreign currency gain of \$2.3 million (2001 — loss of \$9.1 million). The Company would be subject to a foreign currency exchange loss of approximately \$15.1 million (2001 — \$15.1 million), on the senior subordinated notes, assuming a 10% foreign currency exchange devaluation from the December 31, 2002 spot rates of the issuers, vis-à-vis the U.S. dollar. Foreign exchange gains include \$5.8 million (2001 — loss of \$8.9 million) relating to the Senior Notes, being the difference between the US dollar exchange rate at December 31, 2001 and the rate at December 31, 2002. There is no immediate cash receipt as a result of this gain.

Counterparty Risk from the Use of Derivative Financial Instruments

We are exposed to credit (or repayment) risk and market risk through the use of derivative instruments. If the counterparty fails to fulfill its performance obligations under a derivative contract, our credit risk will equal the fair value gain in a derivative. Currently, when the fair value of a derivative contract is positive, this indicates that the counterparty owes us, thus creating a repayment risk. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, assume no repayment risk.

In order to minimize the credit risk in derivative instruments, we enter into transactions with high quality counterparties, which include financial institutions that satisfy our established credit approval criteria. Derivative transactions are generally executed on the basis of standard agreements that allow all outstanding transactions with contracting partners to be offset.

The following table presents, by counterparty risk, our derivative positions as of December 31, 2002:

Long-term Rating	Counterparty	Fair value
A -	Commerzbank	\$45

Item 12. Description of Securities Other than Equity Securities

Not applicable — Annual Report on Form 20-F Equivalent

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None

Item 15. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** The Company’s Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a — 14(c) and 15d — 14(c)) as of a date within 90 days of the filing date of the annual report, have concluded that the Company’s disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this annual report is being prepared.

**Changes in Internal Controls.** There were no significant changes in the Company’s internal controls or in other factors that could significantly affect the Company’s disclosure controls and procedures subsequent to the evaluation date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions.

**Item 16A.**

**Audit Committee Financial Expert Disclosure**

On February 4, 2003 the Board of Directors of our Parent determined that Marc Boughton, who was appointed as a member of the Audit Committee on the same date, meets the standard of “audit committee financial expert” as defined by the Sarbanes — Oxley Act.

**Item 16B.**

**Code of Ethics Disclosure**

The Board of Directors of our Parent approved a Code of Ethics on February 4, 2003, which is provided as an exhibit to this report. Any amendments or waivers will be disclosed in future annual reports on Form 20-F Equivalent and quarterly reports on Form 6-K Equivalent.

**PART III**

**Item 17. Financial Statements**

See pages F-1 to F-35.

**Item 18. Financial Statements**

Not applicable (see Item 17)

**Item 19. Exhibits**

Item No.		Location of Document in Sequential Numbering System
1.1	Articles of Association of Trench Electric B.V.	(1)
2.1	Indenture dated as of December 16, 1997 among Trench Electric B.V., Trench Inc., Trench Electric S.A., Trench Limited, Haefely Trench AG, Haefely Trench Austria GmbH, Haefely Trench MWB GmbH, and The Chase Manhattan Bank, as trustee	(1)
2.2	Form of 10 1/4% Senior Subordinated Note	(1)
2.3	Registration Rights Agreement dated as of December 11, 1997 among Trench Electric B.V., Trench Inc., Trench Electric S.A., Trench Limited, Haefely Trench AG, Haefely Trench Austria GmbH, Haefely Trench MWB GmbH and Credit Suisse First Boston Corporation	(1)
2.4	Purchase Agreement dated as of December 11, 1997 among the Issuers, the Guarantors, and Credit Suisse First Boston Corporation	(1)
2.5	Facilities Agreement dated 15 September 1997, between Valiant Investments B.V., Finatrench (France) S.A., Haefely Trench S.A., Trench Holding A.G., Haefely Holding A.G., Haefely Trench A.G., Haefely Trench MWB GmbH, Haefely Trench Austria A.G., Trench GmbH, Trench Corporation, BBA Canada Limited, Trench Inc., Credit Suisse First Boston, and Credit Suisse First Boston Canada	(1)

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- 2.6 Supplemental Agreement relating to the Facilities Agreement dated 15 September 1997, dated 16 December 1997, between Valiant Investments B.V., Finatrench (France) S.A., Haefely Trench S.A., Trench Holding A.G., Haefely Holding A.G., Haefely Trench A.G., Haefely Trench MWB GmbH, Haefely Trench Austria GmbH, Trench Limited, Trench Inc., Trench Electric B.V., Valtimon Holdings B.V., Trench Electric S.A., Credit Suisse First Boston, and Credit Suisse First Boston Canada (1)
- 2.7 Intercreditor Agreement dated 15 September 1997, between Credit Suisse First Boston, Credit Suisse First Boston Corporation, BBA Properties Limited, CVC European Equity Partners L.P., CVC European Equity Partners (Jersey) L.P., Capital Ventures Nominees Limited, Citicorp Capital Investors Europe Limited, Valiant Investments B.V., Finatrench (France) S.A., Haefely Trench S.A., Trench Holding A.G., Haefely Holding A.G., Haefely Trench A.G., Haefely Trench MWB GmbH, Haefely Trench A.G., Trench GmbH, Trench Inc., Trench Corporation and BBA Canada Limited (1)
- 3.1 Agreement for the Sale and Purchase of the issued share capital of the Haefely Trench group of companies, dated 15 September 1997, between BBA Group PLC, BBA Properties Limited, BBA Overseas Holdings Limited, BBA France S.A., The Guthrie Corporation Limited, Valiant Investments B.V., Trench GmbH, Finatrench France S.A. and Trench Holding AG (1)
- 3.2 Environmental Deed of Indemnity, dated 15 September 1997, between BBA Group PLC, BBA Properties Limited, BBA Overseas Holdings Limited, BBA France S.A., The Guthrie Corporation Limited, Valiant Investments B.V., Trench GmbH, Finatrench France S.A. and Trench Holding AG (1)
- 3.3 Letter of Employment, dated 15 September 1997, from Trench Inc. to Ron Montgomery (1)
- 3.4 Letter of Employment, dated 15 September 1997, from Trench Inc. to Allan Finn (1)
- 3.5 Letter of Employment, dated 15 September 1997, from Trench Inc. to John Finlay (1)
- 3.6 Asset Purchase Agreement dated July 1, 1999 by and between Haefely Test AG, a Swiss Corporation and Trench Switzerland AG, a Swiss Corporation. (1)
- 4.1 Facilities Agreement in relation to a US\$25,000,000 Term Facility and a US\$25,000,000 Revolving Credit Facility between Trench Electric Holding BV as parent along with Original Borrowers and Guarantors and Charging Companies and CIBC World Markets Plc., dated April 18, 2000. (1)
- 4.2 Asset Sale and Purchase Agreement dated April 18, 2000 by and between VA Tech Reyrolle Limited, VA Tech Properties (UK) Limited, VA Tech Elin Service B.V., Trench (UK) Limited and Trench Limited.
- 4.3 CVT Base Box Technology Head-Licence Agreement dated March 3, 2000 by and between Trench Limited, Shanghai Instrument Transformer Works and Shanghai Sitico International Trading Company



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4.4	Bushing Technology Head-Licence Agreement dated March 3, 2000 by and between Trench Switzerland AG, Shanghai Instrument Transformer Works and Shanghai Sitico International Trading Company
4.5	Restated Articles of Association for MWB (Shanghai) Co., Ltd. to be renamed Trench China Ltd. dated March 3, 2000.
4.6	Restated Equity Joint Venture Contract for MWB (Shanghai) Co., Ltd. to be renamed Trench China Ltd. dated March 3, 2000 among Shanghai Instrument Transformer Works, Trench Germany GmbH, Trench Switzerland AG, and Trench Limited.
4.7	Agreement to amend the Joint Venture Contract, Articles of Association and Related Agreement of Fushun Reyrolle Bushing Company Limited dated 21 April 2001.
4.8	Equity Transfer Agreement to increase the shareholding in Trench Fushun Bushing Co. Ltd dated December 12, 2002
4.9	Shunt Reactor Technology Head Licence Agreement dated April 16, 2002 by and between Trench Limited, Shanghai Instrument Transformer Works Co. Ltd., and MWB (Shanghai) Co. Ltd.
4.10	Series Reactor Technology Head Licence Agreement dated April 16, 2002 by and between Trench Limited, Shanghai Instrument Transformer Works Co. Ltd., and MWB (Shanghai) Co. Ltd.
4.11	Line Trap Technology Head Licence Agreement dated April 16, 2002 by and between Trench Limited, Shanghai Instrument Transformer Works Co. Ltd., and MWB (Shanghai) Co. Ltd.
99.1	Code of Ethics dated February 4, 2003

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(1) Incorporated by reference to the Company’s Form F-4 Registration Statement No. 333-8334

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## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of  
TRENCH ELECTRIC B.V.

We have audited the consolidated balance sheets of Trench Electric B.V. and its subsidiaries (the “Group”) as of December 31, 2002 and 2001 and related consolidated statements of income (loss) and comprehensive income (loss), of shareholder’s equity and of cash flows for each of the years then ended. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Group’s financial statements do not disclose certain segment information required by FAS 131, including information about countries in which the Group earns revenues and holds assets, and information on income before taxes, extraordinary items and minority interests. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.



**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
Leeds, United Kingdom  
March 24, 2003

TRENCH ELECTRIC B.V. — FORM 20-F Equivalent

CONSOLIDATED BALANCE SHEETS

(expressed in thousands of U.S. dollars, except for share information)

	Dec. 31, 2002	Dec. 31, 2001
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 15,422	\$ 11,729
Trade accounts receivable — net of allowance of \$1,751 (2001 - \$843)	67,266	64,400
Inventories, net ( <i>note 4</i> )	39,888	35,944
Prepayments	643	433
Deferred income tax ( <i>note 7</i> )	362	431
Other current assets	4,518	4,188
<b>Total current assets</b>	128,099	117,125
Property, plant and equipment ( <i>note 5</i> )	71,215	65,037
Goodwill ( <i>notes 3 and 6</i> )	123,910	115,382
Prepaid pension ( <i>note 10</i> )	252	1,006
Deferred financing costs — net of accumulated amortization of \$9,615 (2001 — \$7,163 )	4,720	5,575
Deferred income tax ( <i>note 7</i> )	11,709	11,077
Long-term receivables	5,735	1,766
Other assets	80	69
<b>Total assets</b>	\$345,720	\$317,037
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness ( <i>note 8</i> )	\$ 5,808	\$ 10,699
Trade accounts payable	27,355	33,138
Accrued liabilities ( <i>note 9</i> )	25,602	21,466
Advance billings	6,082	2,571
Due to parent ( <i>note 7</i> )	6,103	3,696
Income tax payable	3,307	4,527
Deferred income tax ( <i>note 7</i> )	180	136
Current portion of obligation under capital lease ( <i>note 12</i> )	557	503
Current portion of long-term debt ( <i>note 8</i> )	13,286	10,885
<b>Total current liabilities</b>	88,280	87,621
Long-term portion of obligation under capital lease ( <i>note 12</i> )	119	577
Long-term debt ( <i>note 8</i> )	166,050	170,692
Pension and post-retirement benefits ( <i>notes 10 and 11</i> )	16,587	13,956
Deferred income tax ( <i>note 7</i> )	12,087	10,332
Other liabilities ( <i>note 13</i> )	12,090	3,509
<b>Total liabilities</b>	295,213	286,687
Contingencies and commitments ( <i>note 12</i> )		
<b>Minority interest</b>	8,698	6,933
<b>SHAREHOLDER’S EQUITY</b>		
<b>Share capital</b>		
Authorized (200,000 common shares of one Dutch Guilder (0.45 €) each, Issued and outstanding 40,000 common shares of one Dutch Guilder (0.45 €) each)	20	20
Additional paid in capital	75,694	75,694
Accumulated other comprehensive loss	(2,922)	(15,526)
Accumulated deficit	(30,983)	(36,771)
<b>Total shareholder’s equity</b>	41,809	23,417
<b>Total liabilities and shareholder’s equity</b>	\$345,720	\$317,037

The accompanying notes are an integral part of these consolidated financial statements.

TRENCH ELECTRIC B.V. — FORM 20-F Equivalent

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(expressed in thousands of U.S. dollars except per share data)

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Sales	\$255,886	\$224,256	\$200,814
Cost of sales	178,197	160,781	141,228
Gross profit	77,689	63,475	59,586
Contract termination	—	—	644
Selling, general and administrative expenses	45,093	46,328	44,379
Gain on sale of assets	(755)	—	—
Operating income	33,351	17,147	14,563
Foreign exchange (gains) losses	(2,293)	9,102	7,665
Gain on extinguishment of debt	—	—	(2,170)
Interest expense and other	19,638	19,918	23,729
Income (loss) before income taxes and minority interest	16,006	(11,873)	(14,661)
Provision for income taxes ( <i>note 7</i> )	6,765	2,162	2,985
Income (loss) before minority interest	9,241	(14,035)	(17,646)
Minority interest	2,759	1,192	272
Net income (loss) for the period	6,482	(15,227)	(17,918)
Minimum pension liability adjustment, net of tax	(285)	114	(912)
Foreign currency translation adjustment	12,889	(614)	(3,073)
Comprehensive income (loss) for the period	\$ 19,086	\$ (15,727)	\$ (21,903)
Basic and diluted earnings per share:			
Earnings (loss) per common share	\$ 162.05	\$ (380.68)	\$ (447.95)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDER’S EQUITY

(expressed in thousands of U.S. dollars except for issued shares)

	Issued shares	Share capital	Additional paid in capital	Accumulated other comprehensive income (expense)	Accumulated deficit	Total shareholder's equity
Balance — December 31, 1999	40,000	\$20	\$75,694	\$(11,041)	\$ (3,626)	\$ 61,047
Net loss for the year	—	—	—	—	(17,918)	(17,918)
Minimum pension liability adjustment	—	—	—	(912)	—	(912)
Foreign currency cumulative translation adjustment	—	—	—	(3,073)	—	(3,073)
Balance — December 31, 2000	40,000	\$20	\$75,694	\$(15,026)	\$(21,544)	\$ 39,144
Net loss for the year	—	—	—	—	(15,227)	(15,227)
Minimum pension liability adjustment	—	—	—	114	—	114
Foreign currency cumulative translation adjustment	—	—	—	(614)	—	(614)
Balance — December 31, 2001	40,000	\$20	\$75,694	\$(15,526)	\$(36,771)	\$ 23,417
Net income for the year	—	—	—	—	6,482	6,482
Dividends paid out to minority interests	—	—	—	—	(694)	(694)
Minimum pension liability adjustment	—	—	—	(285)	—	(285)
Foreign currency cumulative translation adjustment	—	—	—	12,889	—	12,889
Balance — December 31, 2002	40,000	\$20	\$75,694	\$ (2,922)	\$(30,983)	\$ 41,809

The accompanying notes are an integral part of these consolidated financial statements.

TRENCH ELECTRIC B.V. — FORM 20-F Equivalent

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of U.S. dollars)

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
<b>Cash (used in) provided by</b>			
<b>OPERATING ACTIVITIES</b>			
Net income (loss) for the period	\$ 6,482	\$(15,227)	\$(17,918)
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on extinguishment of debt	—	—	(2,170)
Minority interest	2,759	1,192	272
Depreciation of property, plant and equipment	6,990	6,925	8,560
Amortization of goodwill	—	3,487	3,569
Loss on disposal of property, plant and equipment	263	—	—
Gain on sale of assets	(781)	(58)	(580)
Amortization of deferred financing costs and other non-cash interest	1,455	1,197	4,980
Unrealized exchange (gain) loss on long-term debt and bank indebtedness	(3,665)	9,302	7,804
Changes in non-cash working capital and other non-cash items ( <i>note 15</i> )	324	(4,035)	3,901
	<u>\$ 13,827</u>	<u>\$ 2,783</u>	<u>\$ 8,418</u>
<b>INVESTING ACTIVITIES</b>			
Acquisitions, net of acquired cash ( <i>note 3</i> )	\$ (952)	\$ (2,232)	\$ (8,022)
Purchase of property, plant and equipment	(5,190)	(7,725)	(3,716)
Net investment in Trench China	—	—	(1,408)
Proceeds on sale of assets	850	—	—
Proceeds on sale of technology	5,000	—	—
Proceeds on disposal of property, plant and equipment	1	452	1,531
	<u>\$ (291)</u>	<u>\$ (9,505)</u>	<u>\$(11,615)</u>
<b>FINANCING ACTIVITIES</b>			
Payments on revolving credit facility with CIBC — net	\$ (5,840)	\$ —	\$ —
Payments on revolving credit facility with CSFB — net	—	—	(12,584)
Proceeds from revolving credit facility with CIBC — net	—	557	10,045
Proceeds from long-term debt	—	—	25,000
Proceeds from short-term debt	362	—	—
Payments on long-term debt	(3,769)	(3,603)	(7,411)
Net (payments on) proceeds from capital leases	(532)	967	—
Dividends paid to joint venture partner	(694)	—	—
Financing costs	—	—	(1,664)
Bond purchase	—	—	(6,986)
	<u>\$(10,473)</u>	<u>\$ (2,079)</u>	<u>\$ 6,400</u>
<b>Effect of exchange rate changes on cash</b>	<u>\$ 630</u>	<u>\$ 11</u>	<u>\$ (684)</u>
<b>(Decrease) increase in cash and cash equivalents during the period</b>	<u>3,693</u>	<u>(8,790)</u>	<u>2,519</u>
<b>Cash and cash equivalents — Beginning of period</b>	<u>11,729</u>	<u>20,519</u>	<u>18,000</u>
<b>Cash and cash equivalents — End of period</b>	<u>\$ 15,422</u>	<u>\$ 11,729</u>	<u>\$ 20,519</u>
<b>Supplemental disclosures:</b>			
Cash paid during the period for:			
Income taxes	<u>\$ 6,032</u>	<u>\$ 1,337</u>	<u>\$ 2,027</u>
Interest	<u>\$ 18,183</u>	<u>\$ 18,640</u>	<u>\$ 18,759</u>

The accompanying notes are an integral part of these consolidated financial statements.

## **TRENCH ELECTRIC B.V. — FORM 20-F Equivalent**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(expressed in thousands of U.S. dollars unless stated otherwise)**

#### **1. FORMATION AND BASIS OF PRESENTATION**

Trench Electric B.V. (“the Company”), incorporated in the Netherlands, is a multinational manufacturing and engineering group with our major operations in Austria, Brasil, Canada, China, England, France, Germany and Switzerland. Trench Electric B.V. and its subsidiary companies (collectively “the Group”) manufacture electrical transmission and distribution equipment that transforms, regulates, conditions and measures electricity for utilities and industrial customers.

In this Form 20-F Equivalent, unless the context otherwise requires, we have used “Group”, “Trench”, “We” or “Our” to mean Trench Electric B.V. (“Trench Electric”) together with its direct or indirect subsidiaries and their predecessor companies. “Company” refers to the stand-alone Trench Electric B.V.

In 2002, after the early adoption of FAS145, “Rescission of FAS 4, 44, and 64, amendment to FAS13, and Technical Corrections, we changed our disclosure policy relating to gains or losses on extinguishment of debt. These changes resulted in an extraordinary item of \$2,170 in 2000 being reclassified to earnings from operations. This reclassification related to a gain on extinguishment of debt and the reclassification had no impact on earnings and cash flows for the period.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Principles of consolidation**

The consolidated financial statements include the accounts of Trench Electric B.V. and all of our subsidiaries (together the “Group”). All significant inter-company items are eliminated in consolidation. Entities which are not controlled but over which we have the ability to exercise significant influence are accounted for using the equity method. Businesses acquired during the financial period have been fully consolidated using the purchase method from the date the responsibility for the operations was transferred to us.

##### **Accounting estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Foreign currency**

Translation gains and losses result from the effect of exchange rate changes on transactions denominated in currencies other than the operating entities’ local currencies. Gains and losses on those transactions are included in the income statement for the period in which exchange rates change.

For operations with functional currencies other than the U.S. dollar, all assets and liabilities are translated into U.S. dollars at the exchange rates prevailing at the balance sheet date, equity at historical rates and all income and expenses are translated at the average exchange rates prevailing during the period. The resulting translation adjustments are recorded as a component of other comprehensive income (loss).

##### **Revenue recognition**

The timing of our revenue recognition for sales of electrical equipment depends on the nature of each sales contract. When sales contracts include substantive customer acceptance clauses, we recognize revenue when customers have acknowledged acceptance of the equipment. When sales contracts do not include substantive customer acceptance clauses, we recognize revenue when the terms of the contract with the customer have been substantially met (i.e. when control is transferred to the customer).

We also engage in certain bill-and-hold sales arrangements with our customers. Such arrangements are requested in writing by our customers, and include a fixed delivery date. Equipment held for customers is segregated from other inventory, cannot be used to fill other customer



orders and is complete and ready for shipment. The transfer of control and the risk of loss for such equipment pass to the customer prior to delivery. We do not retain any specific performance obligations related to this equipment such that the earnings process is not complete. We and others in our industry normally engage in this practice when certain larger installations may not be ready to accept goods as initially scheduled due to construction delays.

Shipping costs are expensed in the “cost of sales” line in the income statement.

Cash and cash equivalents

Cash and cash equivalents include bank deposits and term deposits at varying rates of interest and with original maturities less than ninety days.

Inventories

Inventories include materials, labor and an allocation of overhead. Inventories are stated at the lower of cost, determined on a first-in, first-out basis, and either replacement cost for raw materials or net realizable value for work-in-process and finished goods.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis, using the following annual rates:

Buildings	2.5% - 10%
Machinery and equipment	6.5% - 33.3%

Goodwill

Up to 2001, goodwill arising from purchase business combinations was amortized over a range of ten to forty years on a straight-line basis. The estimated useful life of goodwill varied depending on the nature of each acquisition.

Effective January 1, 2002, we have followed the requirements of FAS 142, Goodwill and Other Intangible Assets, which requires that goodwill not be amortized but tested at least annually for impairment. Please refer to note 6 for more information.

Deferred financing costs

Deferred financing costs are amortized over the expected life of the related debt on a straight-line basis and form part of total interest expense.

Impairment of long-lived assets

We regularly evaluate whether events or circumstances have occurred that indicate that the carrying amount of long-lived assets may not be recoverable. When factors indicate possible impairment, we recognize an impairment loss if the sum of the expected future undiscounted and without interest charges cash flow is less than the carrying amount of the asset. The amount of the impairment loss would be the difference between the fair value of the respective asset and our carrying amount.

We regularly evaluate the realizability of long-lived assets based on projected undiscounted cash flows and operating income. Effective January 1, 2002, we have followed the requirements of FAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Note 19).

Research and development

Research and development expenses, comprising employee costs and overheads, are charged to the statement of income as incurred. Research and development expenses for the years ended December 31, 2002, 2001 and 2000 were \$4,474, \$3,538 and \$2,807, respectively.

**Income taxes**

Income taxes have been provided using the full liability method whereby current tax liabilities or assets are recognized for the estimated taxes payable or refundable tax for the current year and deferred tax liabilities or assets are recognized for the estimated future tax effects attributable to temporary differences and carry forwards. Current and deferred tax liabilities and assets are measured based on provisions of the enacted tax laws. We record valuation allowances against deferred tax assets where we do not expect such assets to be realized.

**Financial instruments**

Our financial instruments recorded on the consolidated balance sheet include cash, accounts receivable, accounts payable, accrued liabilities and debt obligations. The book values of cash, accounts receivable and payable, advance billings, accrued liabilities, due to parent and bank indebtedness are considered to be representative of fair values because of the short-term to maturity of these instruments. The fair values of the long-term debt are based on rates available to us for debt with similar terms and maturities.

Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS 133) as amended by FAS 137 and FAS 138 and as interpreted by the Derivatives Implementation Group, was adopted by us effective as of January 1, 2001. FAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. FAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting.

Certain contracts that meet the definition of a derivative under FAS 133 may qualify as a normal purchase or a normal sale. A normal purchase or a normal sale is excluded from the scope of FAS 133. Specific criteria must be met and documented in order for a contract that would otherwise be regarded as a derivative to qualify as a normal purchase or normal sale. We have evaluated all commodity contracts to determine if they meet the definition of a derivative and qualify as a normal purchase or normal sale.

We did not designate any of our derivatives as qualifying hedge instruments under FAS 133 and accordingly recorded the cumulative effect of adopting FAS 133 at January 1, 2001. We have not subsequently designated any of our derivatives as qualifying hedge instruments under FAS 133. Gains and losses related to the fair value adjustment of all derivative instruments are classified in the consolidated statement of income under currency gains and cash flows in the net income (loss) figure in accordance with the earnings treatment of the hedged transaction.

We evaluated our contracts for “embedded” derivatives, and considered whether any embedded derivatives would have to be bifurcated, or separated, from the host contracts in accordance with FAS 133 requirements.

We occasionally enter into foreign currency forward contracts to manage foreign currency exposures related to sales to foreign customers. These contracts are designed to hedge firm commitments to pay European, Asian and North American currencies within a two-year period. The maturities of these contracts are planned to coincide with the receipts of the foreign funds. Recognition of gains and losses on the foreign exchange contracts were deferred until settlement of the particular transaction being hedged. The gains and losses on the contracts offset losses and gains of the transactions being hedged, resulting in protection from the risks of foreign exchange movements for those transactions and the avoidance of losses affecting results of operations. Gains and losses related to the derivative financial instruments for the year ended December 31, 2002 were included within the respective line items within the consolidated statement of income and cash flows to which the item being hedged relates. See Note 16 for discussion of our strategy and objectives for the use of derivative instruments.

**Concentration of credit risk**

Financial instruments that potentially subject us to credit risk are trade accounts receivable and foreign exchange contracts. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers comprising our customer base and the breakdown of the customer base among geographical areas. We are exposed to credit risk with respect to foreign exchange contracts in the event of non-performance by the counterparties to these financial instruments, which are major financial institutions. Management believes the likelihood of incurring material losses related to this credit risk is remote.

Other comprehensive income

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles in the United States of America are included in comprehensive income but are excluded from net income as these amounts are recorded directly as an adjustment to shareholder’s equity. Our other comprehensive income is comprised of foreign currency translation adjustments and minimum pension liabilities adjustments.

Prior year comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year, including the reclassification to long-term receivables of amounts previously shown as trade accounts receivable of \$784 and other current assets of \$982.

3. ACQUISITIONS

On December 12, 2002, we completed the acquisition of an additional 14.6% share in the “Trench Fushun Bushing Co. Ltd” (Fushun), previously known as Fushun Reyrolle Bushing Co. Ltd, by Trench Limited in Canada. This brings our total investment in the Fushun joint venture to 65%. The excess of the purchase price over the fair value of identifiable net assets was \$339 and represents goodwill.

Effective November 26, 2001, we completed the acquisition, which began in April 2000, of the 50.4% voting equity interests consisting of 1,699 common shares in the “Fushun Reyrolle Bushing Co. Ltd” joint venture from VA Tech. On April 21, 2001, Trench UK signed agreements with VA Tech and Fushun Electric Porcelain Works (“Fushun Electric”), pursuant to which Trench UK would acquire VA Tech’s 50.4% equity interest in Fushun Reyrolle Bushing Co. Ltd, a joint venture company organized under the laws of the People’s Republic of China and owned jointly by VA Tech and Fushun Electric, for a purchase price of approximately £1 million (\$1,454). The excess of the purchase price over the fair value of identifiable fixed assets is \$69 and represents goodwill.

Net assets acquired	Cash and cash equivalents	\$ 321
	Accounts receivable	3,362
	Inventories	1,241
	Property, plant and equipment	2,887
	Goodwill (including transaction costs of \$40)	69
	Accounts payable and other current liabilities	(3,560)
	Term loans	(1,502)
	Minority interest of JV partner	(1,364)
		<hr/>
Net assets acquired		\$ 1,454
		<hr/>
Consideration	Cash	\$ 1,454
		<hr/>

The main objective of the purchase was to expand the Trench presence in the growing Chinese market. The Fushun joint venture’s results are consolidated with our group’s results.

The following unaudited pro forma consolidated financial data has been prepared to give effect to the above-noted transaction as if it had occurred on January 1, 2000:

	2001	2000
	(Unaudited)	(Unaudited)
Sales	\$229,982	\$204,924
Operating income	18,025	14,795
Net loss for the year	(14,822)	(17,845)
Basic and diluted loss per common share in dollars	\$(370.55)	\$(446.13)

In April 2000, we acquired the assets and related technology of a manufacturer of bushings, “The Bushing Company”, a division of VATech in the UK for consideration of \$11,483. The excess of the purchase price over the fair value of the identifiable net assets was \$5,808 and represents goodwill to be amortized straight-line over 20 years. As a result of the FASB approved statement FAS No. 142 “Goodwill and Other Intangible Assets” as discussed under the heading Accounting Developments, amortization of goodwill has ceased on the first of January 2002. Please refer to note 6 for more information.

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The following unaudited pro forma consolidated financial data has been prepared to give effect to the above-noted transaction as if it had occurred on January 1, 1999:

	2000	1999
	(Unaudited)	(Unaudited)
Sales	\$205,610	\$224,589
Operating income	14,823	22,793
Net loss for the year	(18,272)	(1,721)
Basic and diluted loss per common share in dollars	\$ (456.80)	\$ (43.03)

In August 2000, we increased our shareholding in the existing Chinese joint venture, MWB Shanghai Co. Ltd. (“Trench China”), from 40% to 65%. Trench China produces instrument transformers. This purchase was recorded as a component of a step acquisition. Accordingly, the excess of the purchase price over 25% of the fair value of the identifiable net assets is \$226 and represents goodwill to be amortized straight-line over 10 years. As a result of FAS No. 142 “Goodwill and Other Intangible Assets” amortization of goodwill has ceased on the first of January 2002. Please refer to note 6 for more information.

The following unaudited pro forma consolidated financial data has been prepared to give effect to the above-noted transaction as if it had occurred on January 1, 1999:

	2000	1999
	(Unaudited)	(Unaudited)
Sales	\$213,327	\$227,650
Operating income	16,519	23,623
Net loss for the year	(17,595)	(1,973)
Basic and diluted loss per common share in dollars	\$ (439.88)	\$ (49.33)

The businesses acquired during the 2002 and 2001 financial periods have been fully consolidated using the purchase method from the dates that the responsibilities for operations were transferred to us.

The unaudited pro forma amounts for the above acquisitions do not consider synergies resulting from acquisition and do not purport to be indicative of the results of operations which actually would have resulted had the acquisitions occurred on the dates indicated, or which may result in the future.

4. INVENTORIES

Inventories by major category were as follows at:

	Dec. 31 2002	Dec. 31 2001
Raw materials	\$23,202	\$22,932
Work-in-process	11,881	11,326
Finished goods	6,696	3,874
	41,779	38,132
Less: provision	1,891	2,188
	\$39,888	\$35,944

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment was as follows at:

	Dec. 31 2002	Dec. 31 2001
Land	\$ 22,279	\$18,771
Buildings	33,547	28,822
Machinery and equipment	47,003	39,427
	102,829	87,020
Less: accumulated depreciation	31,614	21,983
	\$ 71,215	\$65,037

TRENCH ELECTRIC B.V. — FORM 20-F Equivalent

Continuity:	Dec. 31 2002
Opening net book value	\$65,037
Exchange on opening book value	8,584
Adjusted opening balance	73,621
Additions	5,190
Disposals	(851)
Depreciation	(6,990)
Exchange on depreciation, additions and disposals	245
Ending net book value	\$71,215

6. GOODWILL

Goodwill was as follows at:

	Dec. 31 2002	Dec. 31 2001
Goodwill	\$139,252	\$129,510
Less: accumulated amortization	15,342	14,128
	\$123,910	\$115,382

The addition goodwill of \$339 in 2002 arose on acquisition of an additional 14.6% share in Fushun (see note 3).

During 2001, the cost of goodwill was adjusted to reflect the final purchase price allocation in connection with the acquisition of Trench UK. In addition the cost was increased in 2001 by \$69 to reflect the acquisition of Fushun. Goodwill of Fushun was not amortized as the purchase was not completed until the period after June 30, 2001.

Continuity:	Dec. 31 2002
Opening book value	\$115,382
Exchange on opening book value	8,173
Adjusted opening balance	123,555
Additions	339
Exchange on additions and adjustments	16
Ending net book value	\$123,910

According to FAS 142, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment by applying a fair-value-based test. The statement requires a test for impairment to be performed annually, or immediately if conditions indicate that such an impairment could exist.

We adopted the statement effective January 1, 2002. As a result of adopting FAS 142 we no longer record goodwill amortization. We have completed the transitional and annual goodwill impairment tests as required under FAS 142 and no impairment was identified.

The following table provides the comparable effects of the adoption of FAS 142 for the period ended December 31, 2002, 2001 and 2000. In 2002, the reported net income figure is without any goodwill amortization, whereas in 2001 and 2000 the reported net income figure is net of goodwill amortization.

