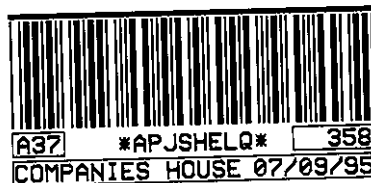


**Knorr-Bremse Systems for Commercial
Vehicles Limited**
(formerly Bendix HVCG Europe Limited)

Directors' report and financial statements
31 December 1994

Registered number 529247



Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report and financial statements

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Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1994.

Principal activities

The company's principal activity is the manufacture and marketing of commercial vehicle braking equipment.

Business review

The results for the year are given in the profit and loss account on page 6. In the prior accounting period the company acquired the assets relating to its principal activity on 9 July 1993. The directors do not recommend the payment of a dividend. The profit for the financial year of £1,976,000 has been transferred to reserves.

On 31 October 1994 the company acquired the business, assets and liabilities of Knorr-Bremse (UK) Limited. This company's principal activities are the importation and wholesale in the British Isles of Knorr-Bremse brake systems for commercial vehicles.

Change of name

On 5 January 1995 the company changed its name from Bendix HVCG Europe Limited to Knorr-Bremse Systems for Commercial Vehicles Limited.

Post balance sheet events

On 23 February 1995 the company resolved to purchase 707,104 of its own ordinary shares out of accumulated reserves and capital. The purchase price of £12,999,966 was paid on 10 April 1995.

Market value of land and buildings

In the opinion of the directors the market value of the company's land and buildings is not significantly different from the book value.

Directors and directors' interests

The directors who held office during the year were as follows:

DTJ Hancock (resigned 23 February 1995)
JC Samuelson (USA) (resigned 23 August 1994)
D De Fossett (USA) (resigned 23 August 1994)
E Werner (Germany) (appointed 23 August 1994; resigned 23 February 1995)
HJ Koch (Germany) (appointed 23 August 1994)
E Liesenfeld (Germany) (appointed 23 August 1994)
M Smith (appointed 23 August 1994)
MJ Field (appointed 23 August 1994)

Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report *(continued)*

Directors and directors' interests *(continued)*

None of the directors who held office at the end of the financial year had any interests in the shares of the company or any other group companies located in the United Kingdom at any time during the year.

D Zaps (Germany) was appointed an additional director of the company on 23 February 1995.

Employees

It is the company's policy to involve employees fully in its plans for the future and to keep them regularly acquainted with the current operating position of the business. In order to achieve this goal regular meetings are held in the form of a 'joint council' where all employee groups are represented, and written reports of these meetings are publicised throughout the company.

The company's policy in relation to the employment of disabled persons is:

- a) In its employee recruitment practices, full consideration is given to job applications received from disabled persons. Candidates are selected and appointed on the basis of their ability to perform the duties of the job. Where disabled persons have the aptitudes and abilities necessary for the job, sympathetic consideration is given to their applications. Where necessary, and where possible, special training arrangements are made to facilitate the engagement and induction of selected disabled applicants.
- b) Where an employee becomes disabled whilst employed by the company, arrangements are made, wherever possible, either to transfer the person to suitable alternative employment or to retrain them in order to enable them to perform a job identified as appropriate to their aptitudes and abilities.
- c) Encouragement is given in the training, career development, and promotion of all employees according to opportunities available, organisational requirements, and individual aptitudes and abilities. This policy includes disabled employees for whom any further necessary training is arranged taking account of their particular needs.

Political and charitable contributions

The company made no political contributions during the year (1993 - £nil). Donations to UK charities amounted to £3,454 (1993 - £835).

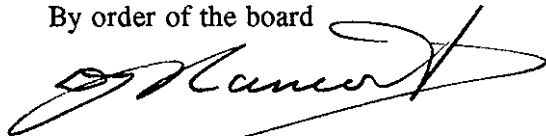
Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report (*continued*)

Auditors

On 6 February 1995 our auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name. Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG will therefore continue in office.

By order of the board



DTJ Hancock
Secretary

Douglas Road
Kingswood
Bristol BS15 2NL

30th August 1995

Knorr-Bremse Systems for Commercial Vehicles Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Richmond Park House
15 Pembroke Road
Clifton
Bristol BS8 3BG

Report of the auditors to the members of Knorr-Bremse Systems for Commercial Vehicles Limited

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1994 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'KPMG' or similar, written over the printed name.

KPMG
Chartered Accountants
Registered Auditors

30 August 1995

Knorr-Bremse Systems for Commercial Vehicles Limited

Profit and loss account
for the year ended 31 December 1994

	Note	1994 (Year) £000	1993 (13 months) £000
Turnover	2	48,048	19,256
Cost of sales		(37,656)	(15,734)
Gross profit		10,392	3,522
Distribution costs		(849)	(364)
Administrative expenses		(7,085)	(4,492)
Other operating income		304	87
Trading profit/(loss) on continuing activities		2,762	(1,247)
Interest receivable		169	-
Profit/(loss) on ordinary activities before taxation	3-5	2,931	(1,247)
Tax on profit/(loss) on ordinary activities	6	(955)	-
Profit/(loss) for the financial period		1,976	(1,247)
Retained (deficit)/profit brought forward		(1,238)	9
Retained profit/(deficit) carried forward		738	(1,238)

There were no recognised gains and losses other than those included in the above profit and loss account.