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(in thousands, except per share data)

	2002	2001	2000
Net income (loss), after goodwill amortization as presented	\$ 6,482	\$(15,227)	\$(17,918)
Add back: goodwill amortization (none in 2002)	—	3,487	3,569
Adjusted net income (loss) before goodwill amortization	\$ 6,482	\$(11,740)	\$(14,349)
Basic and diluted earnings (loss) per share:			
Income (loss) per common share before minority interest, after goodwill amortization	\$231.03	\$(350.88)	\$(441.15)
Add back: goodwill amortization	—	87.18	89.23
Adjusted income (loss) per share before minority interest	\$231.03	\$(263.70)	\$(351.92)
Net income (loss) per common share, before change in accounting principle	\$162.05	\$(380.68)	\$(447.95)
Add back: goodwill amortization	—	87.18	89.23
Adjusted net income (loss) per common share before goodwill amortization	\$162.05	\$(293.50)	\$(358.72)

7. INCOME TAXES

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Current	\$ 5,529	\$ 4,519	\$ 3,621
Deferred	1,236	(2,357)	(636)
Total provision for income taxes	\$ 6,765	\$ 2,162	\$ 2,985

Substantially all of our results of operations are generated outside of the Netherlands. Trench Electric B.V. (“TEBV”) and our parent company file a consolidated tax return in The Netherlands. Included in the tax provision is \$1,477 (2001 — \$1,432) in respect of TEBV, which has been computed as if TEBV were a separate taxpayer (the separate return method). Of the total current provision of \$5,529 (2001 — \$4,519), current income taxes in the amount of \$1,477 (2001- \$1,432) have been reflected as a component of “due to parent” on the balance sheet as TEBV’s profits are shielded by the parent company’s losses for tax purposes.

The following summarizes the recognition of income tax expense using a weighted average income tax rate (as a reference point only in that there is no single jurisdiction in which we operate that is predominant or for which there is a more appropriate rate) compared with our actual income tax expense. The weighted average rate has been determined based on the proportion of the statutory rate in each jurisdiction to the income before tax attributable to each jurisdiction.

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Tax provision at weighted average statutory rate (2002 — 26.08%, 2001 — 29.51%, 2000 — 31.10%)	\$ 4,174	\$ (3,856)	\$ (5,234)
Effects of specific rate differences from weighted average statutory rate	(670)	(625)	308
Non-deductible goodwill	—	1,503	1,631
Non taxable portion of foreign exchange gains and losses	(230)	2,648	1,989
Valuation allowance for loss carryforward	1,990	17	3,639
Other	1,501	2,475	652
Total provision for income taxes	\$ 6,765	\$ 2,162	\$ 2,985
Effective tax rate	42%	18%	20%

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The significant components of deferred income tax are as follows at:

	Dec. 31 2002	Dec. 31 2001
Current deferred income tax asset		
Warranty	\$ 362	\$ 365
Other	—	66
	362	431
Non-current deferred income tax asset		
Loss carryforwards	15,654	12,667
Pension and post-retirement benefits	2,152	2,129
Unrealized foreign exchange adjustment	—	2,648
Other	1,755	562
	19,923	18,437
Less: valuation allowance	(7,852)	(6,929)
Total deferred income tax asset	\$ 12,071	\$ 11,508
Current deferred income tax liability		
Accounts receivable	\$ (33)	\$ (72)
Warranty	(147)	(17)
Other	—	(47)
	(180)	(136)
Non-current deferred income tax liability		
Fixed assets and goodwill	(8,847)	(8,401)
Pensions and post retirement benefits	—	(343)
Other	(3,240)	(1,588)
Total deferred income tax liability	\$(12,267)	\$(10,468)
Net deferred income tax asset/(liability)	\$ (196)	\$ 1,040

The loss carry forwards relate primarily to our French, German and Swiss subsidiaries. These loss carry forwards are available to reduce taxes otherwise payable. We have net operating loss carry forwards of approximately \$45,953 (2001 — \$35,346) at December 31, 2002 which expire as follows:

2003	\$ 737
2004	1,530
2005	5,800
2006	6,773
2007	19,845
2008	1,377
2009	—
Indefinite	9,891
Total	\$45,953

FAS 109 requires that deferred income tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred income tax asset will not be realized. The net valuation allowance against the deferred income tax asset increased by \$2,943 in 2002 (2001 — increase by \$2,700). The valuation allowance recorded by us is in respect of the loss carry forwards after giving consideration to the uncertainty associated with our ability to realize the benefit of the loss carry forwards in future years.

Cumulative undistributed earnings of foreign subsidiaries approximated \$32,796 at December 31, 2002 (2001 — \$19,980). Such earnings are expected to be reinvested indefinitely. Determination of the amount of unrecognized deferred tax liability with respect to such earnings is not practicable. While there are no specific plans to remit the undistributed earnings in the immediate future, where economically appropriate to do so, such earnings may be remitted.

8. LONG-TERM DEBT AND BANK INDEBTEDNESS

Long-term debt consists of the following at:

	Dec. 31 2002	Dec. 31 2001	Currency Denomination
10 1/4% Senior subordinated notes	\$150,915	\$150,915	U.S. dollars
CIBC World Markets Plc			
Term Facility	18,537	21,121	U.S. dollars/Euros/Pounds
Other ICBC Bank Shanghai Branch	7,207	7,207	Sterling
Bank of China	1,864	1,502	Chinese renminbis
Agence Rhin Meuse	692	711	Chinese renminbis
SEC Finance Company	121	121	Euros
			Chinese renminbis
Total long-term debt	179,336	181,577	
Less: current portion of long-term debt	13,286	10,885	
Non-current portion of long-term debt	\$166,050	\$170,692	

Interest payments on the senior subordinated notes, which are repayable on December 15, 2007, are due on June 15 and December 15 of each year. The notes are redeemable at the option of the issuers, Trench Electric S.A. (Luxembourg) and Trench Inc. (Canada), in whole or in part upon the occurrence of certain events. The notes are subordinated in right of payment to existing and future senior indebtedness of the issuers and the Group, including the term facilities noted above. The notes are fully and unconditionally guaranteed by us and our subsidiaries other than our French subsidiary, Trench France S.A. its parent, Finatrench (France) S.A., the Chinese joint ventures, Valtimon Holding BV and Trench Brasil Ltda. The bond indenture includes certain covenants that, among other things, limit or otherwise affect the incurrence of additional indebtedness by us and certain of our subsidiaries; the payment of dividends and other restricted payments; transactions with affiliates; the sale or issuance of certain subsidiaries’ capital stock and preferred stock; the creation of restrictions on distributions from certain subsidiaries; asset sales; other senior subordinated indebtedness; the incurrence of liens and sale/leaseback transactions; and mergers, or consolidations.

Trench has complied with the various financial covenants in our Facilities Agreement. Having taken account of amendment letters received from our Senior Lenders, we anticipate remaining in compliance with those covenants. The amendments permitted us to take the entire gain of approximately \$5.5 million over the six quarters ending March 2002 (for covenant calculation purposes only) on the 2000 sale of certain instrument transformer and bushings technologies in connection with our Shanghai operation. This amendment was consented to on the basis that substantially all of the gain has already been realized in cash. Under U.S. GAAP the gain will be recognized over a 10-year period. Similarly, we have obtained an amendment letter from our Senior Lenders to allow us to recognize (for covenant purposes only) the \$10 million gain from the sale of certain coil technologies in 2002 in connection with our Shanghai operation on an accelerated basis to the end of December 31, 2006. Under U.S. GAAP the gain will be recognized over a 10-year period.

In addition, our Senior Lenders have agreed to increase the headroom available to us within the financial covenants for the interest coverage and the leverage ratios from 31st March 2003 to 31st December 2005. For the avoidance of doubt no changes have been made to the Net Worth covenant or the Cash Flow to Debt Service covenant.

Also, our Senior Lenders have agreed that both the cash costs and the profit and loss write-offs associated with the reorganization in Switzerland in 2000 and 2001 can be excluded from all covenant calculations as originally defined. Items associated with the reorganization in Switzerland have been subject to separate additional covenant tests.

The amendments also create additional flexibility under our capital expenditures covenant in connection with the capital expenditures in China. The original capital expenditure covenant was set prior to Trench China, in Shanghai being consolidated into the Group results.

For the year 2001 only our Senior Lenders agreed that the usage of fixed foreign exchange rates as applied in calculating the Net Worth covenant could be extended to include the interest coverage and leverage ratios. For the avoidance of doubt the affected covenants did not include the cash flow to debt service covenant , which remained unchanged.

Notwithstanding the foregoing, there can be no guarantee that we will remain in compliance with our financial covenants. Failure to



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remain in compliance, or to obtain additional amendments, would have a material adverse effect on our liquidity.

In April, 2000, our debt was refinanced by means of senior debt arranged by CIBC World Markets plc (“CIBC”). The senior facilities are collateralized by fixed and floating charges on all our assets and shares and upstream, cross and downstream guarantees.

The CIBC Term loan is denominated in U.S. dollars, Euros and British pounds and bears interest at LIBOR plus 2%. If certain financial ratios are met, the margin can be reduced to as low as 1.5%.

The loans from ICBC Bank Shanghai Branch bear interest at a rate of 5.85%.

The loans from Bank of China bear interest at a rate of 5.54 to 5.58%.

The loan from Agence Rhin Meuse bears interest at a rate of 0%.

Long-term debt is repayable as follows:

2003	\$ 13,286
2004	5,582
2005	5,621
2006	3,802
2007	151,045
thereafter	—
	<u>          </u>
	\$179,336
	<u>          </u>

In 2000, CIBC World Markets plc made available a revolving credit facility by way of cash advances at a rate of LIBOR plus 2% and letters of credit not to exceed a maximum of \$35,000. In 1999, Credit Suisse First Boston Canada had made available a revolving credit facility by way of cash advances at a rate of LIBOR plus 2% and letters of credit not to exceed a maximum of \$55,000, which was replaced by the CIBC facility. The shares of our operating companies, with the exception of Austria, Brasil and the Chinese joint ventures, have been pledged as collateral for the Term Loan and the revolving credit facility. A non-utilization fee of 0.75% per annum (2001 — 0.75%) on the daily unused facility is payable.

As at December 31, 2002, \$5,808 (2001 — \$10,699) had been drawn against this facility and is recorded as bank indebtedness on the balance sheet. The average weighted interest rate on bank indebtedness was 4.9% at December 31, 2002 (2001 — 6.2%).

9. ACCRUED LIABILITIES AND OTHER LIABILITIES

Accrued liabilities and other liabilities were as follows at:

	Dec. 31 2002	Dec. 31 2001
Accrued payroll costs	\$ 5,285	\$ 3,865
Accrued employee benefits	3,543	3,359
Deferred income	1,851	269
Warranty (note 22)	2,729	2,027
Accrued interest	1,290	767
Reorganization accrual in Trench Switzerland	—	565
Head office cost accruals	3,462	2,254
Accrued commissions	3,287	1,404
Payments received on account	467	609
Other liabilities	3,688	6,347
	<u>          </u>	<u>          </u>
	\$25,602	\$21,466
	<u>          </u>	<u>          </u>

10. PENSION ASSETS AND LIABILITIES

Certain subsidiaries sponsor, for substantially all employees, defined benefit pension plans. The assets for some of these plans are kept externally, however, in Germany, no independent assets exist for the pension obligations. Where plan assets exist, these have been measured at market value. The benefits under these plans are based primarily on years of service and either final average salary or fixed amounts for each year of service. Plan assets consist principally of publicly traded equity and fixed-income securities.

The funded status of our defined benefit pension plans was as follows at :

	Dec. 31 2002	Dec. 31 2001
<b>Change in benefit obligation</b>		
Benefit obligation — Beginning of year	\$ 32,531	\$ 32,487
Service costs	964	970
Interest costs	2,207	2,096
Settlements	—	(1,242)
Net actuarial loss (gain)	(809)	778
Employee contributions	—	—
Benefits paid	(1,052)	(1,115)
Exchange effect	1,951	(1,443)
<b>Benefit obligation — End of year</b>	<b>\$ 35,792</b>	<b>\$ 32,531</b>
<b>Change in plan assets</b>		
Fair value of plan assets — Beginning of year	\$ 21,056	\$ 23,321
Actual return on plan assets	(2,167)	(281)
Employer contribution	234	919
Employee contribution	476	484
Benefits paid	(611)	(2,040)
Exchange effect	326	(1,347)
<b>Fair value of plan assets — End of year</b>	<b>\$ 19,314</b>	<b>\$ 21,056</b>
Funded status	\$(16,478)	\$(11,475)
Unrecognized actuarial loss	6,790	3,865
Unrecognized prior service cost	118	152
<b>Net amount recognized</b>	<b>\$ (9,570)</b>	<b>\$ (7,458)</b>
Amounts recognized in the consolidated balance sheet consists of:		
Prepaid benefits cost	\$ 252	\$ 1,006
Accrued benefits liability	(9,822)	(9,229)
Minimum pension liability adjustment	(1,050)	—
Accumulated other comprehensive income	1,050	765
<b>Net amount recognized</b>	<b>\$ (9,570)</b>	<b>\$ (7,458)</b>

The projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were \$44,522 and \$30,293, respectively, as at December 31, 2002 (2001 — \$31,531 and \$19,857, respectively). The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$6,757, \$6,744 and \$1,573 as at December 31, 2002 (2001 — \$9,377, \$9,377 and \$nil respectively).

Assumptions used to develop the net periodic benefits cost for the defined benefit plans were as follows for the years ended:

	Dec. 31 2002	Dec. 31 2001	Dec. 31 2000
Discount rate	6.4%	6.6%	7.0%
Expected return on plan assets	7.5%	8.5%	8.3%
Rate of compensation increase	3.2%	3.9%	4.3%

Prior service costs are amortized over the estimated average remaining service lives of employees.

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The components of net periodic benefits cost for the defined benefit plans were as follows for the years ended:

	Dec. 31 2002	Dec. 31 2001	Dec. 31 2000
Components of net periodic benefits cost Service cost	\$ 964	\$ 970	\$ 1,041
Interest cost	2,207	2,091	2,091
Expected return on plan assets	(1,606)	(1,852)	(1,823)
Recognized actuarial loss	207	7	94
Amortization of prior service cost	10	—	(60)
Net periodic benefits cost	\$ 1,782	\$ 1,216	\$ 1,343

In addition, we sponsor defined contribution pension plans covering substantially all of the employees of the Swiss subsidiary and French subsidiary. Contributions are determined by matching a percentage of employee contributions. The pension expense for these defined contribution plans for the years ended December 31, 2002, 2001 and 2000 were \$859, \$970 and \$679, respectively.

11. POST-RETIREMENT LIABILITIES

Our Canadian subsidiary provides health care and life insurance benefits to their eligible retired employees, with some of these retirees paying a portion of the related costs. The funded status of the plan was as follows at

	Dec. 31 2002	Dec. 31 2001
<b>Change in benefit obligation</b>		
Benefit obligation — Beginning of year	\$ 2,278	\$ 2,177
Service costs	116	95
Interest costs	182	159
Actuarial loss	278	—
Benefits paid	(19)	(19)
Exchange effect	36	(134)
<b>Benefit obligation — End of year</b>	<b>\$ 2,871</b>	<b>\$ 2,278</b>
Funded status	\$ (2,871)	\$ (2,278)
Unrecognized actuarial loss	330	—
<b>Net amount recognized in the consolidated balance sheet</b>	<b>\$ (2,541)</b>	<b>\$ (2,278)</b>

All of our post-retirement plans have a projected benefit obligation in excess of plan assets.

Assumptions used to develop the net periodic benefits cost for the post-retirement plans were as follows for the years ended:

	2002	2001	2000
Discount rate	6.8%	7.3%	7.3%
Rate of compensation increase	4.3%	4.8%	4.8%
Medical — initial	8.0%	3.2%	4.8%
Medical — ultimate	5.0%	3.2%	3.8%
Years to ultimate	6 yr	0 yr	1 yr
Dental	4.0%	3.3%	3.8%
<b>Sensitivities</b>			
Effect of 1% increase in trend rate			
— Service cost and interest cost	\$ 50	\$ 75	\$ 71
— Accrued post-retirement benefit obligation	402	562	528
Effect of 1% decrease in trend rate			
— Service cost and interest cost	(47)	(67)	(64)
— Accrued post-retirement benefit obligation	(352)	(454)	(426)

The medical and dental assumptions and sensitivities are applicable only to the Canadian obligation.

	Dec. 31 2002	Dec. 31 2001	Dec. 31 2000
<b>Components of net periodic benefits cost</b>			
Service cost	\$ 116	\$ 95	\$ 95
Interest cost	182	159	150
Recognized actuarial cost	4	—	—
Net periodic benefits cost	\$ 302	\$ 254	\$ 245

In addition to the above, our Austrian subsidiary provides severance benefits and jubilee payments to eligible employees. The accrued liability in respect of these benefits was \$3,174 as at December 31, 2002 (2001 — \$2,449). The charge to income for 2002 was \$325 (2001 — \$472, 2000 — \$281).

12. COMMITMENTS AND CONTINGENCIES

Operating leases

We are committed under various operating leases for buildings, machinery and equipment. The minimum annual payments under these contracts are approximately as follows:

2003	\$ 2,168
2004	2,112
2005	2,029
2006	1,843
2007	1,829
2008	1,784
2009 and beyond	12,545
	\$24,310

Operating lease expense for the years ended December 31, 2002, 2001 and 2000 were \$2,185, \$1,755 and \$2,837, respectively. Included in the item “2009 and beyond” is a 12-year land lease commitment for Fushun and a 17.5-year land and building lease commitment for Trench China in Shanghai.

Capital leases

We are committed under various capital leases for plant and equipment. In 2002, the portion of the machinery and equipment financed by capital leases is cost of \$1,523 (2001 — \$1,301), accumulated depreciation of \$694 (2001 — \$166) and a net book value of \$829 (2001 — \$1,135). The minimum annual payments under capital leases are approximately as follows:

2003	\$ 613
2004	131
	744
Imputed interest	68
	\$ 676

Litigation

In the ordinary course of business, we are the subject of or party to pending or threatened litigation and claims. While it is not possible to predict with certainty the outcome of such matters individually or in the aggregate, management believes that the ultimate results will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Environmental matters

Our facilities are subject to a range of federal, state, local and foreign environmental and occupational health and safety laws, including those laws relating to air emissions, wastewater discharges, the handling and disposal of solid and hazardous waste and the remediation of contamination associated with the current and historic use of hazardous substances or materials. If a release of hazardous substances or materials occurs on or from our properties or any off-site disposal location used by us, or if contamination from prior activities is discovered at any of its properties, we may be held liable for the costs of remediation, natural resource damages and associated transaction costs. While the amount of such liability could be material, we devote resources to ensure that our current operations are conducted in a manner that reduces such risks.

We believe that we are currently in compliance with, and not subject to liability under, any environmental laws, except where such non-compliance or liability would not reasonably be expected to have a material adverse effect on our consolidated financial position or results of operations.

13. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities at December 31, 2002 and 2001 include the non-current portion of proceeds received from the joint venture partner, SITW, in Shanghai, China relating to sale of coil, bushing and instrument transformer technology. The amount is net of certain expenses and is being recognized into income on a straight-line basis over a ten-year period.

14. OTHER MATTERS

Restructuring and Integration Provisions

On January 24, 2001, our Board of Management approved and announced the closure of all main production operations for Trench Switzerland. Closure procedures were completely finished by the end of 2001. The Swiss site continues to be our main centre of engineering for instrument transformers and is the base for R&D activities in new designs and measurement technologies.

At December 31, 2001, \$1,317 of the liability had been paid out. The cash paid for integration costs in 2001 was \$3,356 (2000 — \$373). In 2002, we wrote off \$99 in inventory. Refer to Note 20 for 2003 developments.

Sale of AVC Product Line

Trench Limited completed the sale of its Adaptive VAR Compensative Product Line to the S&C Electric Company for \$850 on June 12, 2002.

15. CHANGES IN NON-CASH WORKING CAPITAL AND OTHER NON-CASH ITEMS

Changes in non-cash working capital are as follows:

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
Decrease/(increase) in trade accounts receivable, prepayments and other current assets	\$ 3,415	\$ (6,337)	\$ (1,359)
Decrease (increase) in inventories	(353)	253	(5,398)
(Decrease) Increase in accounts payable, accrued liabilities and advance billings	(5,598)	1,728	5,590
Increase in income tax payable	382	1,114	1,589
Increase in due to parent	1,782	1,309	1,237
(Decrease) increase in restructuring provision	—	—	(1,364)
Decrease (increase) in pension assets	769	170	(28)
Increase in pension and post-retirement benefits	898	78	422
Decrease in deferred income tax	(971)	(2,350)	(517)
Increase in other liabilities	—	—	3,729
	\$ 324	\$ (4,035)	\$ 3,901

16. FINANCIAL INSTRUMENTS

During the normal course of business, we are exposed to foreign currency risk. These risks create volatility in earnings and cash flows from period to period. We occasionally make use of derivative instruments to eliminate or limit these risks. Our objective is to reduce the volatility of earnings and cash flows associated with market risks. Derivative instruments held by us are used for hedging and non-speculative purposes.

We have recognized obligations denominated in foreign currencies. We seek to hedge a portion of the foreign currency risk arising from foreign currency-denominated forecasted transactions and certain significant recognized assets and liabilities. Forwards are used to fix or protect the exchange rate to be used for designated foreign currency-denominated forecasted transactions. The gains and losses on the derivative contracts offset, to a certain extent, the gains and losses on the transactions being hedged resulting in the avoidance, to a certain extent, of losses affecting our results of operations.

At December 31, 2002 and 2001, we were committed to sell foreign currencies for proceeds of \$256 and \$945, respectively. The contracts have varying maturities with none extending beyond 2003. Gains upon fair-valuing the foreign currency exchange contracts that amounted to \$45 for the year ended 2002 were recorded in current earnings. The fair values are based on dealer quotes at the respective reporting dates. We did not designate any of our derivatives as qualifying hedge instruments under FAS 133. The cumulative effect of adopting FAS 133 at January 1, 2001, representing the initial revaluation of derivatives as an after tax charge, would have been \$56 in net income as a cumulative-effect-type adjustment.

The carrying amounts and fair values of our significant financial instruments were as follows at December 31, 2002 and 2001:

	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$ 15,422	\$ 15,422	\$ 11,729	\$ 11,729
Trade receivables, prepayments and other current assets	72,427	72,427	69,021	69,021
Bank indebtedness	5,808	5,808	10,699	10,699
Accounts payable, accrued liabilities, advance billings, income tax payable and due to parent	68,449	68,449	65,398	65,398
Long-term debt (including current portion)	179,336	141,607	181,577	134,793
Foreign currency forward contracts	45	45	41	41

Valuation of Derivative Instruments

The fair value of derivative instruments is sensitive to movements in the underlying market rates and variables. We monitor the fair value of derivative instruments on a periodic basis. Foreign currency and commodity forwards are valued using forward rates observed from quoted prices in the relevant markets when possible. We assume parties to long-term contracts are economically rational and will immediately exercise early termination rights if economically beneficial when such rights exist in the contract.

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## 17. SEGMENTED INFORMATION

We operate in one industry segment that designs and manufactures electrical transmission and distribution equipment that transforms, regulates, conditions and measures electricity for utility and industrial customers. Sales, operating income, total assets, purchase of property, plant and equipment, depreciation and goodwill amortization and sales by customer location pertaining to the geographic areas in which we operate are presented below. Product transfers between geographic areas are accounted for based on the estimated fair market value of the products.

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
<b>Sales by origin</b>			
American operations	\$106,085	\$102,303	\$ 98,017
European operations	143,864	130,140	117,796
International operations	40,963	25,281	7,301
Intersegment elimination	(35,026)	(33,468)	(22,300)
	<u>\$255,886</u>	<u>\$224,256</u>	<u>\$200,814</u>
<b>Operating income</b>			
American operations	\$ 17,475	\$ 15,588	\$ 14,001
European operations	7,680	(2,628)	(443)
International operations	8,196	4,187	1,005
	<u>\$ 33,351</u>	<u>\$ 17,147</u>	<u>\$ 14,563</u>
<b>Purchase of property, plant and equipment</b>			
American operations	\$ 1,429	\$ 867	\$ 1,603
European operations	2,098	3,520	2,041
International operations	1,663	3,338	72
	<u>\$ 5,190</u>	<u>\$ 7,725</u>	<u>\$ 3,716</u>
<b>Depreciation and goodwill amortization</b>			
American operations	\$ 1,103	\$ 3,205	\$ 3,310
European operations	4,615	6,273	8,474
International operations	1,272	934	345
	<u>\$ 6,990</u>	<u>\$ 10,412</u>	<u>\$ 12,129</u>
<b>Sales by customer location</b>			
Americas	\$ 94,722	\$ 92,604	\$ 88,119
Europe	88,039	86,072	79,660
Asia	61,088	38,928	23,444
Other	12,037	6,652	9,591
	<u>\$255,886</u>	<u>\$224,256</u>	<u>\$200,814</u>
	<u>Dec. 31 2002</u>	<u>Dec. 31 2001</u>	
<b>Total assets</b>			
American operations	\$119,492	\$116,238	
European operations	177,105	158,263	
International operations	49,123	42,536	
	<u>\$345,720</u>	<u>\$317,037</u>	

## 18. RELATED PARTY TRANSACTIONS

During the year, we paid \$0.6 million (2001 — \$0.6 million, 2000 — \$0.4 million) in monitoring fees to CVC Capital Partners Limited (“CVC”). The principal shareholders of the parent company are four entities, which are managed or advised by CVC.

## 19. NEW ACCOUNTING STANDARDS

In July 2001, FAS 143, "Accounting for Asset Retirement Obligations," was issued. This requires recording the fair value of a liability for an asset retirement obligation in the period incurred. The amount recorded as a liability is capitalized by increasing the carrying amount of the related long-lived asset, which is then depreciated over its useful life. If the liability is settled for an amount other than the recorded balance, either a gain or loss will be recognized at settlement. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application permitted. We are presently evaluating the impact of this standard on our financial position and results of operations but we

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do not expect the adoption of FAS 143 to have a material impact on our operating results or financial position.

In April 2002, FAS 145, “Rescission of FAS 4, 44 and 64, Amendment to FAS 13, and Technical Corrections,” was issued. This standard updates, clarifies and simplifies existing accounting pronouncements. It rescinds FAS 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related taxes. Upon adoption, the criteria in APB 30 will be used to classify such gains and losses. Gains or losses on extinguishments of debt that were classified as extraordinary in prior periods presented that do not meet APB 30 criteria for classification as extraordinary must be reclassified into earnings from operations. FAS 145 also rescinds FAS 64, which amended FAS 4 and FAS 44, which established accounting requirements for the transition of the Motor Carrier Act of 1980. FAS 145 amends FAS 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. We have early adopted this new standard. We believe that this standard does not have a material impact on our financial position and results of operations.

In July 2002, FAS 146, “Accounting for Costs Associated with Exit or Disposal Activities” was issued. This addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and that an entity’s commitment to a plan, by itself, does not create a present obligation to others. We must adopt this standard for exit or disposal activities that are initiated after December 31, 2002. We do not expect the adoption of FAS 146 to have a material impact on our operating results or financial position.

In November 2002, FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” The Interpretation expands on the accounting guidance of Statements No. 5, 57, and 107 and incorporates without change the provisions of FASB Interpretation No. 34, which is being superseded. The Interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor’s fiscal year-end. The disclosure requirements in the Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002 and we have complied with the disclosure requirements. We do not expect the future adoption of other parts of this standard to have a material impact on our operating results or financial position.

In December 2002, FASB issued Statement 148, “Accounting for Stock-Based Compensation — Transition and Disclosure.” This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. Under the provisions of Statement 123 that remain unaffected by Statement 148, companies may either recognize expenses on a fair value based method in the income statement or disclose the pro forma effects of that method in the footnotes to the financial statements. We are still assessing this new standard but do not believe that it will have a material effect on our results of operation or financial condition upon adoption.

In January 2003, FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. Many variable interest entities have commonly been referred to as special-purpose entities or off-balance sheet structures, but the guidance applies to a larger population of entities. The interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in research and development or other activities on behalf of another company. Some disclosures apply to financial



statements issued after January 31, 2003. We have assessed this new standard and do not believe that it has a material effect on our results of operations or financial condition.

20. SUBSEQUENT EVENT

On January 13, 2003, we announced a restructuring plan for Trench Suisse-France (TSF). This restructuring plan aims to improve the long-term competitiveness of TSF in the market. The restructuring includes the termination of 34 jobs in the administrative area and in the production area the number of temporary jobs will be reduced. The estimated costs associated with this restructuring is approximately \$1 million, which will be accounted for under FAS 146.

21. SHARE OPTIONS

During the year ended December 31, 2000, Trench Electric Holdings B.V., the parent company of Trench Electric B.V., approved a new share option scheme, which included in its terms the ability to grant share options to certain employees of Trench Electric B.V. The share options granted under this scheme may only be exercised within a 10 day period preceding the sale or flotation of the Group. These options do not have an expiry date but may not be exercised unless sale or flotation occurs. No compensation cost has been recognized for this scheme for the year ended December 31, 2002 (2001 — nil and 2000 — nil) as it was not considered probable that the future performance criteria would be met as of December 31, 2002. This result is not necessarily indicative of compensation that may be recognized in future years in respect of these options.

Share option activity for the three years ended December was as follows:

	Number of Shares Under Option	Weighted- Average Exercise Price
Outstanding at December 31, 1999	968	\$4.08
Granted	2,558	\$4.08
Forfeited	(128)	\$4.08
Outstanding at December 31, 2000	3,398	\$4.08
Granted	—	\$4.08
Forfeited	—	\$4.08
Outstanding at December 31, 2001	3,398	\$4.08
Granted	—	\$4.08
Forfeited	—	\$4.08
Outstanding at December 31, 2002	3,398	\$4.08
Exercisable at December 31, 1999	—	—
Exercisable at December 31, 2000	—	—
Exercisable at December 31, 2001	—	—
Exercisable at December 31, 2002	—	—

22. GUARANTEES

We extend a variety of financial and product warranty guarantees to third parties. As of December 31, 2002 the following were outstanding:

In 000's U.S. Dollars	Maximum Potential Payment	Carrying Amount of Liability
Financial guarantees:		
CIBC letters of credit and guarantees	\$13,879	\$ —
Other letters of credit and guarantees	2,287	—
	\$16,166	\$ —

We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued.

We provide service and warranty policies on our products and extend performance and operating cost guarantees beyond normal service and warranty policies on some of our products. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Liability for performance and operating cost guarantees is based upon future product performance and durability, and is estimated largely based upon historical experience. Adjustments are made to accruals as claim data and historical experience warrant. In addition, we may incur discretionary costs to service our products in connection with product performance issues.

The changes in the carrying amount of service and product warranties and product performance guarantees for the year ended December 31, 2002 are as follows:

In 000's U.S. Dollars	Dec. 31 2002
Balance as of January 1, 2002	\$2,027
Warranties and guarantees issued	1,267
Settlements made	(736)
Adjustments to provision	10
Exchange	161
Balance as of December 31, 2002	\$2,729

Certain companies at the TEBV level or below are cross guaranteeing the loans at the TEHBV parent level, namely the vendor loan to BBA and certain shareholder loans by the four CVC entities.

23. SUPPLEMENTAL GUARANTOR INFORMATION

Trench Electric S.A. and Trench Inc., two wholly owned subsidiaries, issued senior subordinated notes in the amount of \$160,000, which are fully and unconditionally guaranteed on an unsecured, senior subordinated joint and several basis by the Group and each of our material members, other than Trench France S.A., Finatrench (France) S.A., Valtimon Holding BV, the Chinese joint ventures and Trench Brasil Ltda. The following combining financial data illustrates the composition of the guarantor members and the non-guarantor members. Separate complete financial statements of the respective guarantors would not provide additional information which would be useful in assessing the financial composition of the guarantor members and thus are not presented.

The eliminations in the combining balance sheet include the elimination of Finatrench (France) S.A.'s investment in its subsidiary companies, Trench Germany GmbH, a guarantor, and Trench France S.A., a non-guarantor. The eliminations are incorporated in the combining statement of shareholder's equity to arrive at the ending balances.

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SUPPLEMENTAL COMBINING BALANCE SHEETS

As at December 31, 2002  
(expressed in thousands of U.S. dollars)

	Guarantor Members	Non- Guarantor Members	Eliminations	Combined
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 9,091	\$ 6,331	\$ —	\$ 15,422
Trade accounts receivable	38,102	33,154	(3,990)	67,266
Inventories, net	17,854	22,034	—	39,888
Prepayments	450	193	—	643
Deferred income tax	—	416	(54)	362
Income tax receivable	—	22	(22)	—
Other current assets	2,778	1,740	—	4,518
<b>Total current assets</b>	<b>68,275</b>	<b>63,890</b>	<b>(4,066)</b>	<b>128,099</b>
Property, plant and equipment	48,890	22,325	—	71,215
Goodwill	123,030	9,882	(9,002)	123,910
Prepaid pension	252	—	—	252
Deferred financing costs	4,199	521	—	4,720
Deferred income tax	3,970	7,739	—	11,709
Investment in subsidiaries	29,015	41,139	(70,154)	—
Long-term receivables	5,735	—	—	5,735
Other assets	80	—	—	80
<b>Total assets</b>	<b>\$283,446</b>	<b>\$145,496</b>	<b>\$(83,222)</b>	<b>\$345,720</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank indebtedness	\$ 4,767	\$ 1,041	\$ —	\$ 5,808
Trade accounts payable	13,626	17,719	(3,990)	27,355
Accrued liabilities	13,327	12,275	—	25,602
Advance billings	1,955	4,127	—	6,082
Due to parent	6,103	—	—	6,103
Income tax payable	3,316	13	(22)	3,307
Deferred income tax	180	—	—	180
Current portion of obligation under capital lease	50	507	—	557
Current portion of long-term debt	3,167	10,119	—	13,286
<b>Total current liabilities</b>	<b>46,491</b>	<b>45,801</b>	<b>(4,012)</b>	<b>88,280</b>
Group loans	(38,753)	38,753	—	—
Current portion of obligation under capital lease	3	116	—	119
Long-term debt	160,909	5,141	—	166,050
Pension and post-retirement benefits	16,587	—	—	16,587
Deferred income tax	5,465	6,676	(54)	12,087
Other liabilities	12,090	—	—	12,090
<b>Total liabilities</b>	<b>202,792</b>	<b>96,487</b>	<b>(4,066)</b>	<b>295,213</b>
<b>Minority interest</b>	<b>8,698</b>	<b>—</b>	<b>—</b>	<b>8,698</b>
<b>Contingencies and commitments</b>				
<b>SHAREHOLDER’S EQUITY</b>				
Share capital	(4,574)	34,638	(30,044)	20
Additional paid in capital	75,693	388	(387)	75,694
Accumulated other comprehensive income (expense)	(3,652)	730	—	(2,922)
Accumulated (deficit) earnings	4,489	13,253	(48,725)	(30,983)
<b>Total shareholder’s equity</b>	<b>71,956</b>	<b>49,009</b>	<b>(79,156)</b>	<b>41,809</b>
<b>Total liabilities and shareholder’s equity</b>	<b>\$283,446</b>	<b>\$145,496</b>	<b>\$(83,222)</b>	<b>\$345,720</b>

TRENCH ELECTRIC B.V. — FORM 20-F Equivalent

SUPPLEMENTAL COMBINING BALANCE SHEETS

As at December 31, 2001  
(expressed in thousands of U.S. dollars)

	Guarantor Members	Non- Guarantor Members	Eliminations	Combined
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 4,925	\$ 6,804	\$ —	\$ 11,729
Trade accounts receivable	40,676	30,919	(7,195)	64,400
Inventories, net	17,222	18,722	—	35,944
Prepayments	317	116	—	433
Deferred income tax	340	91	—	431
Other current assets	1,957	2,231	—	4,188
<b>Total current assets</b>	<b>65,437</b>	<b>58,883</b>	<b>(7,195)</b>	<b>117,125</b>
Property, plant and equipment	42,939	22,098	—	65,037
Goodwill	115,382	8,454	(8,454)	115,382
Prepaid pension	1,006	—	—	1,006
Deferred financing costs	5,023	552	—	5,575
Deferred income tax	6,536	4,541	—	11,077
Investment in subsidiaries	32,298	41,139	(73,437)	—
Long-term receivables	1,766	—	—	1,766
Other assets	69	—	—	69
<b>Total assets</b>	<b>\$270,456</b>	<b>\$135,667</b>	<b>\$(89,086)</b>	<b>\$317,037</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank indebtedness	\$ 9,808	\$ 891	\$ —	\$ 10,699
Trade accounts payable	19,625	20,708	(7,195)	33,138
Accrued liabilities	7,874	12,770	822	21,466
Advance billings	892	1,679	—	2,571
Due to parent	3,696	—	—	3,696
Income tax payable	3,473	1,054	—	4,527
Deferred income tax	136	—	—	136
Current portion of obligation under capital lease	74	429	—	503
Current portion of long-term debt	2,543	8,342	—	10,885
<b>Total current liabilities</b>	<b>48,121</b>	<b>45,873</b>	<b>(6,373)</b>	<b>87,621</b>
Group loans	(26,746)	26,746	—	—
Current portion of obligation under capital lease	44	533	—	577
Long-term debt	164,001	6,691	—	170,692
Pension and post-retirement benefits	13,956	—	—	13,956
Deferred income tax	6,477	3,855	—	10,332
Other liabilities	3,509	—	—	3,509
<b>Total liabilities</b>	<b>209,362</b>	<b>83,698</b>	<b>(6,373)</b>	<b>286,687</b>
<b>Minority interest</b>	<b>6,933</b>	<b>—</b>	<b>—</b>	<b>6,933</b>
<b>Contingencies and commitments</b>				
<b>SHAREHOLDER’S EQUITY</b>				
Share capital	(1,878)	33,657	(31,759)	20
Additional paid in capital	75,694	388	(388)	75,694
Accumulated other comprehensive income (expense)	(18,958)	3,432	—	(15,526)
Accumulated (deficit) earnings	(697)	14,492	(50,566)	(36,771)
<b>Total shareholder’s equity</b>	<b>54,161</b>	<b>51,969</b>	<b>(82,713)</b>	<b>23,417</b>
<b>Total liabilities and shareholder’s equity</b>	<b>\$270,456</b>	<b>\$135,667</b>	<b>\$(89,086)</b>	<b>\$317,037</b>

SUPPLEMENTAL COMBINING STATEMENTS OF INCOME (LOSS) AND  
COMPREHENSIVE INCOME (LOSS)  
For the year ended December 31, 2002  
(expressed in thousands of U.S. dollars)

	Guarantor members	Non- guarantor Members	Eliminations	Combined
Sales	\$185,839	\$80,127	\$(10,080)	\$255,886
Cost of sales	128,455	59,822	(10,080)	178,197
Gross profit	57,384	20,305	—	77,689
Selling, general and administrative expenses	29,641	15,452	—	45,093
Gain on sale of assets	(755)	—	—	(755)
Operating income	28,498	4,853	—	33,351
Foreign exchange losses (gains)	(2,763)	470	—	(2,293)
Interest expense and other	16,104	3,534	—	19,638
Income before income taxes, and minority interest	15,157	849	—	16,006
Provision for income taxes	6,286	479	—	6,765
Income before minority interest	8,871	370	—	9,241
Minority interests	2,759	—	—	2,759
Net income for the year	6,112	370	—	6,482
Minimum pension liability adjustment	(285)	—	—	(285)
Foreign currency translation adjustment	10,190	2,699	—	12,889
Comprehensive income for the year	\$ 16,017	\$ 3,069	\$ —	\$ 19,086

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**SUPPLEMENTAL COMBINING STATEMENTS OF INCOME (LOSS) AND  
COMPREHENSIVE INCOME (LOSS)**

**For the year ended December 31, 2001  
(expressed in thousands of U.S. dollars)**

	<b>Guarantor members</b>	<b>Non- guarantor Members</b>	<b>Eliminations</b>	<b>Combined</b>
Sales	\$171,299	\$59,972	\$(7,015)	\$224,256
Cost of sales	119,353	48,443	(7,015)	160,781
Gross profit	51,946	11,529	—	63,475
Selling, general and administrative expenses	34,187	12,141	—	46,328
Operating income (loss)	17,759	(612)	—	17,147
Foreign exchange losses (gains)	9,235	(133)	—	9,102
Interest expense and other	16,409	3,509	—	19,918
(Loss) income before income taxes, extraordinary gain and minority interest	(7,885)	(3,988)	—	(11,873)
Provision for income taxes	2,900	(738)	—	2,162
(Loss) income before minority interest	(10,785)	(3,250)	—	(14,035)
Minority interests	1,192	—	—	1,192
Net (loss) income for the year	(11,977)	(3,250)	—	(15,227)
Minimum pension liability adjustment	114	—	—	114
Foreign currency translation adjustment	(1,072)	458	—	(614)
Comprehensive (loss) income for the year	\$ (12,935)	\$ (2,792)	\$ —	\$ (15,727)

**For the year ended December 31, 2000  
(expressed in thousands of U.S. dollars)**

	<b>Guarantor members</b>	<b>Non- guarantor Members</b>	<b>Eliminations</b>	<b>Combined</b>
Sales	\$167,460	\$38,633	\$(5,279)	\$200,814
Cost of sales	117,468	29,039	(5,279)	141,228
Gross profit	49,992	9,594	—	59,586
Contract termination	644	—	—	644
Selling, general and administrative expenses	35,982	8,397	—	44,379
Operating income	13,366	1,197	—	14,563
Gain on extinguishment of debt	(2,170)	—	—	(2,170)
Foreign exchange losses (gains)	7,525	140	—	7,665
Interest expense and other	20,252	3,477	—	23,729
(Loss) income before income taxes, extraordinary gain and minority interest	(12,241)	(2,420)	—	(14,661)
Provision for income taxes	1,880	1,105	—	2,985
(Loss) income before extraordinary gain and minority interest	(14,121)	(3,525)	—	(17,646)
Minority interests	272	—	—	272
Net (loss) income for the year	(14,393)	(3,525)	—	(17,918)
Minimum pension liability adjustment	(912)	—	—	(912)
Foreign currency translation adjustment	90	(3,163)	—	(3,073)
Comprehensive (loss) income for the year	\$ (15,215)	\$ (6,688)	\$ —	\$ (21,903)

SUPPLEMENTAL COMBINING STATEMENTS OF SHAREHOLDER’S EQUITY

(expressed in thousands of U.S. dollars)

	Guarantor members			Non-Guarantor members			Combined		
	Capital employed	Minimum pension and cumulative translation adjustment	Total	Capital employed	Minimum pension and cumulative translation adjustment	Total	Capital employed	Minimum pension and cumulative translation adjustment	Total
Balance — December 31, 1999	\$ 72,439	\$(12,945)	\$ 59,494	\$ (351)	\$ 1,904	\$ 1,553	\$ 72,088	\$(11,041)	\$ 61,047
Net (loss) income for the year	(14,996)	—	(14,996)	(2,922)	—	(2,922)	(17,918)	—	(17,918)
Minimum pension liability adjustment	—	(912)	(912)	—	—	—	—	(912)	(912)
Foreign currency cumulative translation adjustment	—	90	90	—	(3,163)	(3,163)	—	(3,073)	(3,073)
Balance — December 31, 2000	\$ 57,443	\$(13,767)	\$ 43,676	\$(3,273)	\$(1,259)	\$(4,532)	\$ 54,170	\$(15,026)	\$ 39,144
Net (loss) income for the year	(12,342)	—	(12,342)	(2,885)	—	(2,885)	(15,227)	—	(15,227)
Dividends received/(paid)	(2,955)	—	(2,955)	2,955	—	2,955	—	—	—
Minimum pension liability adjustment	—	114	114	—	—	—	—	114	114
Foreign currency cumulative translation adjustment	—	(1,072)	(1,072)	—	458	458	—	(614)	(614)
Balance — December 31, 2001	\$ 42,146	\$(14,725)	\$ 27,421	\$(3,203)	\$ (801)	\$(4,004)	\$ 38,943	\$(15,526)	\$ 23,417
Net (loss) income for the year	6,112	—	6,112	370	—	370	6,482	—	6,482
Dividends received/(paid)	100	—	100	(794)	—	(794)	(694)	—	(694)
Minimum pension liability adjustment	—	(285)	(285)	—	—	—	—	(285)	(285)
Foreign currency cumulative translation adjustment	—	10,190	10,190	—	2,699	2,699	—	12,889	12,889
Balance — December 31, 2002	\$ 48,358	\$ (4,820)	\$ 43,538	\$(3,627)	\$ 1,898	\$(1,729)	\$ 44,731	\$ (2,922)	\$ 41,809

SUPPLEMENTAL COMBINING STATEMENTS OF CASH FLOWS

For the year ended December 31, 2002  
(expressed in thousands of U.S. dollars)

	Guarantor Members	Non- guarantor Members	Combined
Cash provided by (used in)			
OPERATING ACTIVITIES			
Net (loss) income for the year	\$ 6,112	\$ 370	\$ 6,482
Adjustments to reconcile net income to net cash provided by operating activities			
Minority interest	2,759	—	2,759
Depreciation of property, plant and equipment	3,960	3,030	6,990
Amortization of goodwill	—	—	—
Loss on sale of assets	218	45	263
Gain on sale of assets	(781)	—	(781)
Amortization of deferred financing costs and other non-cash interest	1,342	113	1,455
Unrealized exchange gain on long-term debt and bank indebtedness	(3,665)	—	(3,665)
Changes in non-cash working capital and other non-cash items	5,603	(5,279)	324
	15,548	(1,721)	13,827
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	(1,933)	981	(952)
Purchases of property, plant and equipment	(3,061)	(2,129)	(5,190)
Proceeds on sale of assets	850	1	851
Proceeds on sale of technology	5,000	—	5,000
	856	(1,147)	(291)
FINANCING ACTIVITIES			
Net payments on revolving credit facility with CIBC — net	(5,712)	(128)	(5,840)
Proceeds from short-term debt	—	362	362
Payments on long-term debt	(2,811)	(958)	(3,769)
Payments on capital leases	(72)	(460)	(532)
Increase/(decrease) in debt payable to affiliate	(4,303)	4,303	—
Dividends	100	(794)	(694)
	(12,798)	2,325	(10,473)
Effect of exchange rate changes on cash	560	70	630
Increase (decrease) in cash and cash equivalents during the year	4,166	(473)	3,693
Cash and cash equivalents — Beginning of year	4,925	6,804	11,729
Cash and cash equivalents — End of year	\$ 9,091	\$ 6,331	\$ 15,422
Supplemental disclosures:			
Cash paid during the year for:			
Income taxes	\$ 3,793	\$ 2,239	\$ 6,032
Interest	\$ 17,398	\$ 785	\$ 18,183



SUPPLEMENTAL COMBINING STATEMENTS OF CASH FLOWS

For the year ended December 31, 2001  
(expressed in thousands of U.S. dollars)

	Guarantor members	Non- guarantor Members	Combined
<b>Cash provided by (used in)</b>			
<b>OPERATING ACTIVITIES</b>			
Net (loss) for the year	\$(11,978)	\$(3,249)	\$(15,227)
Adjustments to reconcile net income to net cash provided by operating activities			
Minority interest	1,192	—	1,192
Depreciation of property, plant and equipment	4,038	2,887	6,925
Amortization of goodwill	3,229	258	3,487
(Gain) loss on sale of assets	(58)	—	(58)
Amortization of deferred financing costs and other non-cash interest	754	443	1,197
Unrealized exchange loss on long-term debt and bank indebtedness	9,435	(133)	9,302
Changes in non-cash working capital and other non-cash items	(3,097)	(938)	(4,035)
	<u>3,515</u>	<u>(732)</u>	<u>2,783</u>
<b>INVESTING ACTIVITIES</b>			
Acquisitions, net of cash acquired	(2,553)	321	(2,232)
Purchases of property, plant and equipment	(998)	(6,727)	(7,725)
Proceeds on disposal of property, plant and equipment	452	—	452
	<u>(3,099)</u>	<u>(6,406)</u>	<u>(9,505)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from revolving credit facility with CIBC — net	(366)	923	557
Proceeds from long-term debt	—	—	—
Payments on long-term debt	(2,544)	(1,059)	(3,603)
Proceeds from capital leases	—	967	967
Increase/(decrease) in debt payable to affiliate	(2,175)	2,175	—
Increase/(decrease) in capital	(636)	636	—
Dividends	(2,955)	2,955	—
	<u>(8,676)</u>	<u>6,597</u>	<u>(2,079)</u>
<b>Effect of exchange rate changes on cash</b>	<u>200</u>	<u>(189)</u>	<u>11</u>
<b>Increase (decrease) in cash and cash equivalents during the year</b>	<u>(8,060)</u>	<u>(730)</u>	<u>(8,790)</u>
<b>Cash and cash equivalents — Beginning of Year</b>	<u>12,985</u>	<u>7,534</u>	<u>20,519</u>
<b>Cash and cash equivalents — End of year</b>	<u>\$ 4,925</u>	<u>\$ 6,804</u>	<u>\$ 11,729</u>
<b>Supplemental disclosures:</b>			
Cash paid during the year for:			
Income taxes	\$ 920	\$ 417	\$ 1,337
	<u></u>	<u></u>	<u></u>
Interest	\$ 17,774	\$ 866	\$ 18,640
	<u></u>	<u></u>	<u></u>

SUPPLEMENTAL COMBINING STATEMENTS OF CASH FLOWS

For the year ended December 31, 2000  
(expressed in thousands of U.S. dollars)

	Guarantor members	Non- guarantor Members	Combined
<b>Cash provided by (used in)</b>			
<b>OPERATING ACTIVITIES</b>			
Net (loss) income for the year	\$(14,392)	\$ (3,526)	\$(17,918)
Adjustments to reconcile net income to net cash provided by operating activities			
Extraordinary gain on extinguishment of debt	(2,170)	—	(2,170)
Minority interest	272	—	272
Depreciation of property, plant and equipment	7,444	1,116	8,560
Amortization of goodwill	3,303	266	3,569
(Gain) loss on sale of assets	37	(617)	(580)
Amortization of deferred financing costs and other non-cash interest	4,847	133	4,980
Restructuring provision	(1,364)	—	(1,364)
Unrealized exchange loss on long-term debt and bank indebtedness	7,675	129	7,804
Changes in non-cash working capital and other non-cash items	5,692	(427)	5,265
	11,344	(2,926)	8,418
<b>INVESTING ACTIVITIES</b>			
Acquisitions, net of cash acquired	(10,291)	—	(10,291)
Purchases of property, plant and equipment	(2,513)	(1,203)	(3,716)
Proceeds on disposal of property, plant and equipment	128	1,403	1,531
Net investment in China JV	(1,408)	—	(1,408)
	(14,084)	200	(13,884)
<b>FINANCING ACTIVITIES</b>			
Payments on revolving credit facility with CSFB — net	(12,584)	—	(12,584)
Proceeds from revolving credit facility with CIBC — net	10,045	—	10,045
Proceeds from long-term debt	18,173	6,827	25,000
Payments on long-term debt	—	(7,411)	(7,411)
Financing costs	(1,664)	—	(1,664)
Increase/(decrease) in debt payable to affiliate	10,012	(10,012)	—
Increase in capital	(13,325)	13,325	—
Bond purchase	(6,986)	—	(6,986)
Assumption of cash in (investment in) Trench China	(2,900)	5,169	2,269
	771	7,898	8,669
<b>Effect of exchange rate changes on cash</b>	(339)	(345)	(684)
<b>Increase (decrease) in cash and cash equivalents during the year</b>	(2,308)	4,827	2,519
<b>Cash and cash equivalents — Beginning of year</b>	15,293	2,707	18,000
<b>Cash and cash equivalents — End of year</b>	\$ 12,985	\$ 7,534	\$ 20,519
<b>Supplemental disclosures:</b>			
Cash paid during the year for:			
Income taxes	\$ 1,949	\$ 78	\$ 2,027
Interest	\$ 17,602	\$ 1,157	\$ 18,759

Other information:

Analysis of provisions:

	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
<b>Allowance for doubtful accounts</b>			
Balance, beginning of period	\$ 843	\$ 2,446	\$ 892
Reversal of accrual to income in Trench UK	—	(1,003)	—
Charged to profit and loss	(265)	(447)	(732)
Adjustment to allowance, net of exchange	1,173	(153)	2,286
Balance, end of period	\$ 1,751	\$ 843	\$ 2,446
	Year ended December 31, 2002	Year ended December 31, 2001	Year ended December 31, 2000
<b>Provision for inventory obsolescence</b>			
Balance, beginning of period	\$ 2,188	\$ 2,320	\$ 1,353
Charged to profit and loss	(534)	(1,044)	(695)
Additional provision, net of exchange	237	912	1,662
Balance, end of period	\$ 1,891	\$ 2,188	\$ 2,320

Subsidiary Information

We own, directly or indirectly 100%, of the following companies (except for MWB (Shanghai) Co. Ltd. in China, which is 65% owned and Trench Fushun Bushing Co. Ltd in Fushun, China, which is 65% owned).

<b>Trench Electric BV &amp; Valtimon Holding BV</b> Strawinskylaan 3105 1077ZX Amsterdam, The Netherlands	<b>Trench Limited</b> 71 Maybrook Drive Scarborough, Ontario M1V 4B6 Canada +1 416 298 8108	<b>Trench Germany GmbH</b> Nürnberger Strasse 199 D-96050 Bamberg Germany +49 951 1803 0
<b>Trench Austria GmbH</b> Paschinger Strasse 49 A-4060 Linz-Leonding Austria +43 732 6793 0	<b>Trench Inc.</b> 71 Maybrook Drive Scarborough, Ontario M1V 4B6 Canada +1 416 298 8108	<b>Finatrench (France) SA</b> 112 Avenue Kleber BP 163, Trocadero 75770 Paris, France +33 3 89 70 23 23
<b>Trench Switzerland A.G.</b> Lehenmattstrasse 353 CH 4052, Basel Switzerland +41 61.315 51 11	<b>Trench Electric SA</b> 69 route d’Esch Luxembourg L-2953	<b>Trench France SA</b> 16 rue du Général-Cassagnou 68302 St. Louis, Cedex France +33 3 89 70 23 23
<b>MWB (Shanghai) Co. Ltd.</b> 3658 Jiang Cheng Road Minhang, Shanghai, China 200245 +86 21 6463 3611	<b>Trench (UK) Ltd.</b> South Drive, Hebburn Tyne & Wear England +44 191 483 4711	<b>Trench Brasil Ltda</b> Via Expressa de Contagem, 2685 CEP: 32370-485 Contagem, MG Brasil +55 31 391 5959
<b>Trench Fushun Bushing Co., Ltd</b> Dong Er Dao, Shuncheng District Fushun, Liaoning, 113126 China +86 413 764 4095		

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F Equivalent and that it has duly caused the undersigned to sign this annual report on its behalf.

Dated this: 24th March 2003

TRENCH ELECTRIC B.V.

By:



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*Michael J. Bissell*  
*Group Finance Director*

CERTIFICATIONS

I, Michael J. Bissell, certify that:

1. I have reviewed this annual report on Form 20-F Equivalent of Trench Electric B.V.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and
  - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and
6. The registrant’s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

/s/ Michael J. Bissell

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Michael J. Bissell  
*Group Finance Director*

CERTIFICATIONS

I, Howard Poulson, certify that:

1. I have reviewed this annual report on Form 20-F Equivalent of Trench Electric B.V.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b. evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the “Evaluation Date”); and
  - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and
6. The registrant’s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 24, 2003

/s/ Howard Poulson

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Howard Poulson  
Chief Executive

EQUITY TRANSFER AGREEMENT

This Equity Transfer Agreement is made as of December 12, 2002:

- PARTIES:** **Fushun Electric Porcelain Works**, an enterprise organised and existing pursuant to the Laws of the People’s Republic of China (“**PRC**”), and registered with the Fushun Municipality Administration of Industry and Commerce, Liaoning Province with its legal address at 2 Liquan Road, Xinfu District, Fushun, Liaoning Province, PRC (“**Transferor**”).
- AND:** **Trench (UK) Limited**, a company organized and existing under the laws of the United Kingdom with its legal address at South Drive, Hebburn, Tyne & Wear NE31 1UW (“**Trench UK**”).
- AND:** **Trench Limited**, a company organized and existing under the laws of the Canada with its legal address at 71 Maybrook Drive, Scarborough, Ontario, Canada M1V 4B6 (“**Trench Canada**”).
- AND:** **Shanghai Instrument Transformer Works**, a company organized and existing under the laws of the PRC with its registered address at 427 Jumen Road, Shanghai, PRC (“**SITW**”).

For the purpose of this Equity Transfer Agreement, unless otherwise provided in this Agreement, Trench UK and Trench Canada will be referred to collectively as “**Trench**”, and Trench Canada and SITW will be referred to collectively as “**Transferee**”.

WHEREAS:

- A. The Company is a Sino-foreign joint venture established on December 20, 1995 pursuant to a joint venture contract and articles of association dated 27 November 1995 between the Transferor and VA Tech Reyrolle Limited (formerly known as “Reyrolle Limited”), a company organised under the laws of the United Kingdom (“**Reyrolle**”).
- B. Pursuant to an Asset Sale and Purchase Agreement dated 18 April 2000 between Reyrolle and Trench UK and others, Trench UK acquired from Reyrolle fifty point four percent (50.4%) of the registered capital in the Company, being all of the registered capital held by Reyrolle in the Company. An agreement to amend the joint venture contract and articles of association accordingly was executed on 21 April 2001. The Approval Authority approved the acquisition by Trench UK and the consequential amendments to the joint venture contract and articles of association and issued a certificate of approval on December 7, 2001.
- C. Until the date hereof, the ownership of the registered capital of the Company was apportioned as follows:



Owner	Percentage (%)	Amount of Registered Capital in RMB
Transferor	49.6	16,727,000
Trench UK	50.4	16,997,000
Total	100	33,724,000

D. The Transferor wishes to transfer in aggregate forty seven point six percent (47.6%) of the registered capital to Trench Canada and SITW in the following proportions:

Recipient	Percentage (%)	Amount of Registered Capital in RMB
SITW	33	11,128,920
Trench Canada	14.6	4,923,600
Total	47.6	16,052,520

E. The Parties agree to the Transfer upon the terms and conditions set forth in this Equity Transfer Agreement.

F. To reflect the Transfer, the Parties have agreed to amend and replace the Original JV Contract and the Original Articles of Association of the Company.

**NOW THEREFORE**, in consideration of the foregoing and of the mutual promises and covenants contained herein, the Parties hereby agree as follows:

1. DEFINITIONS

1.1 In this Agreement the following terms shall have the following meanings:

- (a) “**Agreement**” means this Equity Transfer Agreement.
- (b) “**Approval**” means the following on terms and conditions satisfactory to Trench and SITW:
  - (i) approval of the Approval Documents by the relevant Approval Authority and the issue of the approval certificate;
  - (ii) the Fushun Court Approval;
  - (iii) completion of the Business Registrations; and

- (iv) Such other approvals required by Trench and SITW.
- (c) “**Approval Authority**” means the Fushun Commission on Foreign Trade and Economic Cooperation, or any other competent authority, including, without limitation, FAIC, the State Assets Administration Bureau and the Fushun Court or such other authority or authorities as SITW or Trench may determine.
- (d) “**Approval Documents**” means the documents listed in Article 5.1 and all other documents required to be submitted for the Approval.
- (e) “**Board**” means the board of directors of the Company.
- (f) “**Business Day**” means any day other than a Saturday or Sunday or a statutory or civic holiday in the People’s Republic of China.
- (g) “**Business Registrations**” means the business registrations described in Article 5.4.
- (h) “**Conditions Precedent**” means the conditions set out in Article 2.2.
- (i) “**Company**” means Fushun Reyrolle Bushing Co., Limited, a Sino-foreign equity joint venture established and existing under the laws of the PRC with its legal address at the Economic Development Area, Fushun, Liaoning Province, PRC.
- (j) “**Claimants**” means the claimants under the Fushun Court Orders;
- (k) “**Closing**” means the performance of the acts set out in Article 7.
- (l) “**Closing Date**” means the date being not more than fifteen (15) Business Days after the date on which the last of the Conditions Precedent is fulfilled to the satisfaction of both Trench and SITW. The date on which the last of the Conditions Precedent is fulfilled shall be the date agreed by Trench and SITW and notified in writing by Trench to the Transferor.
- (m) “**Due Diligence**” shall include, but shall not be limited to:
  - (i) financial and accounting, business, environmental, design, engineering and construction and legal due diligence on the Company, the Transferor, the Equity Interest, and all the assets of the Company and all employees referred to in Article 6 and the conditions of employment of those employees;

- (ii) due diligence on the value of the Company, which shall include the commissioning and issuance of the SITW Valuation to SITW and the review and approval of the SITW Valuation by the State Assets Administration Bureau ;
- (iii) due diligence on the Fushun Court Orders and all circumstances giving rise to the Fushun Court Orders, including procedures and conditions for securing the absolute and unconditional release and discharge of the Fushun Court Orders; and
- (iv) such other matters pertaining to or affecting or relating to the Company or the Equity Interest (whether directly or indirectly) that SITW and Trench desires.
- (n) **“Equity Interest”** means the whole or any part of the Total Equity Interest.
- (o) **“FAIC”** means the Fushun Administration of Industry and Commerce.
- (p) **“Fushun Court”** means the Fushun City Intermediate Court or any other court or tribunal in any jurisdiction which has or may in the future issue any direction, order or award affecting the Equity Interest.
- (q) **“Fushun Court Approval”** means:
  - (i) the approval of the Fushun Court to the Transfer under this Equity Transfer Agreement;
  - (ii) any such order, direction or award by the Fushun Court specifying the terms for securing the unconditional release and discharge of the Fushun Court Orders; and
  - (iii) the unconditional release and discharge described in paragraph (ii) above,  
  
which must be in form and substance satisfactory to each of Trench, SITW and the Claimants.
- (r) **“Fushun Court Orders”** means the following orders issued by the Fushun Court:
  - (i) property preservation order against the Transferor’s equity holdings in the Company in favour of the Fushun City Social Security Insurance General Corporation issued on 11 April 2002;
  - (ii) property preservation order against the Transferor’s equity holdings in the Company and debts in favour of the Fushun City Housing Fund Administrative Bureau issued on 18 July 2002;

- (iii) property preservation order against the Transferor’s equity holdings in the Company and its deposits or assets in favour of the Bank of China Fushun Branch issued on 30 August 2002;
- (iv) the enforcement assistance order issued to the Company in relation to the property preservation order described in paragraph (iii) dated 2 September 2002; and
- (v) any other order or direction from any court or tribunal in any jurisdiction which affects the Equity Interest.
- (a) **“Original Articles of Association”** means the Articles of Association of the Company dated 27 November 1995 as amended, supplemented or otherwise modified from time to time.
- (b) **“Original JV Contract”** means the joint venture contract of the Company dated 27 November 1995 as amended, supplemented or otherwise modified from time to time.
- (c) **“Purchase Price”** is defined in Article 4.1.
- (d) **“Related Agreements”** mean the following agreements signed concurrently with this Agreement:
  - (i) the Revised Joint Venture Contract;
  - (ii) the Revised Articles of Association; and
  - (iii) any other relevant agreements or documents which relate to the Revised Joint Venture Contract, the Revised Articles of Association or this Equity Transfer Agreement or the matters contemplated therein.
- (e) **“Revised Articles of Association”** means the revised Articles of Association attached to this Equity Transfer Agreement as Annexure A.
- (f) **“Revised Joint Venture Contract”** means the revised Joint Venture Contract attached to this Equity Transfer Agreement as Annexure B.
- (g) **“SITW Valuation”** means such valuation report required by Trench and SITW in relation to the Company, its assets and the Equity Interest and such other matters as each of Trench and SITW considers relevant prepared by valuers approved by SITW and Trench.

- (h) “**State Asset Administration Bureau**” means the State Asset Administration Bureau which approval is required for the Transfer by the Transferor of State owned assets.
- (i) “**Transfer Equity Interest**” means:
  - (i) in relation to SITW, 33% of the Total Equity Interest;
  - (ii) in relation to Trench Canada, 14.6% of the Total Equity Interest.
- (j) “**Total Equity Interest**” means the whole of the equity in the Company which includes registered capital of the Company as described in Recital C as the “Total”.
- (k) “**Transfer**” means the transfer of registered capital referred to in Recital D.
- (l) “**Valuation Documents**” means the documents specified in Article 5.3.

Wherever in this Agreement the approval, acceptance, consent, satisfaction, sanction, agreement, determination or authorisation of Trench or SITW is required, such approval, acceptance, consent, satisfaction, sanction, agreement, determination or authorisation may be given or withheld or be made subject to such conditions as SITW or Trench determine in their absolute and unfettered discretion.

**2. CONDITIONS PRECEDENT AND DUE DILIGENCE**

- 2.1 (a) This Equity Transfer Agreement is subject to and conditional upon the approval of the State Asset Administration Bureau to the Transfer and of the Valuation Documents and, if required by SITW, the approval of the State Asset Administration Bureau of the SITW Valuation (as evidenced by a certificate of approval) , which approvals and certificate must be in form and substance acceptable to Trench and SITW (“**Precondition**”).
- (a) The Transferor shall use its best efforts to procure the fulfillment of the Precondition as soon as possible. If the Precondition is not fulfilled by 15 November 2002, or such later date agreed by Trench and SITW, either or both Trench and/or SITW may terminate this Equity Transfer Agreement and the Related Agreements, by giving written notice to the other parties and the parties shall have no further obligations hereunder or thereunder except for obligations that expressly survive the termination hereof.
- (b) Notwithstanding the provisions of Articles 5.1 and 5.2, the Transferor shall not submit any Approval Documents for Approval until after the Precondition is fulfilled to the satisfaction of

Trench and SITW and after Trench and SITW give their written consent to the Approval Documents pursuant to Article 5.6.

- 2.2 The obligations of Trench and SITW under this Equity Transfer Agreement and the Related Agreements are subject to and conditional upon:
- (a) The satisfactory completion of the Due Diligence to the satisfaction of both Trench and SITW.
  - (b) To the extent required by Trench or SITW, review and approval (in their absolute and unfettered discretion) of the Approval Documents, the Related Agreements and the Fushun Court Approval by the shareholders and directors of Trench and SITW.
  - (c) Delivery by the Transferor to the Transferee of evidence in form and substance satisfactory to the Transferee that at the Closing Date, the Transferor's representations set out in Article 9.1 and the Legal Representative's undertaking, representations and warranties referred to in paragraph (l) below, are true, complete, accurate and not misleading.
  - (d) The issuance of the Approval on terms and conditions and in form and substance satisfactory to Trench and SITW.
  - (e) Save for those which Trench and SITW agree may continue, settlement of all debts and release of all encumbrances and other liabilities of the Company (at the Transferor's cost) to the satisfaction of Trench and SITW.
  - (f) All Related Agreements being fully and duly executed by all parties and all legal formalities related hereto have been completed in form and substance satisfactory to Trench and SITW;
  - (g) Trench and SITW are satisfied that there has been no breach of this Agreement or of the Related Agreements by the Transferor;
  - (h) The employee releases referred to in Article 6.1 are executed by the employees and delivered to the Transferee, in form and substance acceptable to Trench and SITW;
  - (i) The written confirmation relating to labor issues referred to in Article 6.4 has been issued, in form and substance acceptable to Trench and SITW;
  - (j) Copies of the documents referred to in Article 7.2 have been delivered to the Transferee, in form and substance acceptable to Trench and SITW (the original documents and items referred to in Article 7.2 shall be delivered to the Transferee or the Transferee's nominees at Closing) ;

- (k) The conditions in Article 7.3 have been fulfilled to the satisfaction of SITW and Trench;
  - (l) Delivery to Trench and SITW, duly executed, the undertaking and representations and warranties of the Company's legal representative in form attached to this Equity Transfer Agreement as Annexure C, or in such other form and substance acceptable to SITW and Trench; and
  - (m) The issue of such other approvals, certificates and registrations from Approval Authorities as Trench and SITW determine is necessary to give full legal effect to the unconditional Transfer of the Transfer Equity Interest free from all Encumbrances (as defined in Article 7.4).
- 2.3 Each Condition Precedent is for the benefit of Trench and of SITW and may be waived by both Trench and SITW collectively giving notice in writing to the Transferor.
  - 2.4 If the Conditions Precedent are not fulfilled or waived by 15 November 2002, Trench and SITW may, but are not obliged, to extend the relevant dates.
  - 2.5 The Transferor shall cooperate and assist the Transferee and their professional advisors and representatives with the Due Diligence and produce such documents and materials requested by the Transferee and their professional advisors and representatives.
  - 2.6 If, in Trench's or SITW's opinion, the Conditions Precedent are not fulfilled to their satisfaction by 15 November 2002 or any later date agreed by Trench and SITW under Article 2.4, either or both Trench and/or SITW may terminate this Equity Transfer Agreement and the Related Agreements, by giving written notice to the other parties and the parties shall have no further obligations hereunder or thereunder except for obligations that expressly survive the termination hereof.
  - 2.7 Upon termination of this Agreement under Article 2.6, the Transferor shall immediately withdraw the Approval Documents filed with the Approval Authority, procure that no Approval is issued for any of the Approval Documents, and cancel the Related Agreements, other than those Related Agreements which were in force prior to the signing of this Equity Transfer Agreement.
  - 2.8 SITW shall deliver to the Transferor a copy of its business licence chopped by the relevant State Administration of Industry and Commerce and a bank letter confirming the creditworthiness of SITW .
  - 2.9 Trench Canada shall deliver to Transferor a copy of its certificate of incorporation and a bank letter confirming the creditworthiness of Trench .

**3. TRANSFER OF EQUITY INTEREST**

- 3.1 The Transferor hereby agrees to transfer to Trench Canada, and, subject to the fulfillment of the Conditions Precedent, Trench Canada hereby agrees to purchase fourteen point six percent (14.6%) of the Total Equity Interest together with all rights and obligations related thereto subject to the terms and conditions set forth in this Agreement.
- 3.2 The Transferor hereby agrees to transfer to SITW, and, subject to the fulfillment of the Conditions Precedent, SITW hereby agrees to purchase thirty three percent (33%) of the Total Equity Interest together with all rights and obligations related thereto subject to the terms and conditions set forth in this Agreement.
- 3.3 The change of ownership of the Equity Interest after the transfer of the Transfer Equity Interest contemplated herein is outlined in the After Transfer Column of Schedule One hereof.

**4. PURCHASE PRICE**

- 4.1 The Purchase Price for the Transfer Equity Interest (“**Purchase Price**”) shall be Twenty Million Six Hundred Thirty Three Thousand and Sixty Four point Five Two Renminbi (RMB20,633,064.52), of which:
- (a) Trench Canada shall pay to the Transferor Six Million Three Hundred Twenty Eight Thousand Six Hundred Twenty Nine point zero Three Renminbi (RMB6,328,629.03); and
- (b) SITW shall pay to Transferor Fourteen Million Three Hundred Four Thousand Four Hundred and Thirty Five point Four Nine Renminbi (RMB14,304,435.49).
- (c) Trench Canada and SITW shall be severally and not jointly liable to the Transferor for the payment of their respective apportionment of the Purchase Price described in Article 4.1 under the terms and conditions of this Agreement. This Agreement does not create any joint liability of Trench Canada and SITW for payment of the whole Purchase Price. This Agreement does not create any liability of Trench UK for payment of the whole or any part of the Purchase Price.
- 4.2 Dividend distributions made on or after the Closing Date shall be in proportion to each parties’ respective ownership of the registered capital in the Company as outlined in the “After Transfer” column of Schedule One, notwithstanding that for part of the year the Transferor’s proportion of ownership of registered capital was 49.6%. The Transferor acknowledges that appropriate adjustments have been made to the Purchase Price and, in relation to any declaration of dividend made on or after the Closing Date, the Transferor waives and shall not make any claims or be entitled to any distribution of dividend in excess of its proportion of ownership of the registered capital as shown in the “After Transfer” column of Schedule One, namely 2%, regardless whether or not the dividend declared relates to profits of the Company accrued or earned prior to the Closing Date.



Providing that all of the Conditions Precedent are fulfilled to SITW's and Trench's satisfaction, the Purchase Price shall not be changed by reason of any change in the value of the Company.

- 4.3 All payments to be made by Trench Canada shall be made in US dollars or such other foreign currency as Trench determines. The foreign exchange rate applicable to the conversion of Renminbi to any foreign currency or vice versa, shall be the official rate published by the People's Bank of China five (5) banking days before the date on which payment is due.
- 4.4 All payments of the Purchase Price shall be to the extent required by Trench and SITW made in accordance with the Fushun Court Approval.

## **5. APPROVAL OF TRANSFER**

- 5.1 Subject to fulfillment of the Precondition in accordance with Article 2.1, the Transferor shall procure that the Company shall, and the Company hereby agrees, within five (5) Business Days of the date on which Trench and SITW give their written consent to the Approval Documents under Article 5.6, to submit the following documents and such other documents as may be required by the laws of the People's Republic of China to the Approval Authority for Approval including but not limited to:
- (a) this Equity Transfer Agreement;
  - (b) an application for Approval of the Transfer;
  - (c) the Revised Articles of Association;
  - (d) the Revised Joint Venture Contract;
  - (e) the Original Articles of Association;
  - (f) the Original Joint Venture Contract;
  - (g) the original approval certificate relating to the establishment of the Company (if required);
  - (h) the current approval certificate and business license of the Company;
  - (i) resolutions of the Board approving Transfer in accordance with the terms and conditions of this Agreement;

- (j) a list of the proposed members of the Board following the Transfer of the Transfer Equity Interest, including the Legal Representative, Chairman and Vice Chairman of the Company;
  - (k) such necessary documents to give effect to the change to the members of the Board, the Legal Representative, Chairman and Vice Chairman;
  - (l) application to change the name of the Company from “Fushun Reyrolle Bushing Co Ltd” to “Trench Fushun Bushing Co Ltd” or such other name determined by the board of the Company;
  - (m) Valuation Documents and, if required by SITW, the SITW Valuation;
  - (n) other documents required by the Approval Authority.
- 5.2 Subject to fulfillment of the Precondition in accordance with Article 2.1 and the written consent of Trench and SITW to the Approval Documents under Article 5.6, the Transferor shall promptly file the Approval Documents and deal with the Approval Authority on behalf the Company in order to obtain the Approval and use reasonable endeavours to obtain the Approval. The Transferor shall notify the Transferee of all material correspondence from the Approval Authority in relation to the Approval.
- 5.3 Promptly after signing this Equity Transfer Agreement, the Transferor shall obtain and submit to the State Asset Administration Bureau and the Approval Authority for Approval:
- (a) an opinion issued by the government department in charge of the Transferor and, if required;
  - (b) an assets valuation report issued by a state-owned assets valuation institution in respect of the Transfer of the Transfer Equity Interest;
  - (c) a letter of confirmation issued by the competent local branch of the state-owned assets administration authority in respect of the valuation report mentioned in paragraph (b) of this Article 5.3; and
  - (d) if required by SITW, the SITW Valuation.
- 5.4 As soon as practicable following receipt of the Trench and SITW written approval referred to in Article 5.6, the Transferor shall cause the Company to apply to the FAIC to change its business registration to reflect the change of ownership of the Company after the Transfer and the change of Company name, and to do all such necessary things associated with that change of ownership

and change of the Company name, including but not limited to the change of tax, custom and foreign exchange registrations.

- 5.5 Immediately after receipt of the Trench and SITW written approval referred to in Article 5.6, the Transferor shall do all things necessary to obtain the Fushun Court Approval.
- 5.6 Notwithstanding any of the foregoing provisions, before the Transferor submits any of the Approval Documents to any authority or body for approval (including, without limited, the Approval Authority, the Fushun Court and the FAIC), the Transferor must first submit the Approval Documents to Trench and SITW for their prior written approval.

## **6. EMPLOYEES**

- 6.1 The Transferor shall do all things necessary to terminate the employment of the employees listed in Schedule Two including obtaining releases, in form and substance acceptable to Trench and SITW, from those employees for severance pay and any other liability pertaining to the employee's employment with the Transferor or his or her provision of services to the Company. Such termination shall take effect on the Closing Date. The Company shall employ the Employees on substantially the same terms as the terms of employment in force immediately prior to Closing.
- 6.2 Any liability or obligation to or in respect of any employees or former employees of Transferor which shall have been asserted prior to or at the Closing Date or is based on acts or omissions which occurred prior to the Closing Date including, without limitation:
- (a) any employment agreement, whether or not written, between the Transferor and any person;
  - (b) any liability under any employee benefit plan at any time maintained by the Transferor or the Chinese local or central government, contributed to or required to be contributed to by or with respect to Transferor or under which the Transferor may incur liability, or any contributions, benefits or liabilities therefore, including without limitation, any pension fund, unemployment insurance, accident and disability insurance, medical insurance, housing and heating benefits; and
  - (c) any claim of an unfair labor practice, or any claim under any unemployment compensation or worker's compensation law or regulation or under any employment discrimination law or regulation,

shall remain the liability of the Transferor after Closing and shall not be assumed by the Company.

- 6.3 The Transferor fully indemnifies and shall keep indemnified the Company, SITW and Trench (“**Indemnified Parties**”) against all losses and liabilities incurred by the Indemnified Parties arising directly or indirectly as a result of or in connection with the matters raised in Article 6.2.
- 6.4 If Trench and/or SITW determine at any time that any authority has a claim or may have a right to claim or has or may make a claim of any nature against the Company in connection with the matters referred to in Article 6.2 then trench and/or SITW shall notify the Transferor of this fact and the Transferor shall immediately thereafter obtain from all relevant government authorities written confirmation and undertakings that those authorities shall not make any claim against the Company for any of the matters referred to in Article 6.2.

**7. CLOSING**

- 7.1 Closing shall take place on the Closing Date at the office of the Trench’s solicitors, Altheimer & Gray, Shanghai Office, unless, in order to give full legal effect to the unconditional Transfer of the Transfer Equity Interest unencumbered to the Transferees, Closing is required by PRC laws and regulations to take place in a prescribed location or institution, whereupon Closing shall take place at such prescribed location or institution.
- 7.2 At Closing the Transferor must deliver to the Transferee or the Transferee’s nominees:
- (a) Evidence of the Approval, in form and substance acceptable to Trench and SITW;
  - (b) The Approval Documents, in form and substance acceptable to Trench and SITW.
  - (c) The Company seal;
  - (d) all seals, minute books, statutory books and registers, books of account, trading and financial records, copies of taxation returns and other documents and papers of the Company;
  - (e) authorities directed to the Company’s bankers authorising the operation of each of the Company’s bank accounts only by the Transferee’s nominees; and
  - (f) instruments in a form approved by the Transferee’s solicitors executed under seal by the Transferor releasing the Company from all claims of any kind which the Transferor may have against the Company, other than for day to day trading debts for good and services provided by the Transferor to the Company as shown on the trading accounts of the Company.
- 7.3 At Closing the Transferor must procure:

- (a) appointment to the Board of the persons nominated by the Transferee and resignations from the Board of those of the present directors whom the Transferee requests to resign, and in the case of each director resigning an acknowledgment in such form as the Transferee may require that he or she has no claim of any nature against the Company for salary, fees, compensation for loss of office or otherwise; and
  - (b) delivery into the control of the Transferee of all keys and codes of whatever nature required to enter or gain access to any property of the Company and without limitation including all keys and combinations required to unlock each safe deposit box at a bank, cupboards, safes, storage rooms, filing cabinets and desk drawers, and all keys and codes necessary to gain access to computer programs.
- 7.4 Subject to the fulfillment of the Conditions Precedent and providing that both Trench and SITW are satisfied in their absolute discretion that as at the Closing Date, the Equity Interest is free from all claims, security interests, liens, pledges, charges, escrows, options, proxies, rights of first refusal, preemptive rights, mortgages, title retention agreements, indentures, security agreements of any kind or any other encumbrances (“**Encumbrances**”), Trench Canada shall at the Closing on the Closing Date:
- (a) pay the portion of Purchase Price, as provided in Article 4.1(a) in accordance with such court orders or directions, including the Fushun Court Approval, as are required to ensure that the relevant portion of the Transfer Equity Interest is transferred to Trench Canada free from all Encumbrances; and
  - (b) if it has not done so before, produce consents in writing of Trench nominees for appointment as directors of the Company.
- 7.5 Subject to the fulfillment of the Conditions Precedent and providing that both Trench and SITW are satisfied in their absolute discretion that as at the Closing Date, the Equity Interest is free from all Encumbrances, SITW shall at the Closing on the Closing Date:
- (a) pay the portion of Purchase Price, as provided in Article 4.1(b) in accordance with such court orders or directions, including the Fushun Court Approval, as are required to ensure that the relevant portion of the Transfer Equity Interest is transferred to SITW free from all Encumbrances; and
  - (b) if it has not done so before, produce consents in writing of SITW’s nominees for appointment as directors and if it desires, Vice Chairman of the Company.
- 7.6 After payment of the Purchase Price as specified in Article 7.4 and 7.5 and subject as provided by Chinese law the transfer of the Transfer Equity Interest shall be fully effective.

**8. Release of Transferor’s Securities**

8.1 If required by the Company’s principle bankers, the parties shall co-operate in using all reasonable endeavours to arrange for the release and discharge on the Closing Date of any securities or guarantees given by the Transferor in relation to the Company’s debts (**Transferor’s Securities**). If reasonably required, SITW and Trench may elect to arrange the replacement of the Transferor’s securities with a similar security or guarantee acceptable to the Company’s principle bankers, provided that no Party shall be obliged to provide any guarantee or security nor, without prejudice to the generality of the foregoing, to guarantee a greater proportion of any borrowing than its percentage holding of registered capital in the Company from time to time.

**9. REPRESENTATIONS AND WARRANTIES**

9.1 The Transferor hereby represents and warrants to each of SITW and Trench UK and Trench Canada that:

- (a) the Transferor is the sole owner of the Transfer Equity Interest and has full corporate power and authority and has taken all action necessary to enter into this Agreement and perform its obligations thereunder;
- (b) the Transferor’s obligations under this Agreement are valid, binding and enforceable against the Transferor in accordance with their terms; and
- (c) the Transferor has not created and has not agreed to create, and there do not exist, any mortgage, pledge, lien, charge, right of first refusal, right of preemption, order direction or award of any tribunal or court (other than the Fushun Court Orders described in paragraphs (i) to (iv) of Article 1.1(r)) and the preemptive rights described in Article 10) or any other form of encumbrance or right of any third party over or in relation to the Equity Interest.
- (d) Save for the Fushun Court Orders described in paragraphs (i) to (iv) of Article 1.1(r) and the preemptive rights described in Article 10, there are no claims, security interests, liens, pledges, charges, escrows, options, proxies, rights of first refusal, preemptive rights, mortgages, title retention agreements, indentures, security agreements of any kind or any other encumbrances to the registered capital of the Company, including any Equity Interest, or against the assets of the Company.
- (e) All information given by or on behalf of the Transferor and the Company to Trench and SITW, their advisers or agents before or during the negotiations leading to the Equity Transfer Agreement, Revised Articles of Association and Revised Joint Venture Contract and any related agreements, as well as the information set out in those documents, is true, complete, accurate and not misleading.

- (f) The Company has paid all taxes which it has become liable to pay and is not, and has not been liable to pay a penalty, surcharge, fine or interest in connection with any tax.
- (g) The assets owned, possessed or used by the Company comprise all the assets required to enable the Company to carry on its business fully and effectively in the ordinary course.
- (h) The Company has not released a debt shown in the Company accounts or its accounting records so that the debtor has paid or will pay less than the debt's book value.
- (i) Save for matters giving rise to the Fushun Court Orders described in paragraphs (i) to (iv) of Article 1.1(r) as disclosed in the Disclosure Schedule, the Company has paid its creditors within the times agreed with them and no debt owing by it has been due for more than ninety (90) consecutive days.
- (j) Except as disclosed in the Company accounts, the Company does not have outstanding and has not agreed to create or incur loan capital, borrowing or indebtedness in the nature of borrowing, including, without limitation, a bank overdraft, a liability under an acceptance (other than a normal trade bill) or acceptance credit.
- (k) At the date hereof the loan agreements, guarantees, securities and mortgages and other encumbrances listed in the Schedule Three (**Loans and Securities**) are the only Loans and Securities entered into by the Company which are outstanding and the Transfer shall not constitute a breach of any term of any Loan or Security and no approval of any third party creditor of the Company shall be required by any provision of any agreement whatsoever.
- (l) Save as disclosed in the Disclosure Schedule, the Company is not in default of any provision of any of the Loans and Securities and all payments have been made in the due date for payment as settled in loan agreements.

**10. WAIVER OF PREEMPTIVE RIGHT OF PURCHASE**

- 10.1 Trench UK hereby irrevocably waives its preemptive right of purchase in respect of the forty seven point six percent (47.6%) of the Total Equity Interest contemplated to be transferred to be Transferee hereunder under the laws of the PRC.
- 10.2 The waiver under Article 10.1 above shall be valid until the earlier of the following events occurs:
  - (a) the Closing Date; or

(b) November 15, 2002.

**11. TAX LIABILITIES**

11.1 Unless the laws provide otherwise, the Transferor shall be responsible for, and agrees to indemnify and save harmless the Transferee and the Company against, any tax liability (including without limitation any income tax, business tax, stamp duty or any other kind of taxes, fees, assessments or charges) which may arise as a result of the payment of the Purchase Price by the Transferee hereunder or otherwise as a result of the execution or performance of this Agreement.

**12. INDEMNIFICATION**

12.1 The Transferor shall indemnify each of SITW and Trench Canada and Trench UK for all damages incurred by each or both of them as a result of:

- (a) any inaccuracy in or breach of any representation and warranty made by the Transferor to the Transferee herein; or
- (b) the breach by the Transferor of, or failure of the Transferor to comply with, any of its covenants or obligations under this Agreement.

12.2 SITW shall indemnify each of Transferor and Trench for all damages incurred by each or both of them as a result of:

- (a) any inaccuracy in or breach of any representation and warranty made by SITW to the Transferor and Trench herein; or
- (b) subject to fulfillment of the Conditions Precedent, the breach by SITW of, or failure of SITW to comply with, any of its covenants or obligations under this Agreement.

12.3 Trench shall indemnify each of Transferor and SITW for all damages incurred by each or both of them as a result of:

- (a) any inaccuracy in or breach of any representation and warranty made by Trench to the Transferor and SITW herein; or
- (b) subject to fulfillment of the Conditions Precedent, the breach by Trench of, or failure of Trench to comply with, any of its covenants or obligations under this Agreement.



**13. NON-COMPETITION**

- 13.1 The Transferor hereby covenants and agrees that from and after the date of this Agreement and continuing for a period of five (5) years from the Closing Date, neither the Transferor nor any of its affiliates, parent or subsidiaries shall do any one or more of the following (except holding 2% shares of the Company), directly or indirectly:
- (a) engage or participate, anywhere in the PRC, as an owner, partner, shareholder or consultant or (without limitation) otherwise in any business which is in competition, directly or indirectly, with any business or activity of the Company, as conducted on the Closing Date;
  - (b) solicit any customers of the Company which has been a customer of the Company or its affiliates within the past three (3) years; or
  - (c) take any actions which are calculated to persuade any salaried, technical or professional employees, representatives or agents of the Company to terminate their association with the Company.

**14. CONFIDENTIALITY**

- 14.1 The Transferor hereby covenants and agrees for the longest period permitted by law of PRC following the Closing Date, that the Transferor shall, and shall cause its affiliates, directors, officers, employees and agents to, hold in strictest confidence, and not, without the prior written approval of the Transferee, use for its own benefit or the benefit of any party other than the Transferee or disclose to any third person (other than as required by law) any information of any kind relating to the Transferee's and the Company's respective businesses, customers, financials or other affairs.

**15. GOVERNING LAW AND DISPUTE RESOLUTION**

**15.1 Governing Law**

This Agreement shall be governed by and construed in accordance with the laws of the People's Republic of China.

**15.2 Choice of Arbitration**

If any dispute arises under or relating to this Agreement, including with respect to the interpretation or implementation of this Agreement, relating to performance or termination under this Agreement or relating to any matter contemplated by this Agreement, including liquidation of the Company, the Parties shall first attempt to resolve such dispute through friendly discussions.

If the dispute cannot be resolved in this manner to the satisfaction of the Parties within sixty (60) days after the date that any Party has notified the other Parties in writing of such dispute, the Parties, as the sole manner to resolve the dispute, shall submit the dispute to arbitration in the Singapore International Arbitration Center (“**Center**”), in accordance with the applicable arbitration rules of the United Nations Commission on the International Trade Law in which case:

- (a) The basis of the arbitration shall be both the English text and the Chinese text of this Agreement, unless the Parties agree that a single text be used;
- (b) There shall be three (3) arbitrators, all of whom shall be fluent in English. SITW and Trench shall each appoint one (1) arbitrator who shall select the third arbitrator, who shall serve as chairman of the panel (and who shall not be a national of the domicile of either of the Parties to this Agreement). If the first two (2) arbitrators cannot agree on a third arbitrator within fifteen (15) business days after their appointment, the third arbitrator shall be appointed by the Center and shall serve as chairman of the panel.

### 15.3 **Proceedings in English and Chinese**

All proceedings (including documentation) in any such arbitration shall be conducted in Chinese and English and a daily transcript in Chinese and English of such proceedings shall be prepared unless the Parties agree otherwise.

### 15.4 **Award Final and Binding**

The arbitration award shall be final and binding on the Parties, and the Parties agree to be bound thereby and shall act accordingly.

### 15.5 **Cost of Arbitration**

The costs of arbitration shall be borne by the losing party, unless otherwise determined by the arbitration body.

### 15.6 **Enforcement**

If either Party fails to observe the terms of an arbitration award, the other Party may apply to have the award enforced in accordance with the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in any court having jurisdiction over the Party against which the award has been rendered, in which event any Party obtaining a court order of enforcement shall be entitled to reimbursement by the other Parties of all costs and expenses (including reasonable attorneys’ fees) incurred by it in connection with the obtaining of such enforcement order.

### 15.7 **Waiver of Sovereign Immunity, etc.**

In any arbitration proceeding, or any legal proceeding to enforce any award resulting from an arbitration proceeding, each party expressly waives any defense of sovereign immunity and any other defense or exemption from suit, judgment or execution based on the fact or allegation that it is a party, agency or instrumentality of or otherwise represents a government or governmental or public body.

15.8    **Continued Performance**

During the period when a dispute is being resolved, the Parties shall in all other respects continue their implementation of this Agreement.

**16.    MISCELLANEOUS**

16.1    Recitals. The Recitals to this Agreement form an integral part thereof.

16.2    Language. Originals of this Agreement shall be prepared in Chinese and English with each language version having equal legal effect.

16.3    Originals. This Agreement shall be executed in six (6) Chinese originals and six (6) English originals. Each party to this Agreement shall keep a Chinese original and an English original. There shall be filed with the Approval Authority a Chinese original and an English original under Article 5 hereof.

16.4    Assignment. This Agreement shall not be assignable by any of the Parties hereto without the prior written consent of the other parties.

16.5    Amendment. No change, modification or amendment of the Agreement shall be valid or binding on the Parties unless such change, modification or amendment shall be in writing signed by all parties.

16.6    Continuing Effect of Agreement. Except to the extent that they have been performed and except where this Agreement provides otherwise, the obligations contained in this Agreement remain in force after the Closing under Article 7.

16.7    No Waiver. The failure of any party to insist on strict performance of a covenant hereunder or of any obligation hereunder shall not be a waiver of such party’s right to demand strict compliance therewith in the future, nor shall the same be construed as a novation of this Agreement.

16.8    Severability. In the event any provision, clause, sentence, phrase, or word hereof, or the application thereof in any circumstances, is held to be invalid or unenforceable, such invalidity or

unenforceability shall not affect the validity or enforceability of the remainder hereof, or of the application of any such provision, sentence, clause, phrase, or word in any other circumstances.

- 16.9    Entire Agreement. This Agreement constitutes the entire agreement and understanding among the Parties in respect of the subject matter hereof and supersedes all prior discussions, negotiations and agreements among them.
- 16.10    Further Assurances. Each party hereto agrees to do all acts and things and to make, execute and deliver such written documents and instruments, as shall from time to time be reasonably required to carry out the terms and provisions of this Agreement.
- 16.11    Counterparts. This Agreement may be executed in separate counterparts, each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

**IN WITNESS WHEREOF**, the Parties have caused this Agreement to be executed by their duly authorized representatives in Shanghai as of the day and year first above written.

<b>Fushun Electric Porcelain Works</b>	<b>Trench (UK) Limited</b>
/s/ Ye Li Mao	/s/ John Finlay
<hr/>	<hr/>
By: Ye Li Mao	By: John Finlay
Title: Director	Title: Director

Trench Limited

Shanghai Instrument Transformer Works

/s/ John Finlay

By: John Finlay

Title: Director

/s/ Zhang Wei Guo

By: Zhang Wei Guo

Title: Director

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SCHEDULE ONE

TRANSFER OF EQUITY INTEREST

Party	Before Transfer		After Transfer	
	Shareholding Percentage (%)	Registered Capital Amount (RMB)	Shareholding Percentage (%)	Registered Capital (RMB)
Transferor	49.6	16,727,000	2	674,480
Trench UK	50.4	16,997,000	50.4	16,997,000
Trench Canada	0	0	14.6	4,923,600
SITW	0	0	33	11,128,920
Total	100	33,724,000	100	33,724,000

**SCHEDULE TWO**

**EMPLOYEES**

**SCHEDULE THREE**

**LOANS AND SECURITIES**

**ANNEXURE A**

**REVISED ARTICLES OF ASSOCIATION**

**ANNEXURE B**

**REVISED JOINT VENTURE CONTRACT**

**ANNEXURE C**

**LEGAL REPRESENTATIVE'S UNDERTAKING AND GUARANTEE**

**TO:**

**Trench (UK) Limited**  
South Drive  
Hebburn, Tyne & Wear NE31 1UW

**Trench Limited**  
71 Maybrook Drive  
Scarborough, Ontario  
Canada M1V 4B6

**Shanghai Instrument Transformer Works**  
427 Jumen Road  
Shanghai  
PRC

**Fushun Reyrolle Bushing Co., Limited**  
Economic Development Area  
Fushun, Liaoning Province,  
PRC

26<sup>th</sup> September 2002

Dear Sirs

**PERSONAL UNDERTAKING**

**Re: Fushun Reyrolle Bushing Co., Limited (“Company”) and Fushun Electric Porcelain Works (“FEPW”)**

I hereby in my personal capacity confirm, warrant and represent as follows:

1. I am the Legal Representative of the Company and Chairman of the Board of the Company and as such have authority to bind the Company and I am in the best position to know of Company matters
2. FEPW is the registered holder and beneficial owner of the Transfer Equity Interest and have power to transfer title to the Transfer Equity Interest, subject to the release of the Fushun Court Orders described in paragraphs (i) to (iv) of Article 1.1(r) of the Equity Transfer Agreement.
3. Save as specifically disclosed in the Disclosure Schedule, there are no claims, security interests, liens, pledges, charges, escrows, options, proxies, rights of first refusal, preemptive rights, mortgages, title retention agreements, indentures, security agreements of any kind or any other encumbrances to the registered capital of the Company, including any Equity Interest, or against the assets of the Company.
4. All information given by or on behalf of and the Company to Trench and SITW, their advisers or agents before or during the negotiations leading to the Equity Transfer Agreement, Revised Articles of Association and Revised Joint Venture Contract and any related agreements, as well as the information set out in those documents, is true, complete, accurate and not misleading.

5. The Company has paid all taxes which it has become liable to pay and is not, and has not been liable to pay a penalty, surcharge, fine or interest in connection with any tax.
6. The assets owned, possessed or used by the Company comprise all the assets required to enable the Company to carry on its business fully and effectively in the ordinary course.
7. The Company has not released a debt shown in the Company accounts or its accounting records so that the debtor has paid or will pay less than the debt's book value.
8. Save as disclosed in the Disclosure Schedule, the Company has paid its creditors within the times agreed with them and no debt owing by it has been due for more than [ninety (90)] consecutive days.
9. Except as disclosed in the Company accounts, the Company does not have outstanding and has not agreed to create or incur loan capital, borrowing or indebtedness in the nature of borrowing, including, without limitation, a bank overdraft, a liability under an acceptance (other than a normal trade bill) or acceptance credit.
10. At the date hereof the loan agreements, guarantees, securities and mortgages and other encumbrances listed in the Disclosure Schedule (**Loans and Securities**) are the only Loans and Securities entered into by the Company which are outstanding.
11. Save as disclosed in the Disclosure Schedule, the Company is not in default of any provision of any of the Loans and Securities and all payments have been made in the due date for payment as settled in loan agreements.
12. Other than disclosed in the Disclosure Schedule:
  - (a) neither the Company nor a person for whose acts or defaults the Company may be vicariously liable is involved, or has during the two (2) years ending on the date of this letter been involved, in a civil, criminal, arbitration, administrative or other proceeding in any jurisdiction;
  - (b) no civil, criminal, arbitration, administrative or other proceeding in any jurisdiction is pending or threatened by or against the Company or a person for whose acts or defaults the Company may be vicariously liable.

Each of the warranties and representations given above are made to each of Trench (UK) Limited, Trench Limited and SITW.

Defined terms used in this letter have the meanings given them in the Equity Transfer Agreement.



The confirmation, warranties and representations given in this letter applies at the date of this letter, the date of execution of the Equity Transfer Agreement and the Closing Date.

I fully indemnify and shall keep indemnified the Company, SITW and Trench (“**Indemnified Parties**”) against all losses and liabilities incurred by the Indemnified Parties arising directly or indirectly as a result of or in connection with any breach of the warranties and representations set out in this letter.

Yours faithfully

Ye Li Mao

**DISCLOSURE SCHEDULE**

- 1. Fushun Court Orders described in paragraphs (i) to (iv) or Article 1.1(r) of the Equity Transfer Agreement, being the following property preservation orders issued by the Fushun City Intermediate Court:
  - (a) Against the FEPW’s equity holdings in the Company in favour of the Fushun City Social Security Insurance General Corporation issued on 11 April 2002;
  - (b) Against the FEPW’s equity holdings in the Company and debts in favour of the Fushun City Housing Fund Administrative Bureau issued on 18 July 2002;
  - (c) Against the FEPW’s equity holdings in the Company and its deposits or assets in favour of the Bank of China Fushun Branch issued on 30 August 2002; and
  - (d) the enforcement assistance order issued to the Company in relation to the property preservation order described in paragraph (iii) dated 2 September 2002.
- 1. Statutory preemptive rights of Trench (UK) Limited

**DATED \_\_\_\_April 2002**

**TRENCH LIMITED**

**AND**

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO LTD**

**SHANGHAI SITICO INTERNATIONAL TRADING COMPANY**

**AND**

**MWB (SHANGHAI) CO LTD**

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**SHUNT REACTOR TECHNOLOGY HEAD-LICENCE AGREEMENT**

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**THIS SHUNT REACTOR TECHNOLOGY HEAD-LICENCE AGREEMENT** (the “**Agreement**”) is made on \_\_\_\_\_ April 2002.

**BETWEEN**

- (1) **TRENCH LIMITED (“Licensor”)**, a company duly organised and existing under the laws of Canada whose registered office is at 71 Maybrook Drive, Scarborough, Ontario M1V 4B6, Canada;
- (2) **SHANGHAI INSTRUMENT TRANSFORMER WORKS CO LTD** (the “**SITW**”), a legal person organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at 427 Jumen Road, Shanghai, People’s Republic of China; and
- (3) **SHANGHAI SITICO INTERNATIONAL TRADING COMPANY** (the “**SITICO**”), a legal person organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at 111 Jiu Jiang Road, Shanghai, the People’s Republic of China.
- (4) **MWB (SHANGHAI) CO LTD** (the “**Joint Venture Company**”), limited liability equity joint venture company organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at No 3658 Jiangcheng Road, Shanghai, the People’s Republic of China.

For the purposes of this Agreement, SITW shall be referred to as the “**Licensee**” unless otherwise provided. SITICO shall act as the agent of the Licensee only for the import of the Shunt Reactor Technology and Know-how, which shall only be obliged to perform the payment obligations and other related commercial obligations as agent for SITW related to the import of the Shunt Reactor Technology and Know-how. SITICO shall not acquire any rights in relation to this Shunt Reactor Technology and Know-how as a result of entering into this Agreement. SITICO will not be responsible for any breach by the Licensee and the Joint Venture Company.

**WHEREAS**

- (A) Pursuant to a joint venture contract (the “**Joint Venture Contract**”) and articles of association each dated 12 November 1992, the Licensee and MWB High Voltage Systems GmbH (“**MWB**”) (which has since been restructured as Trench Germany GmbH) established the Joint Venture Company.
- (B) Pursuant to the terms of the Restated JV Contract (as defined below), the Combined Coil Products (as defined below) are to be added to the business of the Joint Venture Company.
- (C) The Licensor is the owner of the Shunt Reactor Technology and Know-how relating to the Licensed Products.
- (D) The Parties intend to enter into this Agreement for the license by the Licensor to the Licensee of the right to sub-license the Shunt Reactor Technology and Know-how relating to the Licensed

Products to the Joint Venture Company in the Licensed Territory (in each case as defined below) upon the terms and conditions set forth herein.

**NOW IT IS AGREED** between the Parties and follows:

1.     **DEFINITIONS**

1.1     Unless otherwise defined in this Agreement, terms defined in the Restated JV Contract shall have the same meanings when used in this Agreement.

1.2     In addition, the following words and expressions shall have the meanings given to them below when used in this Agreement:

“**Approval**” means approval of the Amendment by the Examination and Approval Authority.

“**Approval Date**” means the date on which the Approval is granted.

“**Affiliate**” means in relation to each Party, any person who is directly or indirectly controlling or controlled by or under direct or indirect common control with such Party and any parent of such Party. For the purposes of this definition, “control” when used with respect to any person means the ownership of over fifty percent (50%) of the voting stock, registered capital or other interest of that person, directly or indirectly, whether through the ownership of voting securities, by contractor otherwise, or the power to appoint the manager or majority of members of the management committee, board of directors or equivalent decision making body.

“**Amendment**” means the Amendment to the Restated JV Contract and the Amendment to the Restated Articles of Association dated on or about the date of this Agreement.

“**Center**” has the meaning given in Clause 16.1.

“**Combined Coil Products**” means the Line Trap Products, Series Reactor Products and Shunt Reactor Products.

“**Combined Coil Technology Agreements**” means this Agreement, Series Reactor Technology Head Licence Agreement and Line Trap Technology Head Licence Agreement.

“**Combined Coil Technology and Know-how**” means the Line Trap Technology and Know-how, Series Reactor Technology and Know-how and Shunt Reactor Technology and Know-how.

“**Conversion Date**” means, in relation to the conversion of Renminbi to US Dollars for the purpose of paying the Technology Licence Fee hereunder, the date falling five (5) banking days before the date on which the Technology Licence Fee is due.

“**Conversion Rate**” means the official exchange rate published by the People’s Bank of China, Shanghai Branch prevailing on the Conversion Date.

“**Execution Date**” means the date on which this Agreement is signed.

“**Effective Term**” means the period commencing on the Approval Date and expiring on the date of expiration of the Royalty Term.

“**Examination and Approval Authority**” means the Ministry of Foreign Trade and Economic Cooperation or the authority entrusted by such Ministry to register this Agreement and approve the Amendment.

“**Force Majeure**” has the meaning given in Clause 14.1.

“**Improvements**” means any improvement, modification or alteration to the Licensed Products or to the Shunt Reactor Technology and Know-how.

“**Licensed Products**” means the products defined in Schedule 1 under the heading “Licensed Coverage”.

“**Licensed Territory**” means China (but excludes the Hong Kong SAR, Macau and Taiwan).

“**Line Trap Products**” means the licensed products under the Line Trap Technology Head Licence Agreement.

“**Line Trap Technology and Know-how**” has the meaning ascribed to it in the Line Trap Technology Head Licence Agreement.

“**Line Trap Technology Head Licence Agreement**” means the agreement titled “Line Trap Technology Head Licence Agreement” between the parties dated on or about the same date as this Agreement.

“**Parties**” means the Licensee, the Licensor and the Joint Venture Company, and “**Party**” means any of them.

“**PRC**” or “**China**” means the People’s Public of China.

“**Restated JV Contract**” means the restated joint venture contract dated 7 April 2000 as amended by the Amendment between the SITW, Trench Germany GmbH, Trench Switzerland AG and the Licensor.

“**Royalty Term**” means the period of 9 years and 8 months from the date of issue by the Joint Venture Company of the first commercial invoice for any of the Combined Coil Products .

“**Series Reactor Products**” means the licensed products under the Series Reactor Technology Head Licence Agreement.

“**Series Reactor Technology and Know-how**” has the meaning ascribed to it in the Series Reactor Technology Head Licence Agreement.

“**Series Reactor Technology Head Licence Agreement**” means the agreement titled “ Series Reactor Technology Head Licence Agreement” between the parties dated on or about the same date as this agreement.

“**Shunt Reactor Products**” means the Licensed Products under this Agreement.

“**Shunt Reactor Technology and Know-how**” means the Licensor’s knowledge, technology and methods necessary for the manufacture, management, quality control, quality inspection, packaging and sale of the Licensed Products and supplied in accordance with this Agreement, whether in written form, drawing or otherwise, and which includes, without limitation, at least the following:

- (a) raw materials, product and process specifications, product formulae, design information and drawings as well as technical specifications of the production equipment and processing specifications;
- (b) technology, techniques, quality control, quality inspection, technology standards and good manufacturing practices required for production;
- (c) information and experience required for installation, testing, use, inspection, repair and maintenance of production equipment;
- (d) information and experience for management of operation procedures, production, quality control, marketing and sales;
- (e) information on marketing, label design, advertising, promotional materials and other techniques;
- (f) information relating to the latest improvements, corrections and developments to or of the technology and know-how licensed under this Agreement; and
- (g) the detailed documents and appendices relating to the content of the technology and know-how licensed under this Agreement, as summarised in Schedule 1.

“**Shunt Reactor Technology Head Licence Agreement**” means this Agreement.

“**Shunt Reactor Test Date**” means the date on which Licensor and the Joint Venture Company sign a test report to certify that the 69kv Shunt Reactor manufactured according to Chinese standard specifications using the Shunt Reactor Technology and Know-how has been successfully type tested.

“**Sub-Licence Agreement**” means the agreement entered into between SITW, the Licensor and the Joint Venture Company for the license of Combined Coil Technology and Know-how dated on or about the date of this Agreement.

“**Technical Documentation**” means documentary materials relating to the Combined Coil Technology and Know-how furnished to the Joint Venture Company by the Licensor in accordance with this Agreement (as summarised in Schedule 1) and the other Combined Coil Technology Agreements.

"**Technical Service Agreement**" means the agreement between the Licensor and the Joint Venture Company for the provision of technical services dated on or about the date of this Agreement.

"**Technology Licence Fee**" has the meaning given in Clause 4.1.

"**US Dollar**" or "**US\$**" means the lawful currency of the United States of America.

- 1.3 The table of contents and headings to the Clauses and Schedules are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.
- 1.4 In this Agreement, unless the context otherwise requires:
  - (a) references to Clauses and Schedules are to the clauses of and the schedules annexed to this Agreement;
  - (b) words importing the plural shall include the singular, and vice versa;
  - (c) references to a "person" shall be construed as including references to an individual, enterprise, firm, partnership, consortium, joint venture, association, joint stock company, trust, unincorporated organisation or governmental or non governmental organisation, whether or not having separate legal personality; and
  - (d) "including" and similar expressions are not words of limitation.

2. **SCOPE AND CONTENTS OF SHUNT REACTOR TECHNOLOGY AND KNOW-HOW**

- 2.1 Subject to the terms and conditions contained herein, the Licensor hereby grants within the Licensed Territory to the Licensee and the Licensee hereby accepts from the Licensor, an exclusive, non-transferable licence of the Shunt Reactor Technology and Know-how for the Effective Term, granted strictly in accordance with the terms of this Agreement and only to the extent that the Licensee sub-licence, strictly in accordance with the terms of the Sub-Licence Agreement the Shunt Reactor Technology and Know-how, together with the Line Trap Technology and Know-how and the Series Reactor Technology and Know-how, to the Joint Venture Company in connection with the manufacture and sale of the Combined Coil Products, including the Licensed Products, by the Joint Venture Company in the Licensed Territory. Nothing in this Agreement shall entitle the Licensee to use the Shunt Reactor Technology and Know-how other than to sub-licence the same to the Joint Venture Company.
- 2.2 The Licensor shall send experts or technical personnel and provide complete, timely and adequate technical support to provide the Shunt Reactor Technology and Know-how to the Joint Venture Company as specified in the agreed training program pursuant to this Agreement, the Sub-Licence Agreement and the Technical Service Agreement. The experts and technical personnel may be employees of the Licensor or be retained by the Licensor from other sources. The Shunt Reactor Technology and Know-how shall be transferred after the training program has been formulated and agreed by the Joint Venture Company and the Licensor.



- 2.3 In the event that the Licensee or the Joint Venture Company encounter technical difficulties that the Parties recognise that the Licensee or, as the case may be, the Joint Venture Company cannot resolve by itself, the Licensor shall, send experts or technical personnel to assist in resolving such technical problems as provided in Clause 3.2 of the Technical Service Agreement.
- 2.4 2.4.1 During the Effective Term, if the Licensee and/or Joint Venture Company makes or acquires any Improvements relating to the Licensed Products it shall, to the extent that it is not prohibited by any applicable law:
- (a) promptly notify the Licensor in writing giving details of the Improvements and shall provide the Licensor with such information or explanations as the Licensor may request; and
  - (b) procure that the Licensor may legally and effectively own and use the Improvements to enable the Licensor to grant the Licensee a non-exclusive licence to use the Improvements free of charge for the sole purpose of sub-licensing the same to the Joint Venture Company in accordance with the Sub-Licence Agreement.
- 2.4.2 If any applicable law prohibits ownership by Licensor of any Improvement made or acquired by the Joint Venture Company then such Improvement shall be owned and used by the Joint Venture Company subject as provided below:
- (a) Clause 2.4.2 shall by only relate to Improvements made or acquired whilst the relevant prohibition is in force in China;
  - (b) The Joint Venture Company shall own and use the Improvement subject to the same conditions as apply to its use of the Shunt Reactor Technology and Know-how;
  - (c) The relevant Improvement shall be forthwith exclusively licensed to the Licensor for as long as required by the Licensor free of charge and unconditionally; and
  - (d) The Joint Venture Company shall not sell or dispose of any interest in or to the Improvement without the consent of the Licensor.
- 2.5 If the Licensor makes or acquires any Improvements relating to the Licensed Products it shall, within twelve (12) months after the Improvements have been verified in commercial production by the Licensor, provide the Licensee details of the Improvements and such information or explanations as the Licensee may request for the sole purpose of sub-licensing the Improvements to the Joint Venture Company, subject to the restriction of Clause 2.1, free of charge.
- 2.6 The Licensee shall not (i) assign or otherwise transfer the Shunt Reactor Technology and Know-how, or any other rights granted to it under this Agreement, to any third party, or (ii) sub-

license the Shunt Reactor Technology and Know-how to any entity other than the Joint Venture Company without the prior written consent of the Licensor.

- 2.7 Upon the expiry of this Agreement, the Licensee may continue to use the Shunt Reactor Technology and Know-how (but solely to the extent and for the purpose referred to in Clause 2.1) without entering into a new technology licence agreement provided that the Licensee shall remain subject to the following provisions of this Agreement: 2.4, 2.6, 2.11 3, 9, 10, 12, 15, 16, 19, 20 and 21. However, if after the expiration of this Agreement, the Licensee requests to use or licence any know-how newly developed by the Licensor after the expiration of this Agreement for any purpose whatsoever, the Parties shall enter into a new technology know-how licence agreement and register the same with the Examination and Approval Authority.
- 2.8 The Licensor and the Joint Venture Company shall formulate a training program for personnel of the Joint Venture Company to master the Combined Coil Technology and Know-how, including the Shunt Reactor Technology and Know-how licensed hereunder, and shall specify the qualifications of personnel suitable for receiving such training. The Licensor shall be responsible for such training in order to ensure that employees of the Joint Venture Company receive adequate training in the design and manufacture of the Licensed Products.
- 2.9 If such training as aforesaid is to be conducted within the PRC, the Licensor will be responsible for expenses relating to travel and lodging (including food) of its personnel sent to the Joint Venture Company for conducting such training and the Joint Venture Company shall bear all other expenses relating thereto. If the Joint Venture Company retains experts who are not employees of the Licensor or its Affiliates to conduct training in China, the Joint Venture Company shall bear all related expenses.
- 2.10 If such training as aforesaid is to be conducted outside the PRC, the Joint Venture Company shall be responsible for expenses relating to travel and lodging (including food) of personnel of the Joint Venture Company sent for such training and the Joint Venture Company shall be responsible for all other expenses relating thereto.
- 2.11 The Licensee shall obtain the prior written approval of the Licensor before permitting the Joint Venture Company to proceed with each proposed use by the Joint Venture Company of any of the Combined Coil Technology and Know-how, including the Shunt Reactor Technology and Know-how. If the proposed use is not in conformity with this Agreement, the Licensor may, in its sole discretion, refuse to approve such a proposal, or may amend the proposal to bring it into conformity with this Agreement within a reasonable period from the receipt of the proposed use, and the Licensee shall, accept such refusal or amendment.

### 3. COMPLIANCE WITH LAWS

The Licensee shall, observe and comply with all laws, rules and regulations applicable to the sub-licensing of the Licensed Products in the Licensed Territory. The Licensee shall, at its own cost and expense, secure and maintain all necessary governmental permits, licences and approvals, and will fulfil all other requirements and undertakings related to this Agreement which are or may become necessary under any law or regulation, now or hereafter existing in the PRC, to enable the Parties to exercise, enforce and enjoy all of the rights and obligations

contained in this Agreement, including, but not limited to, registration certificate required from the Examination and Approval Authority and approvals if any necessary to enable the payment and remittance of the Technology Licence Fee to the Licensor in accordance with Clause 4.

4.     **PAYMENTS**

- 4.1     The Licensee shall pay through SITICO to the Licensor a technology licence fee (the “**Technology Licence Fee**”) in an amount of Four Million United States Dollars (US\$4,000,000) as follows:
- (a)     31.25% of the Technology Licence Fee equal to one million two hundred and fifty thousand United States dollars (US\$1,250,000) on or before 30 June 2004. This date may be extended to the Shunt Reactor Test Date if the Shunt Reactor Test Date is later than 30 June 2004 although it is expected that the Shunt Reactor Test Date shall not be later than 30 June 2004. In any event, payment shall only be required after receipt by Licensee and SITICO of the commercial invoice and payment instruction issued by the Licensor.
  - (b)     31.25% of the Technology Licence Fee equal to one million two hundred and fifty thousand United States dollars (US\$1,250,000) on or before the expiration of 12 months after the day of the payment referred to in paragraph (a). In any event, payment shall only be required after receipt by Licensee and SITICO of the commercial invoice and payment instruction issued by the Licensor.
  - (c)     37.5% of the Technology Licence Fee equal to one million five hundred thousand United States dollars (US\$1,500,000) on or before the expiration of 12 months after the day of payment referred to in paragraph (b). In any event, payment shall only be required after receipt by Licensee and SITICO of the commercial invoice and payment instruction issued by the Licensor.
- 4.2     The Licensee and SITICO shall pay the Technology Licence Fee to such account or accounts as shall be specified in writing by the Licensor to the Licensee.
- 4.3     All relevant bank charges incurred with respect to the payment of the Technology Licence Fee in the PRC shall be borne by the Licensee and SITICO.
- 4.4     In the event the Licensee and SITICO are unable to pay the Technology Licence Fee in US Dollars or another foreign currency acceptable to the Licensor as a result of any change in the foreign exchange laws or interpretation or application thereof, the Licensee and SITICO may, upon obtaining the prior written agreement of the Licensor, pay the Technology Licence Fee in RMB. In such case, the Licensee and SITICO shall assist the Licensor to convert the RMB into US Dollars or another foreign currency acceptable to the Licensor at the Conversion Rate on the Conversion Date, but the foreign exchange risk and related costs shall be borne by the Licensor.

5.     **TAX**

- 5.1     Where the Licensee and SITICO are required under PRC law to withhold tax (including business tax) on the Technology Licence Fee receivable by the Licensor under this Agreement, the Licensee and SITICO shall withhold the same and pay over the same to the relevant PRC tax authority on behalf of the Licensor. The Licensee and SITICO undertake to deliver promptly to the Licensor all receipts, certificates or other proof evidencing each amount withheld and paid by the Licensee and SITICO on account of such tax.
- 5.2     The Licensee and SITICO agree and undertake to assist the Licensor to the greatest extent possible in applying for all tax benefits that the Licensor may be entitled to under Chinese law.
- 5.3     All taxes to be levied inside and outside PRC on Licensor in connection with the payment made to the Licensor under this Agreements shall be borne by the Licensor.

6.     **TECHNICAL DOCUMENTATION**

The Licensor shall have the right to make necessary amendments to the Technical Documentation from time to time.

7.     **VERIFICATION AND ACCEPTANCE**

- 7.1     As soon as is practicable after delivery of the Technical Documentation, the Licensor and the Joint Venture Company shall conduct test-runs to determine whether the equipment of the Joint Venture Company can produce the Licensed Products at quality standards which satisfy the quality standards specified by the Licensor’s Shunt Reactor Technology and Know-how. After the conduct of successful test-runs, the Licensor and the Joint Venture Company shall sign an acceptance certificate to such effect.
- 7.2     Test runs of equipment shall be conducted jointly by the Licensor and the Joint Venture Company. A test run is the testing of installed machinery with respect to performance (speed and capacity) and quality.
- 7.3     Neither the Licensor nor the Licensee shall be responsible for the Joint Venture Company’s losses resulting from:-
- (a)     the raw materials purchased by the Joint Venture Company directly or indirectly not conforming to the raw material standards in the Technical Documentation;
  - (b)     lack of experience of the Joint Venture Company’s personnel in manufacturing the Licensed Products resulting in errors; or
  - (c)     Force Majeure.

8.     **QUALITY AND INSPECTION**
- 8.1    The Licensee shall, sub-licence the Joint Venture Company to, manufacture, store, analyse, test and sell the Licensed Products only in strict accordance with the Shunt Reactor Technology and Know-how supplied by the Licensor.
9.     **CONFIDENTIALITY**
- 9.1    The Licensee shall, on and from the Execution Date, during the term of this Agreement and within five (5) years after its termination or expiration for any reason, keep confidential and not, for any purpose other than the performance of its obligations under this Agreement, make use of or disclose to any other person otherwise than in accordance with Clause 9.2 or with the prior written consent of the Licensor, the scope and content of the Combined Coil Technology and Know-how, including the Shunt Reactor Technology and Know-how, including but not limited to, information contained in the Technical Documentation (if any has been delivered to the Licensee), and any other information disclosed (whether in writing, verbally or by other means) by or on behalf of the Licensor, unless such technology and know-how is public knowledge or is otherwise required by applicable laws or regulations or by an order of a court having competent jurisdiction.
- 9.2    During the Effective Term, the Licensee may disclose information which is confidential under Clause 9.1 to the Joint Venture Company or their respective employees, but only to the extent necessary for the purposes of this Agreement and provided such employees have signed a confidentiality agreement in the form set out in Schedule 2.
- 9.3    The Licensee shall at its own expense, take such steps as the Licensor may require to enforce the terms of any confidentiality contract executed pursuant to Clause 9.2 including, but not limited to, the initiation, prosecution and enforcement of any legal proceedings.
10.    **CLAIMS AND INFRINGEMENTS**
- 10.1   The Licensee shall immediately notify the Licensor of any claim, or any fact which may lead to a claim, of any nature by a third party that the sub-licensing of the Shunt Reactor Technology and Know-how by the Licensee the use of the Shunt Reactor Technology and Know-how by the Joint Venture Company is or may be an infringement of a patent or other proprietary right of such third party, but otherwise shall take no action relating to such claim or infringement without the Licensor’s written consent. The Licensor shall advise the Licensee whether it wishes to conduct a defence of any such claim. Should the Licensor elect to conduct such a defence, it shall do so at its own expense, and the Licensor shall have sole control of such defence and the Licensee shall give all reasonable assistance to the Licensor to enable it to do so.
- 10.2   The Licensor shall indemnify the Licensee and bear related costs for any claims, losses, damages, proceedings sustained by the Licensee in relation to any claims that may be made against the Licensee pursuant to Clause 10.1, unless such claims, losses, damages, proceedings result from the default by the Licensee of their obligations under this Agreement or the use of Shunt Reactor Technology and Know-how by the Licensee otherwise than in accordance with this Agreement.

- 10.3 If any third party takes any action in connection with the sub-licensing of the Shunt Reactor Technology and Know-how by the Licensee and thereby hinders the Licensee from sub-licensing the Shunt Reactor Technology and Know-how to the Joint Venture Company for the manufacture, packaging or sale of the Licensed Products, the Licensor shall be responsible for taking action, including defending any legal claim or reconciling with a third party to remove such hindrance.
- 10.4 In the event that the Licensor elects not to take action under Clause 10.3, the Licensee may, with the written consent of the Licensor, take action in relation to the relevant infringement, and the Licensor shall reimburse the Licensee for any costs and expenses incurred for taking such action and give all reasonable assistance in connection therewith.
- 10.5 Notwithstanding the foregoing, the Licensee shall not enter into any compromise, settlement or agreement with any person or entities relating to the Shunt Reactor Technology and Know-how otherwise than with the written consent of the Licensor.

## 11. WARRANTIES

- 11.1 The Licensor hereby represents and warrants to the Licensee that it has the right to license the Shunt Reactor Technology and Know-how to the Licensee in accordance with this Agreement and such licensing does not violate the relevant laws of the jurisdictions of the Licensor and shall not infringe any third party rights, and that the Shunt Reactor Technology and Know-how, and the relevant technical assistance, guidance and training, shall be sufficient to enable the quality of the Licensed Products to reach the specifications and standards required by this Agreement.
- 11.2 The Licensor shall use all reasonable endeavours to ensure that the Technical Documentation shall be readable, complete and accurate in English. The Licensee shall notify the Licensor in writing within four (4) months after receipt thereof if any of the Technical Documentation is not readable, complete or accurate and the Licensor shall correct or replace the defective portions of the Technical Documentation free of charge to the Licensee. In the absence of a written notice from the Licensee to the Licensor within the four (4) month period, the Technical Documentation in question shall be deemed to have been approved and accepted by the Licensee.
- 11.3 The Licensee and SITICO warrant that it will neither contest, deny or dispute the exclusive right of the Licensor in the Shunt Reactor Technology and Know-how or the validity or enforceability of the Shunt Reactor Technology and Know-how in the PRC or any other country, nor will they assist anyone else to do so. Each of the Licensee and SITICO agrees that it shall not, take any action of any kind inconsistent with the Licensor's rights in the Shunt Reactor Technology and Know-how, and acknowledges that nothing in this Agreement confers upon either the Licensee or SITICO a proprietary interest of any kind in and to any of the Shunt Reactor Technology and Know-how or simulations thereof.

## 12. TERM AND TERMINATION

- 12.1 This Agreement shall take effect on the Execution Date and shall remain in full force and effect thereafter until the last day of the Effective Term subject to Clause 2.7 unless terminated earlier pursuant to Clause 12.2 provided that if the Restated JV Contract or the Sub-Licence Agreement or any of the Combined Coil Technology Agreements is terminated prior to the expiration of its term, this Agreement shall automatically terminate with immediate effect from the date of termination of the Restated JV Contract or the Sub-Licence Agreement or any of the Combined Coil Technology Agreements (as the case may be), except that termination shall not affect:
- (a) The accrued rights and obligations of the Parties at the date of termination; and
  - (b) The continued existence and validity of the rights and obligations of the Parties under those clauses which are expressed to survive termination and any provisions of this Agreement necessary for the interpretation or enforcement of this Agreement.
- 12.2 This Agreement may be terminated:
- 12.2.1 by any Party giving notice to the other Parties if another Party has committed a material breach of this Agreement and such breach, if capable of remedy, has not been so remedied within sixty (60) days following receipt of such notice;
  - 12.2.2 by any Party giving notice to the other Parties in the event that an event of Force Majeure continues for a period of twelve (12) consecutive months that causes the Joint Venture Company to cease the production and sale of the Licensed Products and the Parties have been unable to find an equitable solution pursuant to Clause 14;
  - 12.2.3 by any Party giving notice to the other Parties if at any time during the term of this Agreement, the government of the PRC or of Canada or any agency thereof should require any material alteration or modification or termination of the contractual rights or obligations of any Party pursuant to this Agreement which has the effect of preventing any Party from performing its contractual obligations or from achieving its business objectives.
  - 12.2.4 by any Party giving notice to the other Parties if another Party becomes bankrupt, or insolvent, or is the subject of proceedings or arrangements for liquidation or dissolution, or ceases to carry on business, or becomes unable to pay its debts as they become due; or
  - 12.2.5 by the Licensor giving notice to the Licensee and the Joint Venture Company if the aggregate of the interests of the Licensor and any of its Affiliates in the Joint Venture Company is or becomes less than fifty percent (50%) of the registered capital of the Joint Venture Company as a result of any change in or requirement of Chinese law or any act of any Chinese governmental agency or court.
- 12.3 Either Party electing properly to terminate this Agreement pursuant to Clause 12.2 shall have no liability to the other Party for damages arising solely from the exercise of such right.

- 12.4 Upon expiration or termination of this Agreement, all amounts then due and unpaid to the Licensor by the Licensee hereunder shall forthwith become due and payable by the Licensee to the Licensor.
- 12.5 All Combined Coil Technology and Know-how, including the Shunt Reactor Technology and Know-how and the Technical Documentation (if any has been delivered to the Licensee), recorded in any material form including but not limited to any written records shall be returned by the Licensee to the Licensor forthwith upon the termination of this Agreement. The Licensee agrees on behalf of itself and its employees that no copies of the Combined Coil Technology and Know-how, including the Shunt Reactor Technology and Know-how, in any material form or of the Technical Documentation shall be made or retained upon and after the termination of this Agreement.

13. **AGENCIES**

The Parties are independent contractors, and nothing in this Agreement shall be construed to constitute any Party to be the agent, partner, legal representative, attorney or employee of any other Party for any reason whatsoever except as specifically set out in this Agreement. No Party shall have the power or authority to bind the other except as specifically set out in this Agreement.

14. **FORCE MAJEURE**

- 14.1 “**Force Majeure**” means all events which are beyond the control of the Parties to this Agreement, and which are unforeseen, or if foreseen, unavoidable, and which prevent total or partial performance by any Party. Such events shall include but are not limited to any explosions, shipwrecks, acts of nature or the public enemy, fires, flood, sabotage, accidents, strikes, wars, riots, insurrections, and any other similar contingency.
- 14.2 If an event of Force Majeure occurs, to the extent that any contractual obligation of any Party cannot be performed as a result of such event, such contractual obligation shall be suspended while the Force Majeure subsists and the due date for performance thereof shall be automatically extended, without penalty, for a period equal to such suspension.
- 14.3 The Party encountering Force Majeure shall, within fifteen (15) days of the relevant event, notify the other Parties and furnish valid proof of the occurrence of such Force Majeure. Within a reasonable period thereafter that Party shall provide the other Parties with evidence of the Force Majeure issued by a relevant agency. The Party encountering Force Majeure shall also use all reasonable endeavours to minimise the Force Majeure.
- 14.4 In the event of Force Majeure, the Parties shall immediately consult with each other in order to mutually agree an equitable solution (which may involve early termination of this Agreement, deletion of certain provisions thereof or extension of the term of this Agreement) and shall use all reasonable endeavours to minimise the consequences of such Force Majeure.



15.    **LIABILITY FOR BREACH**

- 15.1   (1) The Licensee shall indemnify and hold the Licensor indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, but excluding consequential loss or loss of profits, which the Licensor may incur, or which may be made against the Licensor as a result of or in relation to any breach by the Licensee of its obligations under this Agreement or arising out of any use of the Shunt Reactor Technology and Know-how by the Licensee which is not in accordance with this Agreement. For the avoidance of doubt the payments referred to in Clause 4 are not considered profit for the purpose of this Clause.
- (2) SITICO shall indemnify and hold the Licensor indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, but excluding consequential loss or loss of profits, which the Licensor may incur, or which may be made against the Licensor as a result of or in relation to any breach by SITICO (for which SITICO is responsible) of its obligation to perform the payment obligations and other related commercial obligations as agent for SITW related to the import of the Shunt Reactor Technology and Know-how.
- 15.2   The Licensor shall each indemnify and hold the Licensee and SITICO indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, (but excluding consequential loss or loss of profits,) which the Licensee may incur, or which may be made against the Licensee and SITICO as a result of or in relation to any breach by the Licensor of its obligations under this Agreement.
- 15.3   If any of the obligations in this Agreement cannot be performed due to the fault of all of the Parties, each party shall bear the responsibility for breach of contract in accordance with the extent of each party’s fault.

16.    **SETTLEMENT OF DISPUTES**

- 16.1   Any dispute or difference of any kind whatsoever arising out of or in connection with this Agreement or any of the agreements contemplated herein, including any question in connection with the existence, construction, interpretation, validity, termination or implementation of this Agreement or of any of the agreements contemplated herein, shall be referred to and finally settled by the Singapore International Arbitration Center (the “**Center**”) in accordance with the applicable arbitration rules of the United Nations Commission on International Trade Law.
- 16.2   The arbitration tribunal shall be composed of three (3) arbitrators. The Licensor and SITW each hereto shall be entitled to appoint one (1) arbitrator and the Center shall appoint the third (the Chairman) who shall not be a national of the country of incorporation of any Party. The place of arbitration shall be Singapore. The language to be used in any arbitration proceedings shall be English.
- 16.3   Any award made by the arbitration tribunal shall be final and binding on all Parties, who hereby exclude any right of appeal to any court which might otherwise have jurisdiction in the matter, and shall be enforceable in any country which is a signatory to the 1958 New York Convention.

- 16.4 No arbitration of any dispute or difference shall commence unless the Parties have attempted genuinely to settle the same amicably within a period of thirty (30) days after the date of the giving of a written notice of arbitration by one Party hereto to the other Parties, which notice shall describe generally the nature of the dispute.
- 16.5 The costs of arbitration shall be borne by the losing Party or Parties, unless otherwise determined by the arbitration award.
- 16.6 When any dispute occurs and when any dispute is under arbitration, except for the matters under dispute, the Parties shall continue to fulfil their respective obligations (and shall be entitled to exercise their rights) under this Agreement.

17. **ASSIGNMENT**

The Licensor may, without the written consent of the Licensee or the Joint Venture Company and without any further registration with the Examination and Approval Authority, have this Agreement in whole or in part performed by any one or more of its Affiliates, and may assign this Agreement to any company which may become a successor of the Licensor. The Licensor is only required to give notice to the Licensee and the Joint Venture Company of such an assignment.

18. **APPROVAL AND REGISTRATION AND FURTHER ASSURANCE**

- 18.1 Within thirty (30) days of the Execution Date , the Licensee and SITICO shall file an application for this Agreement (in Chinese and English) with the Examination and Approval Authority for registration. The Licensee and SITICO shall bear the costs in relation to such application.
- 18.2 Immediately after the Execution Date, the Licensee shall submit the Amendment to the Examination and Approval Authority for Approval.
- 18.3 The Licensee shall advance all necessary fees and expenses for the Approval and shall be reimbursed for the amounts so advanced from the funds of the Joint Venture Company, provided that such fees and expenses are fully and properly documented, and are paid directly to the relevant government authority and not to any service company or intermediary and are reasonably and necessarily incurred after consultation with the Licensor.
- 18.4 Without limiting Clause 18.1, and Clause 18.2 each Party must promptly at its own cost do all things necessary (including executing documents and obtaining all necessary governmental permits, licenses and approvals which are or may become necessary under any law or regulation, now or hereafter existing in the PRC) to enable the Parties to exercise, enforce and enjoy all of the rights and obligations contained in this Agreement.

19. **NOTICES**

- 19.1 Any notice or other communication provided for in this Agreement shall be in writing in the English and Chinese languages and shall be delivered personally or sent by telefax to the

person, address or telefax referred to below or to such other person, address or telefax number as a Party may specify by notice in writing to all the other Parties:

- (a) if to the Licensor, to:  
  
Name: Trench Limited  
  
Address: 71 Maybrook Drive, Scarborough, Ontario, M1V 4B6, Canada  
  
Facsimile: 1-416-2987083  
  
Marked for the attention of: John Finlay
  
- (b) if to the Licensee, to:  
  
Name: Shanghai Instrument Transformer Works Co. Ltd.  
  
Address: 427 Jumen Road, Shanghai, People’s Republic of China  
  
Facsimile: 8621-63014591  
  
Marked for the attention of: Zhang Wei Guo
  
- (c) if to SITICO  
  
Name: Shanghai SITICO International Trading Company  
  
Address: SITICO Building, 111 Jiu Jiang Road, Shanghai, China  
  
Facsimile: 8621-63291824  
  
8621-63291096  
  
Mark for the attention of: Zhang Le Shou  
  
other.
  
- (d) if to the Joint Venture Company  
  
Name: MWB (Shanghai) Co. Ltd.  
  
Address: No 3658 Jiangcheng Road, Minhang Shanghai China 200245  
  
Facsimile: 8621-64637828  
  
Mark for the attention of: Xu Ying

19.2 In the absence of evidence of earlier receipt, any notice or other communication shall be deemed to have been duly given:

- (a) if delivered personally, when left at the address referred to in Clause 19.1;
- (b) if sent by facsimile, when clearly received in full.

- 19.3 Notices given under any of the Combined Coil Technology Agreements shall be deemed to be a notice given under this Agreement and notice given under this Agreement shall be deemed to be notice given under all of the Combined Coil Technology Agreements.
20. **GENERAL**
- 20.1 The failure to exercise or delay in exercising a right or remedy under this Agreement shall not constitute a waiver of the right or remedy or a waiver of any other rights or remedies and no single or partial exercise of any right or remedy under this Agreement shall prevent any further exercise of the right or remedy or the exercise of any other right or remedy.
- 20.2 This Agreement shall be governed by and interpreted in accordance with Hong Kong law.
- 20.3 This Agreement shall be written and executed in both Chinese and English language versions. Each Party agrees that each language version is an accurate translation of the other and that both versions carry the same legal effect.
- 20.4 Should any Clause or any part of any Clause contained in this Agreement be declared invalid or unenforceable for any reason whatsoever, all other Clauses or parts of Clauses contained in this Agreement shall remain in full force and effect.
- 20.5 This Agreement constitutes the entire agreement between the Parties relating to the subject matter of this Agreement and supersedes all previous agreements.
- 20.6 If there is any conflict or inconsistency between the provisions of this Agreement and the Restated JV Contract, the provisions of the Restated JV Contract shall prevail.
- 20.7 No variation of this Agreement shall be valid unless it is in writing and signed by or on behalf of each of the Parties.
- 20.8 This Agreement shall be executed in six (6) originals in English and six (6) in Chinese.
- 20.9 This Agreement, the Line Trap Technology Head Licence Agreement, the Series Reactor Technology Head Licence Agreement are interdependent and must be signed at the same time. Default by a party under the any of these agreements may be treated by the other party as default under this Agreement.

**IN WITNESS WHEREOF** each of the Parties hereto has caused this Agreement to be executed by its duly authorised representative on the date first set forth above.

**TRENCH LIMITED**

/s/ John Finlay

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Name: John Finlay  
Title: Executive Vice President, North America and International  
Nationality: Canadian

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO. LTD.**

/s/ Zhang Wei Guo

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Name: Zhang Wei Guo  
Title: Director  
Nationality: Chinese

**SHANGHAI SITICO INTERNATIONAL TRADING COMPANY**

/s/ Zhao Jun Bo

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Name: Zhao Jun Bo  
Title: General Manager  
Nationality: Chinese

**MWB (SHANGHAI) CO LTD**

/s/ John Finlay

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Name: John Finlay  
Position: Authorised Signatory  
Nationality: Canadian

## **SCHEDULE 1**

### **LIST OF LICENCED PRODUCTS AND MAIN CONTENTS OF TECHNICAL DOCUMENTATION**

1. Licensed coverage  
  
Dry type air core coil technology for Shunt reactors up to 69KV.
2. Main contents
- 2.1 Design & Know How  
  
Complete designs and know how for the entire range according to IEC & ANSI standard, such as:
  - (1) Design Software — Electrical & Mechanical
  - (2) Design Costs — Material & Labour Hours
  - (3) Standard labour hours
  - (4) Standard parts drawings
  - (5) Typical drawing for one specific rating of each
- 2.2 Technical documentation, such as:
  - (1) Manufacturing Procedures
  - (2) Material Specifications
  - (3) QA Manual
  - (4) List of required manufacturing equipment
  - (5) List of required routine test equipment
  - (6) Welding standards
  - (7) Test & Inspection Plan
  - (8) Incoming material inspections and tests
  - (9) In-house quality test procedures
  - (10) Inspection standards
  - (11) In-process and final test procedures

- (12) The drawings for main tools & equipment and operational procedures for assembling.
- (13) Measures for quality assurance
- (14) Completed test items (incl. type test & routine test) and procedures
- (15) The list & specification of test equipment for routine tests, requirement on testing equipment and testing circuit, etc.
- (16) Other necessary documentation

SCHEDULE 2

EMPLOYEE CONFIDENTIALITY AGREEMENT

I \_\_\_\_\_ [name], [position] of Transformer Shanghai Instrument Transformer Works (“**SITW**”) [or MWB (Shanghai) Co., Ltd. or name of subcontractor] (“**Employer**”) hereby represent, warrant and agree to keep confidential the Combined Coil Technology and Know-how, the Technology Sub-Licence Agreement, dated [ ] between SITW, Trench Limited (as “**Contractor**”) and MWB (Shanghai) Co Ltd (the “**Joint Venture Company**”) and the Line Trap Reactor Head Licence Agreement, Shunt Reactor Technology Head Licence Agreement and the Series Reactor Technology Head Licence Agreement all dated [ ] between Trench Limited, SITW, Shanghai SITICO International Trading Company and the Joint Venture Company, , Technical Documentation and all other information, technical data or know-how as follows:

1. During the term of my employment with the Employer and after the termination thereof, I shall not, unless expressly required by law or a court order in the PRC, directly or indirectly, disclose by any means to any person, firm, enterprise, corporation or government agency or organisation in or of the People’s Republic of China or any other country, any information, whether in oral, written, pictorial, graphic or recorded form, concerning the design, manufacture, application, inspection, testing, maintenance, packaging, marketing or sale of the Combined Coil Products or any part of them or any other relevant information which may come to my knowledge or possession or be disclosed to me by the Joint Venture Company or Trench Limited because of or as a result of my employment by the Employer (hereinafter collectively referred to as the “**Confidential Information**”).
2. Without limiting in any way the foregoing agreement and obligation, I hereby agree that all printed, written, recorded or other materials containing or relating to the Confidential Information, prepared by me or which comes into my possession or knowledge during my employment with the Employer, are and shall remain to be the property of the Joint Venture Company, the Contractor or SITW (as the case may be), and, if requested by the Joint Venture Company, the Contractor or SITW or upon the termination of my employment with the Employer, all such materials, including all prints, copies or duplicates thereof, shall be either disposed of or returned to the Joint Venture Company or the Contractor in accordance with the Joint Venture Company’s, SITW’s or the Contractor’s instruction.
3. In consideration of the disclosure to me of the Confidential Information, I further agree that I will not, following termination of my employment with the Employer, directly or indirectly, engage in the manufacture of the Combined Coil Products or any part of them by making use of the Confidential Information.
4. I enter into this Contract with the express purpose and intent that either the Joint Venture Company, SITW and the Contractor derive benefits either herefrom, and I further understand and acknowledge that SITW, the Joint Venture Company [name of subcontractor] and the Contractor or any of them, shall have the right to enforce this Contract against me should I be deemed to have violated this Contract in any manner.



Terms defined in the Technology Sub-Licence Agreement shall have the same meanings when used in this Agreement.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 2002.

\_\_\_\_\_  
Name:  
Position:

This Confidentiality Agreement is for the benefit of the undersigned:

**TRENCH LIMITED**

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Name:  
Position:

**MWB (SHANGHAI) CO LTD**

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Name:  
Position:

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO., LTD.**

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Name:  
Position:

**DATED \_\_\_\_ April 2002**

**TRENCH LIMITED**

**AND**

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO LTD**

**SHANGHAI SITICO INTERNATIONAL TRADING COMPANY**

**AND**

**MWB (SHANGHAI) CO LTD**

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**SERIES REACTOR TECHNOLOGY HEAD-LICENCE AGREEMENT**

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**THIS SERIES REACTOR TECHNOLOGY HEAD-LICENCE AGREEMENT** (the “**Agreement**”) is made on      April 2002.

**BETWEEN**

- (1)    **TRENCH LIMITED** (“**Licensor**”), a company duly organised and existing under the laws of Canada whose registered office is at 71 Maybrook Drive, Scarborough, Ontario M1V 4B6, Canada;
- (2)    **SHANGHAI INSTRUMENT TRANSFORMER WORKS CO LTD** (the “**SITW**”), a legal person organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at 427 Jumen Road, Shanghai, People’s Republic of China; and
- (3)    **SHANGHAI SITICO INTERNATIONAL TRADING COMPANY** (the “**SITICO**”), a legal person organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at 111 Jiu Jiang Road, Shanghai, the People’s Republic of China.
- (4)    **MWB (SHANGHAI) CO LTD** (the “**Joint Venture Company**”), limited liability equity joint venture company organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at No 3658 Jiangcheng Road, Shanghai, the People’s Republic of China.

For the purposes of this Agreement, SITW shall be referred to as the “**Licensee**” unless otherwise provided. SITICO shall act as the agent of the Licensee only for the import of the Series Reactor Technology and Know-how, which shall only be obliged to perform the payment obligations and other related commercial obligations as agent for SITW related to the import of the Series Reactor Technology and Know-how. SITICO shall not acquire any rights in relation to this Series Reactor Technology and Know-how as a result of entering into this Agreement. SITICO will not be responsible for any breach by the Licensee and the Joint Venture Company.

**WHEREAS**

- (A)    Pursuant to a joint venture contract (the “**Joint Venture Contract**”) and articles of association each dated 12 November 1992, the Licensee and MWB High Voltage Systems GmbH (“**MWB**”) (which has since been restructured as Trench Germany GmbH) established the Joint Venture Company.
- (B)    Pursuant to the terms of the Restated JV Contract (as defined below), the Combined Coil Products (as defined below) are to be added to the business of the Joint Venture Company.
- (C)    The Licensor is the owner of the Series Reactor Technology and Know-how relating to the Licensed Products.
- (D)    The Parties intend to enter into this Agreement for the license by the Licensor to the Licensee of the right to sub-license the Series Reactor Technology and Know-how relating to the Licensed

Products to the Joint Venture Company in the Licensed Territory (in each case as defined below) upon the terms and conditions set forth herein.

**NOW IT IS AGREED** between the Parties and follows:

1. **DEFINITIONS**

1.1 Unless otherwise defined in this Agreement, terms defined in the Restated JV Contract shall have the same meanings when used in this Agreement.

1.2 In addition, the following words and expressions shall have the meanings given to them below when used in this Agreement:

“**Approval**” means approval of the Amendment by the Examination and Approval Authority.

“**Approval Date**” means the date on which the Approval is granted.

“**Affiliate**” means in relation to each Party, any person who is directly or indirectly controlling or controlled by or under direct or indirect common control with such Party and any parent of such Party. For the purposes of this definition, “control” when used with respect to any person means the ownership of over fifty percent (50%) of the voting stock, registered capital or other interest of that person, directly or indirectly, whether through the ownership of voting securities, by contractor otherwise, or the power to appoint the manager or majority of members of the management committee, board of directors or equivalent decision making body.

“**Amendment**” means the Amendment to the Restated JV Contract and the Amendment to the Restated Articles of Association dated on or about the date of this Agreement.

“**Center**” has the meaning given in Clause 16.1.

“**Combined Coil Products**” means the Line Trap Products, Series Reactor Products and Shunt Reactor Products.

“**Combined Coil Technology Agreements**” means this Agreement, the Line Trap Technology Head Licence Agreement, and Shunt Reactor Technology Head Licence Agreement.

“**Combined Coil Technology and Know-how**” means the Line Trap Technology and Know-how, Series Reactor Technology and Know-how and Shunt Reactor Technology and Know-how.

“**Conversion Date**” means, in relation to the conversion of Renminbi to US Dollars for the purpose of paying the Technology Licence Fee hereunder, the date falling five (5) banking days before the date on which the Technology Licence Fee is due.

“**Conversion Rate**” means the official exchange rate published by the People’s Bank of China, Shanghai Branch prevailing on the Conversion Date.

“**Effective Term**” means the period commencing on the Approval Date and expiring on the date of expiration of the Royalty Term.

“**Examination and Approval Authority**” means the Ministry of Foreign Trade and Economic Cooperation or the authority entrusted by such Ministry to register this Agreement and approve the Amendment.

“**Execution Date**” means the date on which this Agreement is signed.

“**Force Majeure**” has the meaning given in Clause 14.1.

“**Improvements**” means any improvement, modification or alteration to the Licensed Products or to the Series Reactor Technology and Know-how.

“**Licensed Products**” means the products defined in Schedule 1 under the heading “Licensed Coverage”.

“**Licensed Territory**” means China (but excludes the Hong Kong SAR, Macau and Taiwan).

“**Line Trap Products**” means the licensed products under the Line Trap Technology Head Licence Agreement.

“**Line Trap Technology and Know-how**” has the meaning ascribed to it in the Line Trap Technology Head Licence Agreement.

“**Line Trap Technology Head Licence Agreement**” means the Line Trap Technology Head Licence Agreement between the parties dated on or about the date of this agreement.

“**Parties**” means the Licensee, the Licensor and the Joint Venture Company, and “**Party**” means any of them.

“**PRC**” or “**China**” means the People’s Public of China.

“**Restated JV Contract**” means the restated joint venture contract dated 7 April 2000 as amended by the Amendment between the SITW, Trench Germany GmbH, Trench Switzerland AG and the Licensor.

“**Royalty Term**” means the period of 9 years and 8 months from the date of issue by the Joint Venture Company of the first commercial invoice for any of the Combined Coil Products.

“**Series Reactor Products**” means the Licensed Products under this Agreement.

“**Series Reactor Technology and Know-how**” means the Licensor’s knowledge, technology and methods necessary for the manufacture, management, quality control, quality inspection, packaging and sale of the Licensed Products and supplied in accordance with this Agreement, whether in written form, drawing or otherwise, and which includes, without limitation, at least the following:

- (a) raw materials, product and process specifications, product formulae, design information and drawings as well as technical specifications of the production equipment and processing specifications;

- (b) technology, techniques, quality control, quality inspection, technology standards and good manufacturing practices required for production;
- (c) information and experience required for installation, testing, use, inspection, repair and maintenance of production equipment;
- (d) information and experience for management of operation procedures, production, quality control, marketing and sales;
- (e) information on marketing, label design, advertising, promotional materials and other techniques;
- (f) information relating to the latest improvements, corrections and developments to or of the technology and know-how licensed under this Agreement; and
- (g) the detailed documents and appendices relating to the content of the technology and know-how licensed under this Agreement, as summarised in Schedule 1.

“**Series Reactor Technology Head Licence Agreement**” means this Agreement.

“**Shunt Reactor Products**” means the licensed products under the Shunt Reactor Technology Head Licence Agreement.

“**Shunt Reactor Technology Head Licence Agreement**” means the agreement titled “Shunt Reactor Technology Head Licence Agreement” between the parties dated on or about the same date as this agreement.

“**Shunt Reactor Technology and Know-how**” has the meaning ascribed to it in the “Shunt Reactor Technology Head Licence Agreement.

“**Sub-Licence Agreement**” means the agreement entered into between SITW, the Licensor and the Joint Venture Company for the license of Combined Coil Technology and Know-how dated on or about the date of this Agreement.

“**Technical Documentation**” means documentary materials relating to the Combined Coil Technology and Know-how furnished to the Joint Venture Company by the Licensor in accordance with this Agreement (as summarised in Schedule 1) and the other Combined Coil Technology Agreements.

“**Technical Service Agreement**” means the agreement between the Licensor and the Joint Venture Company for the provision of technical services dated on or about the date of this Agreement.

“**Technology Licence Fee**” has the meaning given in Clause 4.1.

“**US Dollar**” or “**US\$**” means the lawful currency of the United States of America.

- 1.3 The table of contents and headings to the Clauses and Schedules are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.



- 1.4 In this Agreement, unless the context otherwise requires:
- (a) references to Clauses and Schedules are to the clauses of and the schedules annexed to this Agreement;

(b) words importing the plural shall include the singular, and vice versa;

(c) references to a “person” shall be construed as including references to an individual, enterprise, firm, partnership, consortium, joint venture, association, joint stock company, trust, unincorporated organisation or governmental or non governmental organisation, whether or not having separate legal personality; and

(d) “including” and similar expressions are not words of limitation.
2. SCOPE AND CONTENTS OF SERIES REACTOR TECHNOLOGY AND KNOW-HOW
- 2.1 Subject to the terms and conditions contained herein, the Licensor hereby grants within the Licensed Territory to the Licensee and the Licensee hereby accepts from the Licensor, an exclusive, non-transferable licence of the Series Reactor Technology and Know-how for the Effective Term, granted strictly in accordance with the terms of this Agreement and only to the extent that the Licensee sub-licence, strictly in accordance with the terms of the Sub-Licence Agreement, the Series Reactor Technology and Know-how, together with the Line Trap Technology and Know-how and the Shunt Reactor Technology and Know-how, to the Joint Venture Company in connection with the manufacture and sale of the Combined Coil Products, including the Licensed Products, by the Joint Venture Company in the Licensed Territory. Nothing in this Agreement shall entitle the Licensee to use the Series Reactor Technology and Know-how other than to sub-licence the same to the Joint Venture Company.

2.2 The Licensor shall send experts or technical personnel and provide complete, timely and adequate technical support to provide the Series Reactor Technology and Know-how to the Joint Venture Company as specified in the agreed training program pursuant to this Agreement, the Sub-Licence Agreement and the Technical Service Agreement. The experts and technical personnel may be employees of the Licensor or be retained by the Licensor from other sources. The Series Reactor Technology and Know-how shall be transferred after the training program has been formulated and agreed by the Joint Venture Company and the Licensor.

2.3 In the event that the Licensee or the Joint Venture Company encounter technical difficulties that the Parties recognise that the Licensee or, as the case may be, the Joint Venture Company cannot resolve by itself, the Licensor shall, send experts or technical personnel to assist in resolving such technical problems as provided in Clause 3.2 of the Technical Service Agreement.

2.4 2.4.1 During the Effective Term, if the Licensee and/or Joint Venture Company makes or acquires any Improvements relating to the Licensed Products it shall, to the extent that it is not prohibited by any applicable law:

- (a) promptly notify the Licensor in writing giving details of the Improvements and shall provide the Licensor with such information or explanations as the Licensor may request; and
- (b) procure that the Licensor may legally and effectively own and use the Improvements to enable the Licensor to grant the Licensee a non-exclusive licence to use the Improvements free of charge for the sole purpose of sub-licensing the same to the Joint Venture Company in accordance with the Sub-Licence Agreement.

2.4.2 If any applicable law prohibits ownership by Licensor of any Improvement made or acquired by the Joint Venture Company then such Improvement shall be owned and used by the Joint Venture Company subject as provided below:

- (a) Clause 2.4.2 shall by only relate to Improvements made or acquired whilst the relevant prohibition is in force in China;
- (b) The Joint Venture Company shall own and use the Improvement subject to the same conditions as apply to its use of the Series Reactor Technology and Know-how;
- (c) The relevant Improvement shall be forthwith exclusively licensed to the Licensor for as long as required by the Licensor free of charge and unconditionally; and
- (d) The Joint Venture Company shall not sell or dispose of any interest in or to the Improvement without the consent of the Licensor.

2.5 If the Licensor makes or acquires any Improvements relating to the Licensed Products it shall, within twelve (12) months after the Improvements have been verified in commercial production by the Licensor, provide the Licensee details of the Improvements and such information or explanations as the Licensee may request for the sole purpose of sub-licensing the Improvements to the Joint Venture Company, subject to the restriction of Clause 2.1, free of charge.

2.6 The Licensee shall not (i) assign or otherwise transfer the Series Reactor Technology and Know-how, or any other rights granted to it under this Agreement, to any third party, or (ii) sub-license the Series Reactor Technology and Know-how to any entity other than the Joint Venture Company without the prior written consent of the Licensor.

2.7 Upon the expiry of this Agreement, the Licensee may continue to use the Series Reactor Technology and Know-how (but solely to the extent and for the purpose referred to in Clause 2.1) without entering into a new technology licence agreement provided that the Licensee shall remain subject to the following provisions of this Agreement: 2.4, 2.6, 2.11, 3, 9, 10, 12, 15, 16, 19, 20 and 21. However, if after the expiration of this Agreement, the Licensee requests to use or licence any know-how newly developed by the Licensor after the expiration of this Agreement for any purpose whatsoever, the Parties shall enter into a new technology know-how licence agreement and register the same with the Examination and Approval Authority.

- 2.8 The Licensor and the Joint Venture Company shall formulate a training program for personnel of the Joint Venture Company to master the Combined Coil Technology and Know-how, including the Series Reactor Technology and Know-how licensed hereunder, and shall specify the qualifications of personnel suitable for receiving such training. The Licensor shall be responsible for such training in order to ensure that employees of the Joint Venture Company receive adequate training in the design and manufacture of the Licensed Products.
- 2.9 If such training as aforesaid is to be conducted within the PRC, the Licensor will be responsible for expenses relating to travel and lodging (including food) of its personnel sent to the Joint Venture Company for conducting such training and the Joint Venture Company shall bear all other expenses relating thereto. If the Joint Venture Company retains experts who are not employees of the Licensor or its Affiliates to conduct training in China, the Joint Venture Company shall bear all related expenses.
- 2.10 If such training as aforesaid is to be conducted outside the PRC, the Joint Venture Company shall be responsible for expenses relating to travel and lodging (including food) of personnel of the Joint Venture Company sent for such training and the Joint Venture Company shall be responsible for all other expenses relating thereto.
- 2.11 The Licensee shall obtain the prior written approval of the Licensor before permitting the Joint Venture Company to proceed with each proposed use by the Joint Venture Company of any of the Combined Coil Technology and Know-how, including the Series Reactor Technology and Know-how. If the proposed use is not in conformity with this Agreement, the Licensor may, in its sole discretion, refuse to approve such a proposal, or may amend the proposal to bring it into conformity with this Agreement within a reasonable period from the receipt of the proposed use, and the Licensee shall, accept such refusal or amendment.

3. **COMPLIANCE WITH LAWS**

The Licensee shall, observe and comply with all laws, rules and regulations applicable to the sub-licensing of the Licensed Products in the Licensed Territory. The Licensee shall, at its own cost and expense, secure and maintain all necessary governmental permits, licences and approvals, and will fulfil all other requirements and undertakings related to this Agreement which are or may become necessary under any law or regulation, now or hereafter existing in the PRC, to enable the Parties to exercise, enforce and enjoy all of the rights and obligations contained in this Agreement, including, but not limited to, registration certificate required from the Examination and Approval Authority and approvals if any necessary to enable the payment and remittance of the Technology Licence Fee to the Licensor in accordance with Clause 4.

4. **PAYMENTS**

- 4.1 The Licensee shall pay through SITICO to the Licensor a technology licence fee (the “**Technology Licence Fee**”) in an amount of Five Million United States Dollars (US\$5,000,000) immediately after the Approval Date upon receipt by the Licensee and SITICO of the commercial invoice and payment instruction issued by the Licensor and in any event, no later than 30 June 2002.

- 4.2 The Licensee and SITICO shall pay the Technology Licence Fee to such account or accounts as shall be specified in writing by the Licensor to the Licensee.
- 4.3 All relevant bank charges incurred with respect to the payment of the Technology Licence Fee in the PRC shall be borne by the Licensee and SITICO.
- 4.4 In the event the Licensee and SITICO are unable to pay the Technology Licence Fee in US Dollars or another foreign currency acceptable to the Licensor as a result of any change in the foreign exchange laws or interpretation or application thereof, the Licensee and SITICO may, upon obtaining the prior written agreement of the Licensor, pay the Technology Licence Fee in RMB. In such case, the Licensee and SITICO shall assist the Licensor to convert the RMB into US Dollars or another foreign currency acceptable to the Licensor at the Conversion Rate on the Conversion Date, but the foreign exchange risk and related costs shall be borne by the Licensor.

5. TAX

- 5.1 Where the Licensee and SITICO are required under PRC law to withhold tax (including business tax) on the Technology Licence Fee receivable by the Licensor under this Agreement, the Licensee and SITICO shall withhold the same and pay over the same to the relevant PRC tax authority on behalf of the Licensor. The Licensee and SITICO undertake to deliver promptly to the Licensor all receipts, certificates or other proof evidencing each amount withheld and paid by the Licensee and SITICO on account of such tax.
- 5.2 The Licensee and SITICO agree and undertake to assist the Licensor to the greatest extent possible in applying for all tax benefits that the Licensor may be entitled to under Chinese law.
- 5.3 All taxes to be levied inside and outside PRC on Licensor in connection with the payment made to the Licensor under this Agreements shall be borne by the Licensor.

6. TECHNICAL DOCUMENTATION

The Licensor shall have the right to make necessary amendments to the Technical Documentation from time to time.

7. VERIFICATION AND ACCEPTANCE

- 7.1 As soon as is practicable after delivery of the Technical Documentation, the Licensor and the Joint Venture Company shall conduct test-runs to determine whether the equipment of the Joint Venture Company can produce the Licensed Products at quality standards which satisfy the quality standards specified by the Licensor’s Series Reactor Technology and Know-how. After the conduct of successful test-runs, the Licensor and the Joint Venture Company shall sign an acceptance certificate to such effect.
- 7.2 Test runs of equipment shall be conducted jointly by the Licensor and the Joint Venture Company. A test run is the testing of installed machinery with respect to performance (speed and capacity) and quality.

- 7.3 Neither the Licensor nor the Licensee shall be responsible for the Joint Venture Company’s losses resulting from:-
- (a) the raw materials purchased by the Joint Venture Company directly or indirectly not conforming to the raw material standards in the Technical Documentation:
  - (b) lack of experience of the Joint Venture Company’s personnel in manufacturing the Licensed Products resulting in errors; or
  - (c) Force Majeure.

8. **QUALITY AND INSPECTION**

- 8.1 The Licensee shall, sub-licence the Joint Venture Company to, manufacture, store, analyse, test and sell the Licensed Products only in strict accordance with the Series Reactor Technology and Know-how supplied by the Licensor.

9. **CONFIDENTIALITY**

- 9.1 The Licensee shall, on and from the Execution Date, during the term of this Agreement and within five (5) years after its termination or expiration for any reason, keep confidential and not, for any purpose other than the performance of its obligations under this Agreement, make use of or disclose to any other person otherwise than in accordance with Clause 9.2 or with the prior written consent of the Licensor, the scope and content of the Combined Coil Technology and Know-how, including the Series Reactor Technology and Know-how, including but not limited to, information contained in the Technical Documentation (if any has been delivered to the Licensee), and any other information disclosed (whether in writing, verbally or by other means) by or on behalf of the Licensor, unless such technology and know-how is public knowledge or is otherwise required by applicable laws or regulations or by an order of a court having competent jurisdiction.
- 9.2 During the Effective Term, the Licensee may disclose information which is confidential under Clause 9.1 to the Joint Venture Company or their respective employees, but only to the extent necessary for the purposes of this Agreement and provided such employees have signed a confidentiality agreement in the form set out in Schedule 2.
- 9.3 The Licensee shall at its own expense, take such steps as the Licensor may require to enforce the terms of any confidentiality contract executed pursuant to Clause 9.2 including, but not limited to, the initiation, prosecution and enforcement of any legal proceedings.

10. **CLAIMS AND INFRINGEMENTS**

- 10.1 The Licensee shall immediately notify the Licensor of any claim, or any fact which may lead to a claim, of any nature by a third party that the sub-licensing of the Series Reactor Technology and Know-how by the Licensee the use of the Series Reactor Technology and Know-how by the Joint Venture Company is or may be an infringement of a patent or other proprietary right of such third party, but otherwise shall take no action relating to such claim or infringement without the Licensor’s written consent. The Licensor shall advise the Licensee whether it wishes

to conduct a defence of any such claim. Should the Licensor elect to conduct such a defence, it shall do so at its own expense, and the Licensor shall have sole control of such defence and the Licensee shall give all reasonable assistance to the Licensor to enable it to do so.

- 10.2 The Licensor shall indemnify the Licensee and bear related costs for any claims, losses, damages, proceedings sustained by the Licensee in relation to any claims that may be made against the Licensee pursuant to Clause 10.1, unless such claims, losses, damages, proceedings result from the default by the Licensee of their obligations under this Agreement or the use of Series Reactor Technology and Know-how by the Licensee otherwise than in accordance with this Agreement.
- 10.3 If any third party takes any action in connection with the sub-licensing of the Series Reactor Technology and Know-how by the Licensee and thereby hinders the Licensee from sub-licensing the Series Reactor Technology and Know-how to the Joint Venture Company for the manufacture, packaging or sale of the Licensed Products, the Licensor shall be responsible for taking action, including defending any legal claim or reconciling with a third party to remove such hindrance.
- 10.4 In the event that the Licensor elects not to take action under Clause 10.3, the Licensee may, with the written consent of the Licensor, take action in relation to the relevant infringement, and the Licensor shall reimburse the Licensee for any costs and expenses incurred for taking such action and give all reasonable assistance in connection therewith.
- 10.5 Notwithstanding the foregoing, the Licensee shall not enter into any compromise, settlement or agreement with any person or entities relating to the Series Reactor Technology and Know-how otherwise than with the written consent of the Licensor.

## 11. **WARRANTIES**

- 11.1 The Licensor hereby represents and warrants to the Licensee that it has the right to license the Series Reactor Technology and Know-how to the Licensee in accordance with this Agreement and such licensing does not violate the relevant laws of the jurisdictions of the Licensor and shall not infringe any third party rights, and that the Series Reactor Technology and Know-how, and the relevant technical assistance, guidance and training, shall be sufficient to enable the quality of the Licensed Products to reach the specifications and standards required by this Agreement.
- 11.2 The Licensor shall use all reasonable endeavours to ensure that the Technical Documentation shall be readable, complete and accurate in English. The Licensee shall notify the Licensor in writing within four (4) months after receipt thereof if any of the Technical Documentation is not readable, complete or accurate and the Licensor shall correct or replace the defective portions of the Technical Documentation free of charge to the Licensee. In the absence of a written notice from the Licensee to the Licensor within the four (4) month period, the Technical Documentation in question shall be deemed to have been approved and accepted by the Licensee.

- 11.3 The Licensee and SITICO warrant that it will neither contest, deny or dispute the exclusive right of the Licensor in the Series Reactor Technology and Know-how or the validity or enforceability of the Series Reactor Technology and Know-how in the PRC or any other country, nor will they assist anyone else to do so. Each of the Licensee and SITICO agrees that it shall not, take any action of any kind inconsistent with the Licensor's rights in the Series Reactor Technology and Know-how, and acknowledges that nothing in this Agreement confers upon either the Licensee or SITICO a proprietary interest of any kind in and to any of the Series Reactor Technology and Know-how or simulations thereof.

## 12. TERM AND TERMINATION

- 12.1 This Agreement shall take effect on the Execution Date and shall remain in full force and effect thereafter until the last day of the Effective Term subject to Clause 2.7 unless terminated earlier pursuant to Clause 12.2 provided that if the Restated JV Contract or the Sub-Licence Agreement or any of the Combined Coil Technology Agreements is terminated prior to the expiration of its term, this Agreement shall automatically terminate with immediate effect from the date of termination of the Restated JV Contract or the Sub-Licence Agreement or any of the Combined Coil Technology Agreements (as the case may be), except that termination shall not affect:

- (a) The accrued rights and obligations of the Parties at the date of termination; and
- (b) The continued existence and validity of the rights and obligations of the Parties under those clauses which are expressed to survive termination and any provisions of this Agreement necessary for the interpretation or enforcement of this Agreement.

### 12.2 This Agreement may be terminated:

- 12.2.1 by any Party giving notice to the other Parties if another Party has committed a material breach of this Agreement and such breach, if capable of remedy, has not been so remedied within sixty (60) days following receipt of such notice;
- 12.2.2 by any Party giving notice to the other Parties in the event that an event of Force Majeure continues for a period of twelve (12) consecutive months that causes the Joint Venture Company to cease the production and sale of the Licensed Products and the Parties have been unable to find an equitable solution pursuant to Clause 14;
- 12.2.3 by any Party giving notice to the other Parties if at any time during the term of this Agreement, the government of the PRC or of Canada or any agency thereof should require any material alteration or modification or termination of the contractual rights or obligations of any Party pursuant to this Agreement which has the effect of preventing any Party from performing its contractual obligations or from achieving its business objectives.
- 12.2.4 by any Party giving notice to the other Parties if another Party becomes bankrupt, or insolvent, or is the subject of proceedings or arrangements for liquidation or

dissolution, or ceases to carry on business, or becomes unable to pay its debts as they become due; or

12.2.5 by the Licensor giving notice to the Licensee and the Joint Venture Company if the aggregate of the interests of the Licensor and any of its Affiliates in the Joint Venture Company is or becomes less than fifty percent (50%) of the registered capital of the Joint Venture Company as a result of any change in or requirement of Chinese law or any act of any Chinese governmental agency or court.

12.3 Either Party electing properly to terminate this Agreement pursuant to Clause 12.2 shall have no liability to the other Party for damages arising solely from the exercise of such right.

12.4 Upon expiration or termination of this Agreement, all amounts then due and unpaid to the Licensor by the Licensee hereunder shall forthwith become due and payable by the Licensee to the Licensor.

12.5 All Combined Coil Technology and Know-how, including the Series Reactor Technology and Know-how and the Technical Documentation (if any has been delivered to the Licensee), recorded in any material form including but not limited to any written records shall be returned by the Licensee to the Licensor forthwith upon the termination of this Agreement. The Licensee agrees on behalf of itself and its employees that no copies of the Combined Coil Technology and Know-how, including the Series Reactor Technology and Know-how, in any material form or of the Technical Documentation shall be made or retained upon and after the termination of this Agreement.

13. **AGENCIES**

The Parties are independent contractors, and nothing in this Agreement shall be construed to constitute any Party to be the agent, partner, legal representative, attorney or employee of any other Party for any reason whatsoever except as specifically set out in this Agreement. No Party shall have the power or authority to bind the other except as specifically set out in this Agreement.

14. **FORCE MAJEURE**

14.1 “**Force Majeure**” means all events which are beyond the control of the Parties to this Agreement, and which are unforeseen, or if foreseen, unavoidable, and which prevent total or partial performance by any Party. Such events shall include but are not limited to any explosions, shipwrecks, acts of nature or the public enemy, fires, flood, sabotage, accidents, strikes, wars, riots, insurrections, and any other similar contingency.

14.2 If an event of Force Majeure occurs, to the extent that any contractual obligation of any Party cannot be performed as a result of such event, such contractual obligation shall be suspended while the Force Majeure subsists and the due date for performance thereof shall be automatically extended, without penalty, for a period equal to such suspension.

14.3 The Party encountering Force Majeure shall, within fifteen (15) days of the relevant event, notify the other Parties and furnish valid proof of the occurrence of such Force Majeure. Within



a reasonable period thereafter that Party shall provide the other Parties with evidence of the Force Majeure issued by a relevant agency. The Party encountering Force Majeure shall also use all reasonable endeavours to minimise the Force Majeure.

- 14.4 In the event of Force Majeure, the Parties shall immediately consult with each other in order to mutually agree an equitable solution (which may involve early termination of this Agreement, deletion of certain provisions thereof or extension of the term of this Agreement) and shall use all reasonable endeavours to minimise the consequences of such Force Majeure.

15. **LIABILITY FOR BREACH**

- 15.1 (1) The Licensee shall indemnify and hold the Licensor indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, but excluding consequential loss or loss of profits, which the Licensor may incur, or which may be made against the Licensor as a result of or in relation to any breach by the Licensee of its obligations under this Agreement or arising out of any use of the Series Reactor Technology and Know-how by the Licensee which is not in accordance with this Agreement. For the avoidance of doubt, the payments referred to in Clause 4 are not considered profit for the purpose of this Clause.
- (2) SITICO shall indemnify and hold the Licensor indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, but excluding consequential loss or loss of profits, which the Licensor may incur, or which may be made against the Licensor as a result of or in relation to any breach by SITICO (for which SITICO is responsible) of its obligation to perform the payment obligations and other related commercial obligations as agent for SITW related to the import of the Series Reactor Technology and Know-how.
- 15.2 The Licensor shall each indemnify and hold the Licensee and SITICO indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, (but excluding consequential loss or loss of profits), which the Licensee may incur, or which may be made against the Licensee and SITICO as a result of or in relation to any breach by the Licensor of its obligations under this Agreement.
- 15.3 If any of the obligations in this Agreement cannot be performed due to the fault of all of the Parties, each party shall bear the responsibility for breach of contract in accordance with the extent of each party's fault.

16. **SETTLEMENT OF DISPUTES**

- 16.1 Any dispute or difference of any kind whatsoever arising out of or in connection with this Agreement or any of the agreements contemplated herein, including any question in connection with the existence, construction, interpretation, validity, termination or implementation of this Agreement or of any of the agreements contemplated herein, shall be referred to and finally settled by the Singapore International Arbitration Center (the “**Center**”) in accordance with the applicable arbitration rules of the United Nations Commission on International Trade Law.

- 16.2 The arbitration tribunal shall be composed of three (3) arbitrators. The Licensor and SITW each hereto shall be entitled to appoint one (1) arbitrator and the Center shall appoint the third (the Chairman) who shall not be a national of the country of incorporation of any Party. The place of arbitration shall be Singapore. The language to be used in any arbitration proceedings shall be English.
- 16.3 Any award made by the arbitration tribunal shall be final and binding on all Parties, who hereby exclude any right of appeal to any court which might otherwise have jurisdiction in the matter, and shall be enforceable in any country which is a signatory to the 1958 New York Convention.
- 16.4 No arbitration of any dispute or difference shall commence unless the Parties have attempted genuinely to settle the same amicably within a period of thirty (30) days after the date of the giving of a written notice of arbitration by one Party hereto to the other Parties, which notice shall describe generally the nature of the dispute.
- 16.5 The costs of arbitration shall be borne by the losing Party or Parties, unless otherwise determined by the arbitration award.
- 16.6 When any dispute occurs and when any dispute is under arbitration, except for the matters under dispute, the Parties shall continue to fulfil their respective obligations (and shall be entitled to exercise their rights) under this Agreement.

17. **ASSIGNMENT**

The Licensor may, without the written consent of the Licensee or the Joint Venture Company and without any further registration with the Examination and Approval Authority, have this Agreement in whole or in part performed by any one or more of its Affiliates, and may assign this Agreement to any company which may become a successor of the Licensor. The Licensor is only required to give notice to the Licensee and the Joint Venture Company of such an assignment.

18. **APPROVAL AND REGISTRATION AND FURTHER ASSURANCE**

- 18.1 Within thirty (30) days of the Execution Date, the Licensee and SITICO shall file an application for this Agreement (in Chinese and English) with the Examination and Approval Authority for registration. The Licensee and SITICO shall bear the costs in relation to such application.
- 18.2 Immediately after the Execution Date, the Licensee shall submit the Amendment to the Examination and Approval Authority for Approval.
- 18.3 The Licensee shall advance all necessary fees and expenses for the Approval and shall be reimbursed for the amounts so advanced from the funds of the Joint Venture Company, provided that such fees and expenses are fully and properly documented, and are paid directly to the relevant government authority and not to any service company or intermediary and are reasonably and necessarily incurred after consultation with the Licensor.
- 18.4 Without limiting Clause 18.1, and Clause 18.2 each Party must promptly at its own cost do all things necessary (including executing documents and obtaining all necessary governmental

permits, licenses and approvals which are or may become necessary under any law or regulation, now or hereafter existing in the PRC) to enable the Parties to exercise, enforce and enjoy all of the rights and obligations contained in this Agreement.

19.     **NOTICES**

19.1   Any notice or other communication provided for in this Agreement shall be in writing in the English and Chinese languages and shall be delivered personally or sent by telefax to the person, address or telefax referred to below or to such other person, address or telefax number as a Party may specify by notice in writing to all the other Parties:

(a)    if to the Licensor, to:

Name: Trench Limited  
  
Address: 71 Maybrook Drive, Scarborough, Ontario, M1V 4B6, Canada  
  
Facsimile: 1-416-2987083  
  
Marked for the attention of: John Finlay

(b)    if to the Licensee, to:

Name: Shanghai Instrument Transformer Works Co. Ltd.  
  
Address: 427 Jumen Road, Shanghai, People’s Republic of China  
  
Facsimile: 8621-63014591  
  
Marked for the attention of: Zhang Wei Guo

(c)    if to SITICO

Name: Shanghai SITICO International Trading Company  
  
Address: SITICO Building, 111 Jiu Jiang Road, Shanghai, China  
  
Facsimile: 8621-63291824  
              8621-63291096  
  
Mark for the attention of: Zhang Le Shou  
  
other.

(d)    if to the Joint Venture Company

Name: MWB (Shanghai) Co. Ltd.  
  
Address: No 3658 Jiangcheng Road, Minhang Shanghai China 200245  
  
Facsimile: 8621-64637828

Mark for the attention of: Xu Ying

- 19.2 In the absence of evidence of earlier receipt, any notice or other communication shall be deemed to have been duly given:
- (a) if delivered personally, when left at the address referred to in Clause 19.1;
  - (b) if sent by facsimile, when clearly received in full.
- 19.3 Notices given under any of the Combined Coil Technology Agreements shall be deemed to be a notice given under this Agreement and notice given under this Agreement shall be deemed to be notice given under all of the Combined Coil Technology Agreements.
20. **GENERAL**
- 20.1 The failure to exercise or delay in exercising a right or remedy under this Agreement shall not constitute a waiver of the right or remedy or a waiver of any other rights or remedies and no single or partial exercise of any right or remedy under this Agreement shall prevent any further exercise of the right or remedy or the exercise of any other right or remedy.
- 20.2 This Agreement shall be governed by and interpreted in accordance with Hong Kong law.
- 20.3 This Agreement shall be written and executed in both Chinese and English language versions. Each Party agrees that each language version is an accurate translation of the other and that both versions carry the same legal effect.
- 20.4 Should any Clause or any part of any Clause contained in this Agreement be declared invalid or unenforceable for any reason whatsoever, all other Clauses or parts of Clauses contained in this Agreement shall remain in full force and effect.
- 20.5 This Agreement constitutes the entire agreement between the Parties relating to the subject matter of this Agreement and supersedes all previous agreements.
- 20.6 If there is any conflict or inconsistency between the provisions of this Agreement and the Restated JV Contract, the provisions of the Restated JV Contract shall prevail.
- 20.7 No variation of this Agreement shall be valid unless it is in writing and signed by or on behalf of each of the Parties.
- 20.8 This Agreement shall be executed in six (6) originals in English and six (6) in Chinese.
- 20.9 This Agreement, the Line Trap Technology Head Licence Agreement, the Shunt Reactor Technology Head Licence Agreement are interdependent and must be signed at the same time. Default by a party under the any of these agreements may be treated by the other party as default under this Agreement.

**IN WITNESS WHEREOF** each of the Parties hereto has caused this Agreement to be executed by its duly authorised representative on the date first set forth above.

**TRENCH LIMITED**

/s/ John Finlay

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Name: John Finlay  
Title: Executive Vice President, North America and International  
Nationality: Canadian

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO. LTD.**

/s/ Zhang Wei Guo

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Name: Zhang Wei Guo  
Title: Director  
Nationality: Chinese

**SHANGHAI SITICO INTERNATIONAL TRADING COMPANY**

/s/ Zhao Jun Bo

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Name: Zhao Jun Bo  
Title: General Manager  
Nationality: Chinese

**MWB (SHANGHAI) CO LTD**

/s/ John Finlay

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Name: John Finlay  
Position: Authorised Signatory  
Nationality: Canadian

**SCHEDULE 1**

**LIST OF LICENCED PRODUCTS AND MAIN CONTENTS OF TECHNICAL DOCUMENTATION**

1. Licensed coverage
- Dry type air core coil technology for Series Reactors for applications like: Short circuit limiting, Filter, Load Flow, Load balancing, Damping, Neutral grounding, Capacitor discharge, HVDC — Smoothers.
2. Main contents
- 2.1 Design & Know How
- Complete designs and know how for the entire range according to IEC & ANSI standard, such as:
- (1) Design Software — Electrical & Mechanical

(2) Design Costs — Material & Labour Hours

(3) Standard labour hours

(4) Standard parts drawings

(5) Typical drawing for one specific rating of each
- 2.2 Technical documentation, such as:
- (1) Manufacturing Procedures

(2) Material Specifications

(3) QA Manual

(4) List of required manufacturing equipment

(5) List of required routine test equipment

(6) Welding standards

(7) Test & Inspection Plan

(8) Incoming material inspections and tests

(9) In-house quality test procedures

(10) Inspection standards

- (11) In-process and final test procedures
- (12) The drawings for main tools & equipment and operational procedures for assembling.
- (13) Measures for quality assurance
- (14) Completed test items (incl. type test & routine test) and procedures
- (15) The list & specification of test equipment for routine tests, requirement on testing equipment and testing circuit, etc.
- (16) Other necessary documentation

SCHEDULE 2

EMPLOYEE CONFIDENTIALITY AGREEMENT

I \_\_\_\_\_ [name], [position] of Transformer Shanghai Instrument Transformer Works (“**SITW**”) [or MWB (Shanghai) Co., Ltd. or name of subcontractor] (“**Employer**”) hereby represent, warrant and agree to keep confidential the Combined Coil Technology and Know-how, the Technology Sub-Licence Agreement, dated [ ] between SITW, Trench Limited (as “**Contractor**”) and MWB (Shanghai) Co Ltd (the “**Joint Venture Company**”) and the Line Trap Reactor Head Licence Agreement, Shunt Reactor Technology Head Licence Agreement and the Series Reactor Technology Head Licence Agreement all dated [ ] between Trench Limited, SITW, Shanghai SITICO International Trading Company and the Joint Venture Company, Technical Documentation and all other information, technical data or know-how as follows:

1. During the term of my employment with the Employer and after the termination thereof, I shall not, unless expressly required by law or a court order in the PRC, directly or indirectly, disclose by any means to any person, firm, enterprise, corporation or government agency or organisation in or of the People’s Republic of China or any other country, any information, whether in oral, written, pictorial, graphic or recorded form, concerning the design, manufacture, application, inspection, testing, maintenance, packaging, marketing or sale of the Combined Coil Products or any part of them or any other relevant information which may come to my knowledge or possession or be disclosed to me by the Joint Venture Company or Trench Limited because of or as a result of my employment by the Employer (hereinafter collectively referred to as the “**Confidential Information**”).
2. Without limiting in any way the foregoing agreement and obligation, I hereby agree that all printed, written, recorded or other materials containing or relating to the Confidential Information, prepared by me or which comes into my possession or knowledge during my employment with the Employer, are and shall remain to be the property of the Joint Venture Company, the Contractor or SITW (as the case may be), and, if requested by the Joint Venture Company, the Contractor or SITW or upon the termination of my employment with the Employer, all such materials, including all prints, copies or duplicates thereof, shall be either disposed of or returned to the Joint Venture Company or the Contractor in accordance with the Joint Venture Company’s, SITW’s or the Contractor’s instruction.
3. In consideration of the disclosure to me of the Confidential Information, I further agree that I will not, following termination of my employment with the Employer, directly or indirectly, engage in the manufacture of the Combined Coil Products or any part of them by making use of the Confidential Information.
4. I enter into this Contract with the express purpose and intent that either the Joint Venture Company, SITW and the Contractor derive benefits either herefrom, and I further understand and acknowledge that SITW, the Joint Venture Company [name of subcontractor] and the Contractor or any of them, shall have the right to enforce this Contract against me should I be deemed to have violated this Contract in any manner.



Terms defined in the Technology Sub-Licence Agreement shall have the same meanings when used in this Agreement.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 2002.

\_\_\_\_\_  
Name:  
Position:

This Confidentiality Agreement is for the benefit of the undersigned:

**TRENCH LIMITED**

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Name:  
Position:

**MWB (SHANGHAI) CO LTD**

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Name:  
Position:

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO., LTD.**

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Name:  
Position:

**DATED \_\_\_\_ April 2002**

**TRENCH LIMITED**

**AND**

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO LTD**

**SHANGHAI SITICO INTERNATIONAL TRADING COMPANY**

**AND**

**MWB (SHANGHAI) CO LTD**

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**LINE TRAP TECHNOLOGY HEAD-LICENCE AGREEMENT**

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**THIS LINE TRAP TECHNOLOGY HEAD-LICENCE AGREEMENT** (the “**Agreement**”) is made on \_\_\_\_ April 2002.

**BETWEEN**

- (1) **TRENCH LIMITED (“Licensor”)**, a company duly organised and existing under the laws of Canada whose registered office is at 71 Maybrook Drive, Scarborough, Ontario M1V 4B6, Canada;
- (2) **SHANGHAI INSTRUMENT TRANSFORMER WORKS CO LTD** (the “**SITW**”), a legal person organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at 427 Jumen Road, Shanghai, People’s Republic of China; and
- (3) **SHANGHAI SITICO INTERNATIONAL TRADING COMPANY** (the “**SITICO**”), a legal person organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at 111 Jiu Jiang Road, Shanghai, the People’s Republic of China.
- (4) **MWB (SHANGHAI) CO LTD** (the “**Joint Venture Company**”), limited liability equity joint venture company organised and existing under the laws of the PRC and registered with the State Administration of Industry and Commerce whose legal address is at No 3658 Jiangcheng Road, Shanghai, the People’s Republic of China.

For the purposes of this Agreement, SITW shall be referred to as the “**Licensee**” unless otherwise provided. SITICO shall act as the agent of the Licensee only for the import of the Line Trap Technology and Know-how, which shall only be obliged to perform the payment obligations and other related commercial obligations as agent for SITW related to the import of the Line Trap Technology and Know-how. SITICO shall not acquire any rights in relation to this Line Trap Technology and Know-how as a result of entering into this Agreement. SITICO will not be responsible for any breach by the Licensee and the Joint Venture Company.

**WHEREAS**

- (A) Pursuant to a joint venture contract (the “**Joint Venture Contract**”) and articles of association each dated 12 November 1992, the Licensee and MWB High Voltage Systems GmbH (“**MWB**”) (which has since been restructured as Trench Germany GmbH) established the Joint Venture Company.
- (B) Pursuant to the terms of the Restated JV Contract (as defined below), the Combined Coil Products (as defined below) are to be added to the business of the Joint Venture Company.
- (C) The Licensor is the owner of the Line Trap Technology and Know-how relating to the Licensed Products.
- (D) The Parties intend to enter into this Agreement for the license by the Licensor to the Licensee of the right to sub-license the Line Trap Technology and Know-how relating to the Licensed

Products to the Joint Venture Company in the Licensed Territory (in each case as defined below) upon the terms and conditions set forth herein.

**NOW IT IS AGREED** between the Parties and follows:

1.     **DEFINITIONS**

1.1    Unless otherwise defined in this Agreement, terms defined in the Restated JV Contract shall have the same meanings when used in this Agreement.

1.2    In addition, the following words and expressions shall have the meanings given to them below when used in this Agreement:

"**Approval**" means approval of the Amendment by the Examination and Approval Authority.

"**Approval Date**" means the date on which the Approval is granted.

"**Affiliate**" means in relation to each Party, any person who is directly or indirectly controlling or controlled by or under direct or indirect common control with such Party and any parent of such Party. For the purposes of this definition, "control" when used with respect to any person means the ownership of over fifty percent (50%) of the voting stock, registered capital or other interest of that person, directly or indirectly, whether through the ownership of voting securities, by contractor otherwise, or the power to appoint the manager or majority of members of the management committee, board of directors or equivalent decision making body.

"**Amendment**" means the Amendment to the Restated JV Contract and the Amendment to the Restated Articles of Association dated on or about the date of this Agreement.

"**Center**" has the meaning given in Clause 16.1.

"**Combined Coil Products**" means the Line Trap Products, Series Reactor Products and Shunt Reactor Products.

"**Combined Coil Technology Agreements**" means this Agreement, Series Reactor Technology Head Licence Agreement and Shunt Reactor Technology Head Licence Agreement

"**Combined Coil Technology and Know-how**" means the Line Trap Technology and Know-how, Series Reactor Technology and Know-how and Shunt Reactor Technology and Know-how.

"**Conversion Date**" means, in relation to the conversion of Renminbi to US Dollars for the purpose of paying the Technology Licence Fee hereunder, the date falling five (5) banking days before the date on which the Technology Licence Fee is due.

"**Conversion Rate**" means the official exchange rate published by the People's Bank of China, Shanghai Branch prevailing on the Conversion Date.

"**Execution Date**" means the date on which this Agreement is signed.

"**Effective Term**" means the period commencing on the Approval Date and expiring on the date of expiration of the Royalty Term.

"**Examination and Approval Authority**" means the Ministry of Foreign Trade and Economic Cooperation or the authority entrusted by such Ministry to register this Agreement and approve the Amendment.

"**Force Majeure**" has the meaning given in Clause 14.1.

"**Improvements**" means any improvement, modification or alteration to the Licensed Products or to the Line Trap Technology and Know-how.

"**Licensed Products**" means the products defined in Schedule 1 under the heading "Licensed Coverage".

"**Licensed Territory**" means China (but excludes the Hong Kong SAR, Macau and Taiwan).

"**Line Trap Products**" means the Licensed Products under this Agreement.

"**Line Trap Technology and Know-how**" means the Licensor's knowledge, technology and methods necessary for the manufacture, management, quality control, quality inspection, packaging and sale of the Licensed Products and supplied in accordance with this Agreement, whether in written form, drawing or otherwise, and which includes, without limitation, at least the following:

- (a) raw materials, product and process specifications, product formulae, design information and drawings as well as technical specifications of the production equipment and processing specifications;
- (b) technology, techniques, quality control, quality inspection, technology standards and good manufacturing practices required for production;
- (c) information and experience required for installation, testing, use, inspection, repair and maintenance of production equipment;
- (d) information and experience for management of operation procedures, production, quality control, marketing and sales;
- (e) information on marketing, label design, advertising, promotional materials and other techniques;
- (f) information relating to the latest improvements, corrections and developments to or of the technology and know-how licensed under this Agreement; and
- (g) the detailed documents and appendices relating to the content of the technology and know-how licensed under this Agreement, as summarised in Schedule 1.

"**Line Trap Technology Head Licence Agreement**" means this Agreement.

“**Line Trap Test Date**” means the date on which Licensor and the Joint Venture Company sign a test report to certify that the 500kv Line Trap manufactured according to Chinese standard specifications using the Line Trap Technology and Know-how has been successfully type tested.

“**Parties**” means the Licensee, the Licensor and the Joint Venture Company, and “**Party**” means any of them.

“**PRC**” or “**China**” means the People’s Public of China.

“**Restated JV Contract**” means the restated joint venture contract dated 7 April 2000 as amended by the Amendment between the SITW, Trench Germany GmbH, Trench Switzerland AG and the Licensor.

“**Royalty Term**” means the period of 9 years and 8 months from the date of issue by the Joint Venture Company of the first commercial invoice for any of the Combined Coil Products .

“**Series Reactor Products**” means the licensed products under the Series Reactor Technology Head Licence Agreement.

“**Series Reactor Technology and Know-how**” has the meaning ascribed to it in the Series Reactor Technology Head Licence Agreement.

“**Series Reactor Technology Head Licence Agreement**” means the agreement titled “Series Reactor Technology Head Licence Agreement” between the parties dated on or about the same date as this Agreement.

“**Shunt Reactor Products**” means the licensed products under the Shunt Reactor Technology Head Licence Agreement.

“**Shunt Reactor Technology and Know-how**” has the meaning ascribed to it in the “Shunt Reactor Technology Head Licence Agreement.

“**Shunt Reactor Technology Head Licence Agreement**” means the agreement titled “Shunt Reactor Technology Head Licence Agreement” between the parties dated on or about the same date as this Agreement.

“**Sub-Licence Agreement**” means the agreement entered into between SITW, the Licensor and the Joint Venture Company for the license of Combined Coil Technology and Know-how dated on or about the date of this Agreement.

“**Technical Documentation**” means documentary materials relating to the Combined Coil Technology and Know-how furnished to the Joint Venture Company by the Licensor in accordance with this Agreement (as summarised in Schedule 1) and the other Combined Coil Technology Agreements.



“**Technical Service Agreement**” means the agreement between the Licensor and the Joint Venture Company for the provision of technical services dated on or about the date of this Agreement.

“**Technology Licence Fee**” has the meaning given in Clause 4.1.

“**US Dollar**” or “**US\$**” means the lawful currency of the United States of America.

- 1.3 The table of contents and headings to the Clauses and Schedules are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.
- 1.4 In this Agreement, unless the context otherwise requires:
  - (a) references to Clauses and Schedules are to the clauses of and the schedules annexed to this Agreement;
  - (b) words importing the plural shall include the singular, and vice versa; and
  - (c) references to a “person” shall be construed as including references to an individual, enterprise, firm, partnership, consortium, joint venture, association, joint stock company, trust, unincorporated organisation or governmental or non governmental organisation, whether or not having separate legal personality.

2. **SCOPE AND CONTENTS OF LINE TRAP TECHNOLOGY AND KNOW-HOW**

- 2.1 Subject to the terms and conditions contained herein, the Licensor hereby grants within the Licensed Territory to the Licensee and the Licensee hereby accepts from the Licensor, an exclusive, non-transferable licence of the Line Trap Technology and Know-how for the Effective Term, granted strictly in accordance with the terms of this Agreement and only to the extent that the Licensee sub-licence, strictly in accordance with the terms of the Sub-Licence Agreement the Line Trap Technology and Know-how, together with the Series Reactor Technology and Know-how and Shunt Reactor Technology and Know-how, to the Joint Venture Company in connection with the manufacture and sale of the Combined Coil Products, including Licensed Products by the Joint Venture Company in the Licensed Territory. Nothing in this Agreement shall entitle the Licensee to use the Line Trap Technology and Know-how other than to sub-licence the same to the Joint Venture Company.
- 2.2 The Licensor shall send experts or technical personnel and provide complete, timely and adequate technical support to provide the Line Trap Technology and Know-how to the Joint Venture Company as specified in the agreed training program pursuant to this Agreement, the Sub-Licence Agreement and the Technical Service Agreement. The experts and technical personnel may be employees of the Licensor or be retained by the Licensor from other sources. The Line Trap Technology and Know-how shall be transferred after the training program has been formulated and agreed by the Joint Venture Company and the Licensor.
- 2.3 In the event that the Licensee or the Joint Venture Company encounter technical difficulties that the Parties recognise that the Licensee or, as the case may be, the Joint Venture Company cannot resolve by itself, the Licensor shall, send experts or technical personnel to assist in

resolving such technical problems as provided in Clause 3.2 of the Technical Service Agreement.

- 2.4 2.4.1 During the Effective Term, if the Licensee and/or Joint Venture Company makes or acquires any Improvements relating to the Licensed Products it shall, to the extent that it is not prohibited by any applicable law:
- (a) promptly notify the Licensor in writing giving details of the Improvements and shall provide the Licensor with such information or explanations as the Licensor may request; and
  - (b) procure that the Licensor may legally and effectively own and use the Improvements to enable the Licensor to grant the Licensee a non-exclusive licence to use the Improvements free of charge for the sole purpose of sub-licensing the same to the Joint Venture Company in accordance with the Sub-Licence Agreement.
- 2.4.2 If any applicable law prohibits ownership by Licensor of any Improvement made or acquired by the Joint Venture Company then such Improvement shall be owned and used by the Joint Venture Company subject as provided below:
- (a) Clause 2.4.2 shall by only relate to Improvements made or acquired whilst the relevant prohibition is in force in China;
  - (b) The Joint Venture Company shall own and use the Improvement subject to the same conditions as apply to its use of the Line Trap Technology and Know-how;
  - (c) The relevant Improvement shall be forthwith exclusively licensed to the Licensor for as long as required by the Licensor free of charge and unconditionally; and
  - (d) The Joint Venture Company shall not sell or dispose of any interest in or to the Improvement without the consent of the Licensor.
- 2.5 If the Licensor makes or acquires any Improvements relating to the Licensed Products it shall, within twelve (12) months after the Improvements have been verified in commercial production by the Licensor, provide the Licensee details of the Improvements and such information or explanations as the Licensee may request for the sole purpose of sub-licensing the Improvements to the Joint Venture Company, subject to the restriction of Clause 2.1, free of charge.
- 2.6 The Licensee shall not (i) assign or otherwise transfer the Line Trap Technology and Know-how, or any other rights granted to it under this Agreement, to any third party, or (ii) sub-license the Line Trap Technology and Know-how to any entity other than the Joint Venture Company without the prior written consent of the Licensor.

- 2.7 Upon the expiry of this Agreement, the Licensee may continue to use the Line Trap Technology and Know-how (but solely to the extent and for the purpose referred to in Clause 2.1) without entering into a new technology licence agreement provided that the Licensee shall remain subject to the following provisions of this Agreement: 2.4, 2.6, 2.11 3, 9, 10, 12, 15, 16, 19, 20 and 21. However, if after the expiration of this Agreement, the Licensee requests to use or licence any know-how newly developed by the Licensor after the expiration of this Agreement for any purpose whatsoever, the Parties shall enter into a new technology know-how licence agreement and register the same with the Examination and Approval Authority.
- 2.8 The Licensor and the Joint Venture Company shall formulate a training program for personnel of the Joint Venture Company to master the Combined Coil Technology and Know-how, including the Line Trap Technology and Know-how licensed hereunder, and shall specify the qualifications of personnel suitable for receiving such training. The Licensor shall be responsible for such training in order to ensure that employees of the Joint Venture Company receive adequate training in the design and manufacture of the Licensed Products.
- 2.9 If such training as aforesaid is to be conducted within the PRC, the Licensor will be responsible for expenses relating to travel and lodging (including food) of its personnel sent to the Joint Venture Company for conducting such training and the Joint Venture Company shall bear all other expenses relating thereto. If the Joint Venture Company retains experts who are not employees of the Licensor or its Affiliates to conduct training in China, the Joint Venture Company shall bear all related expenses.
- 2.10 If such training as aforesaid is to be conducted outside the PRC, the Joint Venture Company shall be responsible for expenses relating to travel and lodging (including food) of personnel of the Joint Venture Company sent for such training and the Joint Venture Company shall be responsible for all other expenses relating thereto.
- 2.11 The Licensee shall obtain the prior written approval of the Licensor before permitting the Joint Venture Company to proceed with each proposed use by the Joint Venture Company of any of the Combined Coil Technology and Know-how, including the Line Trap Technology and Know-how. If the proposed use is not in conformity with this Agreement, the Licensor may, in its sole discretion, refuse to approve such a proposal, or may amend the proposal to bring it into conformity with this Agreement within a reasonable period from the receipt of the proposed use, and the Licensee shall, accept such refusal or amendment.

### 3. COMPLIANCE WITH LAWS

The Licensee shall, observe and comply with all laws, rules and regulations applicable to the sub-licensing of the Licensed Products in the Licensed Territory. The Licensee shall, at its own cost and expense, secure and maintain all necessary governmental permits, licences and approvals, and will fulfil all other requirements and undertakings related to this Agreement which are or may become necessary under any law or regulation, now or hereafter existing in the PRC, to enable the Parties to exercise, enforce and enjoy all of the rights and obligations contained in this Agreement, including, but not limited to, registration certificate required from the Examination and Approval Authority and approvals if any necessary to enable the

payment and remittance of the Technology Licence Fee to the Licensor in accordance with Clause 4.

4. **PAYMENTS**

- 4.1 The Licensee shall pay through SITICO to the Licensor a technology licence fee (the “**Technology Licence Fee**”) in an amount of One Million US Dollars (US\$1,000,000) on or before 30 June 2003. This date may be extended to the Line Trap Test Date if the Line Trap Test Date is later than 30 June 2003 although it is expected that the Line Trap Test Date shall not be later than 30 June 2003. In any event, payment shall only be required after receipt by Licensee and SITICO of the commercial invoice and payment instruction issued by the Licensor.
- 4.2 The Licensee and SITICO shall pay the Technology Licence Fee to such account or accounts as shall be specified in writing by the Licensor to the Licensee.
- 4.3 All relevant bank charges incurred with respect to the payment of the Technology Licence Fee in the PRC shall be borne by the Licensee and SITICO.
- 4.4 In the event the Licensee and SITICO are unable to pay the Technology Licence Fee in US Dollars or another foreign currency acceptable to the Licensor as a result of any change in the foreign exchange laws or interpretation or application thereof, the Licensee and SITICO may, upon obtaining the prior written agreement of the Licensor, pay the Technology Licence Fee in RMB. In such case, the Licensee and SITICO shall assist the Licensor to convert the RMB into US Dollars or another foreign currency acceptable to the Licensor at the Conversion Rate on the Conversion Date, but the foreign exchange risk and related costs shall be borne by the Licensor.

5. **TAX**

- 5.1 Where the Licensee and SITICO are required under PRC law to withhold tax (including business tax) on the Technology Licence Fee receivable by the Licensor under this Agreement, the Licensee and SITICO shall withhold the same and pay over the same to the relevant PRC tax authority on behalf of the Licensor. The Licensee and SITICO undertake to deliver promptly to the Licensor all receipts, certificates or other proof evidencing each amount withheld and paid by the Licensee and SITICO on account of such tax.
- 5.2 The Licensee and SITICO agree and undertake to assist the Licensor to the greatest extent possible in applying for all tax benefits that the Licensor may be entitled to under Chinese law.
- 5.3 All taxes to be levied inside and outside PRC on Licensor in connection with the payment made to the Licensor under this Agreements shall be borne by the Licensor.

6. **TECHNICAL DOCUMENTATION**

The Licensor shall have the right to make necessary amendments to the Technical Documentation from time to time.

7. **VERIFICATION AND ACCEPTANCE**

- 7.1 As soon as is practicable after delivery of the Technical Documentation, the Licensor and the Joint Venture Company shall conduct test-runs to determine whether the equipment of the Joint Venture Company can produce the Licensed Products at quality standards which satisfy the quality standards specified by the Licensor's Line Trap Technology and Know-how. After the conduct of successful test-runs, the Licensor and the Joint Venture Company shall sign an acceptance certificate to such effect.
- 7.2 Test runs of equipment shall be conducted jointly by the Licensor and the Joint Venture Company. A test run is the testing of installed machinery with respect to performance (speed and capacity) and quality.
- 7.3 Neither the Licensor nor the Licensee shall be responsible for the Joint Venture Company's losses resulting from:-
- (a) the raw materials purchased by the Joint Venture Company directly or indirectly not conforming to the raw material standards in the Technical Documentation:
  - (b) lack of experience of the Joint Venture Company's personnel in manufacturing the Licensed Products resulting in errors; or
  - (c) Force Majeure.

8. **QUALITY AND INSPECTION**

- 8.1 The Licensee shall, sub-licence the Joint Venture Company to, manufacture, store, analyse, test and sell the Licensed Products only in strict accordance with the Line Trap Technology and Know-how supplied by the Licensor.

9. **CONFIDENTIALITY**

- 9.1 The Licensee shall, on and from the Execution Date, during the term of this Agreement and within five (5) years after its termination or expiration for any reason, keep confidential and not, for any purpose other than the performance of its obligations under this Agreement, make use of or disclose to any other person otherwise than in accordance with Clause 9.2 or with the prior written consent of the Licensor, the scope and content of the Combined Coil Technology and Know-how including the Line Trap Technology and Know-how, including but not limited to, information contained in the Technical Documentation (if any has been delivered to the Licensee), and any other information disclosed (whether in writing, verbally or by other means) by or on behalf of the Licensor, unless such technology and know-how is public knowledge or is otherwise required by applicable laws or regulations or by an order of a court having competent jurisdiction.
- 9.2 During the Effective Term, the Licensee may disclose information which is confidential under Clause 9.1 to the Joint Venture Company or their respective employees, but only to the extent necessary for the purposes of this Agreement and provided such employees have signed a confidentiality agreement in the form set out in Schedule 2.

- 9.3 The Licensee shall at its own expense, take such steps as the Licensor may require to enforce the terms of any confidentiality contract executed pursuant to Clause 9.2 including, but not limited to, the initiation, prosecution and enforcement of any legal proceedings.
10. **CLAIMS AND INFRINGEMENTS**
- 10.1 The Licensee shall immediately notify the Licensor of any claim, or any fact which may lead to a claim, of any nature by a third party that the sub-licensing of the Line Trap Technology and Know-how by the Licensee the use of the Line Trap Technology and Know-how by the Joint Venture Company is or may be an infringement of a patent or other proprietary right of such third party, but otherwise shall take no action relating to such claim or infringement without the Licensor’s written consent. The Licensor shall advise the Licensee whether it wishes to conduct a defence of any such claim. Should the Licensor elect to conduct such a defence, it shall do so at its own expense, and the Licensor shall have sole control of such defence and the Licensee shall give all reasonable assistance to the Licensor to enable it to do so.
- 10.2 The Licensor shall indemnify the Licensee and bear related costs for any claims, losses, damages, proceedings sustained by the Licensee in relation to any claims that may be made against the Licensee pursuant to Clause 10.1, unless such claims, losses, damages, proceedings result from the default by the Licensee of their obligations under this Agreement or the use of Line Trap Technology and Know-how by the Licensee otherwise than in accordance with this Agreement.
- 10.3 If any third party takes any action in connection with the sub-licensing of the Line Trap Technology and Know-how by the Licensee and thereby hinders the Licensee from sub-licensing the Line Trap Technology and Know-how to the Joint Venture Company for the manufacture, packaging or sale of the Licensed Products, the Licensor shall be responsible for taking action, including defending any legal claim or reconciling with a third party to remove such hindrance.
- 10.4 In the event that the Licensor elects not to take action under Clause 10.3, the Licensee may, with the written consent of the Licensor, take action in relation to the relevant infringement, and the Licensor shall reimburse the Licensee for any costs and expenses incurred for taking such action and give all reasonable assistance in connection therewith.
- 10.5 Notwithstanding the foregoing, the Licensee shall not enter into any compromise, settlement or agreement with any person or entities relating to the Line Trap Technology and Know-how otherwise than with the written consent of the Licensor.

11. **WARRANTIES**

- 11.1 The Licensor hereby represents and warrants to the Licensee that it has the right to license the Line Trap Technology and Know-how to the Licensee in accordance with this Agreement and such licensing does not violate the relevant laws of the jurisdictions of the Licensor and shall not infringe any third party rights, and that the Line Trap Technology and Know-how, and the relevant technical assistance, guidance and training, shall be sufficient to enable the quality of the Licensed Products to reach the specifications and standards required by this Agreement.

- 11.2 The Licensor shall use all reasonable endeavours to ensure that the Technical Documentation shall be readable, complete and accurate in English. The Licensee shall notify the Licensor in writing within four (4) months after receipt thereof if any of the Technical Documentation is not readable, complete or accurate and the Licensor shall correct or replace the defective portions of the Technical Documentation free of charge to the Licensee. In the absence of a written notice from the Licensee to the Licensor within the four (4) month period, the Technical Documentation in question shall be deemed to have been approved and accepted by the Licensee.
- 11.3 The Licensee and SITICO warrant that it will neither contest, deny or dispute the exclusive right of the Licensor in the Line Trap Technology and Know-how or the validity or enforceability of the Line Trap Technology and Know-how in the PRC or any other country, nor will they assist anyone else to do so. Each of the Licensee and SITICO agrees that it shall not, take any action of any kind inconsistent with the Licensor's rights in the Line Trap Technology and Know-how, and acknowledges that nothing in this Agreement confers upon either the Licensee or SITICO a proprietary interest of any kind in and to any of the Line Trap Technology and Know-how or simulations thereof.

## 12. TERM AND TERMINATION

- 12.1 This Agreement shall take effect on the Execution Date and shall remain in full force and effect thereafter until the last day of the Effective Term subject to Clause 2.7 unless terminated earlier pursuant to Clause 12.2 provided that if the Restated JV Contract or the Sub-Licence Agreement of any of the Combined Coil Technology Agreements is terminated prior to the expiration of its term, this Agreement shall automatically terminate with immediate effect from the date of termination of the Restated JV Contract or the Sub-Licence Agreement of any of the Combined Coil Technology Agreements (as the case may be), except that termination shall not affect:

- (a) The accrued rights and obligations of the Parties at the date of termination; and
- (b) The continued existence and validity of the rights and obligations of the Parties under those clauses which are expressed to survive termination and any provisions of this Agreement necessary for the interpretation or enforcement of this Agreement.

- 12.2 This Agreement may be terminated:

- 12.2.1 by any Party giving notice to the other Parties if another Party has committed a material breach of this Agreement and such breach, if capable of remedy, has not been so remedied within sixty (60) days following receipt of such notice;
- 12.2.2 by any Party giving notice to the other Parties in the event that an event of Force Majeure continues for a period of twelve (12) consecutive months that causes the Joint Venture Company to cease the production and sale of the Licensed Products and the Parties have been unable to find an equitable solution pursuant to Clause 14;

- 12.2.3 by any Party giving notice to the other Parties if at any time during the term of this Agreement, the government of the PRC or of Canada or any agency thereof should require any material alteration or modification or termination of the contractual rights or obligations of any Party pursuant to this Agreement which has the effect of preventing any Party from performing its contractual obligations or from achieving its business objectives.
- 12.2.4 by any Party giving notice to the other Parties if another Party becomes bankrupt, or insolvent, or is the subject of proceedings or arrangements for liquidation or dissolution, or ceases to carry on business, or becomes unable to pay its debts as they become due; or
- 12.2.5 by the Licensor giving notice to the Licensee and the Joint Venture Company if the aggregate of the interests of the Licensor and any of its Affiliates in the Joint Venture Company is or becomes less than fifty percent (50%) of the registered capital of the Joint Venture Company as a result of any change in or requirement of Chinese law or any act of any Chinese governmental agency or court.
- 12.3 Either Party electing properly to terminate this Agreement pursuant to Clause 12.2 shall have no liability to the other Party for damages arising solely from the exercise of such right.
- 12.4 Upon expiration or termination of this Agreement, all amounts then due and unpaid to the Licensor by the Licensee hereunder shall forthwith become due and payable by the Licensee to the Licensor.
- 12.5 All the Combined Coil Technology and Know-how, including the Line Trap Technology and Know-how and the Technical Documentation (if any has been delivered to the Licensee), recorded in any material form including but not limited to any written records shall be returned by the Licensee to the Licensor forthwith upon the termination of this Agreement. The Licensee agrees on behalf of itself and its employees that no copies of the Combined Coil Technology and Know-how, including the Line Trap Technology and Know-how, in any material form or of the Technical Documentation shall be made or retained upon and after the termination of this Agreement.
13. **AGENCIES**
- The Parties are independent contractors, and nothing in this Agreement shall be construed to constitute any Party to be the agent, partner, legal representative, attorney or employee of any other Party for any reason whatsoever except as specifically set out in this Agreement. No Party shall have the power or authority to bind the other except as specifically set out in this Agreement.
14. **FORCE MAJEURE**
- 14.1 **“Force Majeure”** means all events which are beyond the control of the Parties to this Agreement, and which are unforeseen, or if foreseen, unavoidable, and which prevent total or partial performance by any Party. Such events shall include but are not limited to any



explosions, shipwrecks, acts of nature or the public enemy, fires, flood, sabotage, accidents, strikes, wars, riots, insurrections, and any other similar contingency.

- 14.2 If an event of Force Majeure occurs, to the extent that any contractual obligation of any Party cannot be performed as a result of such event, such contractual obligation shall be suspended while the Force Majeure subsists and the due date for performance thereof shall be automatically extended, without penalty, for a period equal to such suspension.
- 14.3 The Party encountering Force Majeure shall, within fifteen (15) days of the relevant event, notify the other Parties and furnish valid proof of the occurrence of such Force Majeure. Within a reasonable period thereafter that Party shall provide the other Parties with evidence of the Force Majeure issued by a relevant agency. The Party encountering Force Majeure shall also use all reasonable endeavours to minimise the Force Majeure.
- 14.4 In the event of Force Majeure, the Parties shall immediately consult with each other in order to mutually agree an equitable solution (which may involve early termination of this Agreement, deletion of certain provisions thereof or extension of the term of this Agreement) and shall use all reasonable endeavours to minimise the consequences of such Force Majeure.

15. **LIABILITY FOR BREACH**

- 15.1 (1) The Licensee shall indemnify and hold the Licensor indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, but excluding consequential loss or loss of profits, which the Licensor may incur, or which may be made against the Licensor as a result of or in relation to any breach by the Licensee of its obligations under this Agreement or arising out of any use of the Line Trap Technology and Know-how by the Licensee which is not in accordance with this Agreement. For the avoidance of doubt the payments referred to in Clause 4 are not considered profit for the purpose of this Clause.
- (2) SITICO shall indemnify and hold the Licensor indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, but excluding consequential loss or loss of profits, which the Licensor may incur, or which may be made against the Licensor as a result of or in relation to any breach by SITICO (for which SITICO is responsible) of its obligation to perform the payment obligations and other related commercial obligations as agent for SITW related to the import of the Line Trap Technology and Know-how.
- 15.2 The Licensor shall each indemnify and hold the Licensee and SITICO indemnified against all losses, liabilities, costs, claims, actions, damages, expenses or demands, (but excluding consequential loss or loss of profits,) which the Licensee may incur, or which may be made against the Licensee and SITICO as a result of or in relation to any breach by the Licensor of its obligations under this Agreement.
- 15.3 If any of the obligations in this Agreement cannot be performed due to the fault of all of the Parties, each party shall bear the responsibility for breach of contract in accordance with the extent of each party's fault.

16.     **SETTLEMENT OF DISPUTES**

- 16.1   Any dispute or difference of any kind whatsoever arising out of or in connection with this Agreement or any of the agreements contemplated herein, including any question in connection with the existence, construction, interpretation, validity, termination or implementation of this Agreement or of any of the agreements contemplated herein, shall be referred to and finally settled by the Singapore International Arbitration Center (the “**Center**”) in accordance with the applicable arbitration rules of the United Nations Commission on International Trade Law.
- 16.2   The arbitration tribunal shall be composed of three (3) arbitrators. The Licensor and SITW each hereto shall be entitled to appoint one (1) arbitrator and the Center shall appoint the third (the Chairman) who shall not be a national of the country of incorporation of any Party. The place of arbitration shall be Singapore. The language to be used in any arbitration proceedings shall be English.
- 16.3   Any award made by the arbitration tribunal shall be final and binding on all Parties, who hereby exclude any right of appeal to any court which might otherwise have jurisdiction in the matter, and shall be enforceable in any country which is a signatory to the 1958 New York Convention.
- 16.4   No arbitration of any dispute or difference shall commence unless the Parties have attempted genuinely to settle the same amicably within a period of thirty (30) days after the date of the giving of a written notice of arbitration by one Party hereto to the other Parties, which notice shall describe generally the nature of the dispute.
- 16.5   The costs of arbitration shall be borne by the losing Party or Parties, unless otherwise determined by the arbitration award.
- 16.6   When any dispute occurs and when any dispute is under arbitration, except for the matters under dispute, the Parties shall continue to fulfil their respective obligations (and shall be entitled to exercise their rights) under this Agreement.

17.     **ASSIGNMENT**

The Licensor may, without the written consent of the Licensee or the Joint Venture Company and without any further registration with the Examination and Approval Authority, have this Agreement in whole or in part performed by any one or more of its Affiliates, and may assign this Agreement to any company which may become a successor of the Licensor. The Licensor is only required to give notice to the Licensee and the Joint Venture Company of such an assignment.

18.     **APPROVAL AND REGISTRATION AND FURTHER ASSURANCE**

- 18.1   Within thirty (30) days of the Execution Date, the Licensee and SITICO shall file an application for this Agreement (in Chinese and English) with the Examination and Approval Authority for registration. The Licensee and SITICO shall bear the costs in relation to such application.

- 18.2 Immediately after the Execution Date, the Licensee shall submit the Amendment to the Examination and Approval Authority for Approval.
- 18.3 The Licensee shall advance all necessary fees and expenses for the Approval and shall be reimbursed for the amounts so advanced from the funds of the Joint Venture Company, provided that such fees and expenses are fully and properly documented, and are paid directly to the relevant government authority and not to any service company or intermediary and are reasonably and necessarily incurred after consultation with the Licensor.
- 18.4 Without limiting Clause 18.1, and Clause 18.2 each Party must promptly at its own cost do all things necessary (including executing documents and obtaining all necessary governmental permits, licenses and approvals which are or may become necessary under any law or regulation, now or hereafter existing in the PRC) to enable the Parties to exercise, enforce and enjoy all of the rights and obligations contained in this Agreement.

19. **NOTICES**

- 19.1 Any notice or other communication provided for in this Agreement shall be in writing in the English and Chinese languages and shall be delivered personally or sent by telefax to the person, address or telefax referred to below or to such other person, address or telefax number as a Party may specify by notice in writing to all the other Parties:

- (a) if to the Licensor, to:

Name: Trench Limited

Address: 71 Maybrook Drive, Scarborough, Ontario, M1V 4B6, Canada

Facsimile: 1-416-2987083

Marked for the attention of: John Finlay

- (b) if to the Licensee, to:

Name: Shanghai Instrument Transformer Works Co. Ltd.

Address: 427 Jumen Road, Shanghai, People’s Republic of China

Facsimile: 8621-63014591

Marked for the attention of: Zhang Wei Guo

- (c) if to SITICO

Name: Shanghai SITICO International Trading Company

Address: SITICO Building, 111 Jiu Jiang Road, Shanghai, China

Facsimile: 8621-63291824  
8621-63291096

Mark for the attention of: Zhang Le Shou

other.

(d) if to the Joint Venture Company

Name: MWB (Shanghai) Co. Ltd.

Address: No 3658 Jiangcheng Road, Minhang Shanghai China 200245

Facsimile: 8621-64637828

Mark for the attention of: Xu Ying

19.2 In the absence of evidence of earlier receipt, any notice or other communication shall be deemed to have been duly given:

- (a) if delivered personally, when left at the address referred to in Clause 19.1;
- (b) if sent by facsimile, when clearly received in full.

19.3 Notices given under any of the Combined Coil Technology Agreements shall be deemed to be a notice given under this Agreement and notice given under this Agreement shall be deemed to be notice given under all of the Combined Coil Technology Agreements.

20. **GENERAL**

- 20.1 The failure to exercise or delay in exercising a right or remedy under this Agreement shall not constitute a waiver of the right or remedy or a waiver of any other rights or remedies and no single or partial exercise of any right or remedy under this Agreement shall prevent any further exercise of the right or remedy or the exercise of any other right or remedy.
- 20.2 This Agreement shall be governed by and interpreted in accordance with Hong Kong law.
- 20.3 This Agreement shall be written and executed in both Chinese and English language versions. Each Party agrees that each language version is an accurate translation of the other and that both versions carry the same legal effect.
- 20.4 Should any Clause or any part of any Clause contained in this Agreement be declared invalid or unenforceable for any reason whatsoever, all other Clauses or parts of Clauses contained in this Agreement shall remain in full force and effect.
- 20.5 This Agreement constitutes the entire agreement between the Parties relating to the subject matter of this Agreement and supersedes all previous agreements.
- 20.6 If there is any conflict or inconsistency between the provisions of this Agreement and the Restated JV Contract, the provisions of the Restated JV Contract shall prevail.
- 20.7 No variation of this Agreement shall be valid unless it is in writing and signed by or on behalf of each of the Parties.

- 20.8
- This Agreement shall be executed in six (6) originals in English and six (6) in Chinese.
- 20.9
- This Agreement, the Series Reactor Technology Head Licence Agreement, the Shunt Reactor Technology Head Licence Agreement are interdependent and must be signed at the same time. Default by a party under the any of these agreements may be treated by the other party as default under this Agreement.

**IN WITNESS WHEREOF** each of the Parties hereto has caused this Agreement to be executed by its duly authorised representative on the date first set forth above.

**TRENCH LIMITED**

/s/ John Finlay

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Name: John Finlay  
Title: Executive Vice President, North America and International  
Nationality: Canadian

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO. LTD.**

/s/ Zhang Wei Guo

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Name: Zhang Wei Guo  
Title: Director  
Nationality: Chinese

**SHANGHAI SITICO INTERNATIONAL TRADING COMPANY**

/s/ Zhao Jun Bo

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Name: Zhao Jun Bo  
Title: General Manager  
Nationality: Chinese

**MWB (SHANGHAI) CO LTD**

/s/ John Finlay

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Name: John Finlay  
Position: Authorised Signatory  
Nationality: Canadian

## **SCHEDULE 1**

### **LIST OF LICENCED PRODUCTS AND MAIN CONTENTS OF TECHNICAL DOCUMENTATION**

1. Licensed coverage

Dry type air core coil technology for Line Traps 69 — 800KV.

2. Main contents

2.1 Design & Know How

Complete designs and know how for the entire range according to IEC & ANSI standard, such as:

- (1) Design Software — Electrical & Mechanical
- (2) Design Costs — Material & Labour Hours
- (3) Standard labour hours
- (4) Standard parts drawings
- (5) Typical drawing for one specific rating of each

2.2 Technical documentation, such as:

- (1) Manufacturing Procedures
- (2) Material Specifications
- (3) QA Manual
- (4) List of required manufacturing equipment
- (5) List of required routine test equipment
- (6) Welding standards
- (7) Test & Inspection Plan
- (8) Incoming material inspections and tests
- (9) In-house quality test procedures
- (10) Inspection standards
- (11) In-process and final test procedures
- (12) The drawings for main tools & equipment and operational procedures for assembling.

- (13) Measures for quality assurance
- (14) Completed test items (incl. type test & routine test) and procedures
- (15) The list & specification of test equipment for routine tests, requirement on testing equipment and testing circuit, etc.
- (16) Other necessary documentation



SCHEDULE 2

EMPLOYEE CONFIDENTIALITY AGREEMENT

I \_\_\_\_\_ [name], [position] of Transformer Shanghai Instrument Transformer Works (“**SITW**”) [or MWB (Shanghai) Co., Ltd. or name of subcontractor] (“**Employer**”) hereby represent, warrant and agree to keep confidential the Combined Coil Technology and Know-how, the Technology Sub-Licence Agreement, dated [ ] between SITW, Trench Limited (as “**Contractor**”) and MWB (Shanghai) Co Ltd (the “**Joint Venture Company**”) and the Line Trap Reactor Head Licence Agreement, Shunt Reactor Technology Head Licence Agreement and the Series Reactor Technology Head Licence Agreement all dated [ ] between Trench Limited, SITW, Shanghai SITICO International Trading Company and the Joint Venture Company, Technical Documentation and all other information, technical data or know-how as follows:

1. During the term of my employment with the Employer and after the termination thereof, I shall not, unless expressly required by law or a court order in the PRC, directly or indirectly, disclose by any means to any person, firm, enterprise, corporation or government agency or organisation in or of the People’s Republic of China or any other country, any information, whether in oral, written, pictorial, graphic or recorded form, concerning the design, manufacture, application, inspection, testing, maintenance, packaging, marketing or sale of the Combined Coil Products or any part of them or any other relevant information which may come to my knowledge or possession or be disclosed to me by the Joint Venture Company or Trench Limited because of or as a result of my employment by the Employer (hereinafter collectively referred to as the “**Confidential Information**”).
2. Without limiting in any way the foregoing agreement and obligation, I hereby agree that all printed, written, recorded or other materials containing or relating to the Confidential Information, prepared by me or which comes into my possession or knowledge during my employment with the Employer, are and shall remain to be the property of the Joint Venture Company, the Contractor or SITW (as the case may be), and, if requested by the Joint Venture Company, the Contractor or SITW or upon the termination of my employment with the Employer, all such materials, including all prints, copies or duplicates thereof, shall be either disposed of or returned to the Joint Venture Company or the Contractor in accordance with the Joint Venture Company’s, SITW’s or the Contractor’s instruction.
3. In consideration of the disclosure to me of the Confidential Information, I further agree that I will not, following termination of my employment with the Employer, directly or indirectly, engage in the manufacture of the Combined Coil Products or any part of them by making use of the Confidential Information.
4. I enter into this Contract with the express purpose and intent that either the Joint Venture Company, SITW and the Contractor derive benefits either herefrom, and I further understand and acknowledge that SITW, the Joint Venture Company [name of subcontractor] and the Contractor or any of them, shall have the right to enforce this Contract against me should I be deemed to have violated this Contract in any manner.

Terms defined in the Technology Sub-Licence Agreement shall have the same meanings when used in this Agreement.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, 2002.

\_\_\_\_\_  
Name:  
Position:

This Confidentiality Agreement is for the benefit of the undersigned:

**TRENCH LIMITED**

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Name:  
Position:

**MWB (SHANGHAI) CO LTD**

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Name:  
Position:

**SHANGHAI INSTRUMENT TRANSFORMER WORKS CO., LTD.**

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Name:  
Position:

**TRENCH ELECTRIC BV**

**CODE OF ETHICS**

**General Philosophy**

The honesty, integrity and sound judgment of our employees, officers and directors is essential to the reputation and success of Trench Electric B.V. (the “Company”).

This Code of Ethics governs the actions and working relationships of Company employees, officers and directors with current and potential customers, suppliers, fellow employees, competitors, government and self-regulatory agencies, the media, and anyone else with whom the Company has contact.

This Code of Ethics:

- Requires the highest standards for honest and ethical conduct, including proper and ethical procedures for dealing with actual or apparent conflicts of interest between personal and professional relationships.
- Requires fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with governmental and regulatory agencies.
- Requires compliance with applicable laws, rules and regulations.
- Addresses potential or apparent conflicts of interest and expects employees, officers and directors to communicate those conflicts to the Company.
- Addresses misuse or misapplication of the Company’s property and corporate opportunities.
- Requires the highest level of confidentiality and fair dealing within and outside the Company environment.
- Requires reporting of any illegal behavior.

**Senior Financial Officers**

While all employees, officers and directors are required to adhere to the Company’s Code of Ethics, the professional and ethical conduct of senior financial officers is particularly essential to the proper function and success of the Company. All senior financial officers are expected to adhere to the Company’s Code of Ethics at all times.

**Conflicts of Interest**

A “conflict of interest” occurs when your private interest interferes or appears to interfere or conflict in any way with the interests of the Company. Any position or interest, financial or otherwise, which could materially conflict with your performance as an employee, officer or director of the Company, or which affects or could reasonably be expected to affect your independence or judgment concerning transactions between the Company, its customers, suppliers or competitors or otherwise reflects negatively on the Company would be considered a conflict of interest.

You are expected to avoid all situations that might lead to a real or apparent material conflict between your self-interest and your duties and responsibilities as an employee, officer or director of the Company. If you suspect that a transaction or relationship in which you are involved might give rise to a conflict of interest, you should disclose it to the Group Finance Director.

**Confidentiality**

Non-public information regarding the Company or its businesses, employees, customers and suppliers is confidential. As a Company employee, officer or director, you are trusted with confidential information. You are only to use such confidential information for the business purpose intended. You are not to share confidential information with anyone outside of the Company, including family and friends, or with other employees who do not need the information to carry out their duties. You may be required to sign a specific confidentiality agreement in the course of your employment at the Company. You remain under an obligation to keep all information confidential even after your employment with the Company ends.

The following is a non-exclusive list of confidential information:

1. The Groups current and forecast trading results, before they have been made available in the public domain.
2. Trade secrets, which include any business or technical information, such as formula, program, method, technique, compilation or information that is valuable because it is not generally known.
3. All rights to any invention or process developed by an employee using Company facilities or trade secret information, resulting from any work for the Company, or relating to the Company’s business.
4. Proprietary information such as customer lists and customers’ confidential information.

Any and all public and media communications involving the Company (other than pure trade announcements) must have prior clearance from the Chief Executive Officer.

## Corporate Opportunities

Using confidential information about the Company or its businesses, employees, officers, directors, customers, consumers or suppliers for personal benefit or disclosing such information to others outside your normal duties is prohibited.

Employees, officers and directors are prohibited from:

- (i) Personally benefiting from opportunities that are discovered through the use of Company property, contacts, information or position.
- (ii) Accepting employment or engaging in a business (including consulting or similar arrangements) that may conflict with the performance of your duties or the Company's interest.
- (iii) Soliciting, demanding, accepting or agreeing to accept anything of value from any person in conjunction with the performance of your employment or duties at the Company.
- (iv) Acting on behalf of the Company in any transaction in which you or your immediate family has a significant direct or indirect financial interest.

There are certain situations in which you may accept a personal benefit from someone with whom you transact business such as:

- (v) Accepting a gift in recognition of a commonly recognized event or occasion (such as a promotion, new job, wedding or retirement). A gift accompanying an award in recognition of service or accomplishment may be accepted without violating these guidelines so long as the gift does not exceed US\$250 from any one individual in any calendar year.
- (vi) Accepting something of value if the benefit is available to the general public under the same conditions on which it is available to you.
- (vii) Accepting meals, refreshments, travel arrangements and accommodations and entertainment of reasonable value in the course of a meeting or other occasion to conduct business or foster business relations.

## Outside Business Relationships

Before agreeing to act as a director, officer, consultant, or advisor for any other business organization, you should notify your immediate supervisor, who in turn should notify the Managing Director of the relevant business unit.

Directors should disclose all new directorships or potential directorships to the Chief Executive Officer in order to avoid any conflicts of interest and to maintain independence.

The Company encourages civic, charitable, educational and political activities as long as they do not interfere with the performance of your duties at the Company. Before agreeing to participate in any civic or political activities, you should contact your immediate supervisor, who in turn should notify the Managing Director of the relevant business unit.

### **Fair Dealing**

Each employee, officer and director should undertake to deal fairly with the Company's customers, suppliers, competitors and employees. Additionally, no one should take advantage of another through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practices.

Employees must disclose prior to or at their time of hire the existence of any employment agreement, non-compete or non-solicitation agreement, confidentiality agreement or similar agreement with a former employer that in any way restricts or prohibits the performance of any duties or responsibilities of their positions with the Company. Copies of such agreements should be provided to permit evaluation of the agreement in light of the employee's position. In no event shall an employee use any trade secrets, proprietary information or other similar property, acquired in the course of his or her employment with another employer, in the performance of his or her duties for or on behalf of the Company.

### **Protection and Proper Use of Company Property**

All employees, officers and directors should protect the Company's property and assets and ensure their efficient and proper use. Theft, carelessness and waste can directly impact the Company's profitability, reputation and success. Permitting Company property (including data transmitted or stored electronically and computer resources) to be damaged, lost, or used in an unauthorized manner is strictly prohibited. Employees, officer and directors may not use corporate, bank or other official stationary for personal purposes.

### **Company Political Activities**

No employee, officer or director may make any political contribution for the Company or use the Company's name, funds, property, equipment or services for the support of political parties, initiatives, committees or candidates. This includes contribution of any value. Additionally, lobbying activities or government contacts on behalf of the Company, other than sales activities, should be coordinated with the Chief Executive Officer.

### **Disclosure and Communication of Information**

All information provided in connection with communications to our bondholders, the public, or in SEC reports must be provided in a manner which allows for the disclosure within such communications or reports to be fair, accurate, timely and understandable. To the extent that an employee of any level is involved in the preparation of documentation relating to or supporting such reports or communications, he or she should ensure strict adherence to these standards.

### **Reporting of Illegal or Unethical Behavior**

All employees, officers and directors are expected to demonstrate the ability to properly manage their personal finances, particularly the prudent use of credit. The Company recognizes that its customers must have faith and confidence in the honesty and character of its employees, officers and directors. In addition to the importance of maintaining customer confidence, there are specific laws that outline the actions the Company must take regarding any known, or suspected, crime involving the affairs of the Company.

Fraud is an element of business that can significantly affect the reputation and success of the Company. The Company requires its employees, officers and directors to talk to supervisors, managers or other appropriate personnel to report and discuss any known or suspected criminal activity involving the Company or its employees. If, during the course of employment, you become aware of any suspicious activity or behaviour including concerns regarding questionable accounting or auditing matters, you must report violations of laws, rules, regulations or this Code of Ethics to Group Chairman or one or the non executive Directors.

### **Administration and Waiver of Code of Ethics**

This Code of Ethics shall be administered and monitored by the Company's Board. Any questions and further information on this Code of Ethics should, in the first instance, be directed to the Group Finance Director.

Employees, officers and directors of the Company are expected to follow this Code of Ethics, and to represent the Company (and its subsidiaries) in a responsible manner in all regions and territories, at all times. Generally, there should be no waivers to this Code of Ethics, however, in rare circumstances conflicts may arise that necessitate waivers. Waivers will be determined on a case-by-case basis by the Company's Chief Executive who may consult with the Company's outside legal counsel, if necessary.

Waivers for directors and executive officers, however, must be determined by the board of directors. For members of the board of directors, executive officers and senior financial officers, the board of directors shall have the sole and absolute discretionary authority to approve any deviation or waiver from this Code of Ethics. Any significant waiver and the grounds for such waiver by directors, executive officers or senior financial officers shall be disclosed in the next 6K published by the Company.

Known or suspected violations of this Code of Ethics will be investigated and may result in disciplinary action up to and including immediate termination of employment.