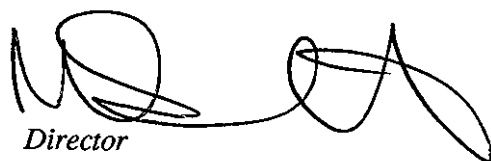
A statement of movements on reserves is given in note 15.

Knorr-Bremse Systems for Commercial Vehicles Limited

Balance sheet
at 31 December 1994

	Note	1994 £000	1993 £000
Fixed assets			
Intangible assets	7	-	19
Tangible assets	8	11,344	12,074
Investment	9	97	-
		<u>11,441</u>	<u>12,093</u>
Current assets			
Stocks	10	5,036	4,184
Debtors	11	14,472	8,702
Cash at bank and in hand		2,655	2,639
		<u>22,163</u>	<u>15,525</u>
Creditors: amounts falling due within one year	12	<u>(13,663)</u>	<u>(9,750)</u>
Net current assets		<u>8,500</u>	<u>5,775</u>
Total assets less current liabilities		<u>19,941</u>	<u>17,868</u>
Provisions for liabilities and charges	13	<u>(721)</u>	<u>(721)</u>
Net assets		<u>19,220</u>	<u>17,147</u>
Capital and reserves			
Called up share capital	14	1,097	1,000
Share premium account	15	17,385	17,385
Profit and loss account		738	(1,238)
Equity shareholders' funds		<u>19,220</u>	<u>17,147</u>

These financial statements were approved by the board of directors on 30th August 1995 and were signed on its behalf by:



Director
M Smith

Knorr-Bremse Systems for Commercial Vehicles Limited

Cash flow statement

for the year ended 31 December 1994

	Note	1994 (Year) £000	1993 (13 months) £000
Net cash inflow from operating activities	20	1,263	4,956
Tax paid			
Income tax on royalties received		(34)	(11)
Investing activities			
Purchase of tangible fixed assets		(1,538)	(1,920)
Acquisition of investment		(97)	-
Acquisition of business (net of cash and cash equivalents acquired - see below)		-	(18,771)
Proceeds from sale of tangible assets		134	-
Net cash outflow from investing activities		(1,501)	(20,691)
Net cash outflow before financing		(272)	(15,746)
Financing			
Issue of ordinary share capital (including premium)		97	18,385
(Decrease)/increase in cash and cash equivalents	21	(175)	2,639
Acquisition of business			
Net assets acquired:			
Intangible fixed assets		-	27
Tangible fixed assets		6	11,230
Stocks		276	5,793
Debtors		788	7,530
Net amounts due (to)/from group undertakings		(866)	1,442
Creditors		(395)	(6,530)
Deferred taxation		-	(721)
Cash/(bank overdraft)		(191)	18,771
		191	(386)
		-	18,385
Satisfied by:			
Shares issued		-	1,000
Share premium		-	17,385
		-	18,385

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	30 to 40 years
Plant and machinery	-	3 to 20 years

No depreciation is provided on freehold land.

Patents purchased by the company are amortised over their estimated useful economic life of 7 years. This year all remaining patents have been written off as they have now reached the end of their useful economic life.

Goodwill

Goodwill relating to a business purchased by the company is amortised over the useful life of the benefit acquired. This year all remaining goodwill has been written off as no future benefits are anticipated in respect of the assets purchased.

Leases

Rental charges under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Pension costs

The company operates contributory and non-contributory pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company, being invested in trustee administered funds. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

1 Accounting policies (continued)

Research and development expenditure

Expenditure on research and development is written off against profits in the period in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the latest purchase price is used. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

2 Analysis of turnover by geographical market

	1994 (Year) £000	1993 (13 months) £000
United Kingdom	22,475	9,285
Overseas	25,573	9,971
	<hr/> 48,048	<hr/> 19,256

All of the turnover was derived from the company's principal activity, which is carried out wholly within the United Kingdom.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

3 Profit on ordinary activities before taxation

	1994 (Year) £000	1993 (13 months) £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	24	23
Other services	11	-
Depreciation and other amounts written off fixed assets:		
Tangible assets	2,187	1,075
Intangible assets	19	8
Hire of plant and machinery - rentals payable under operating leases	412	204
Hire of other assets - operating leases	509	264
Exceptional items charged to administrative expenses:		
Reorganisation costs	484	1,166

4 Remuneration of directors

	1994 (Year) £000	1993 (6 months) £000
Directors' emoluments:		
Remuneration as executives	64	56

The company had no chairman during the period. The emoluments, excluding pension contributions, of the highest paid director were £31,512 (1993 : £42,228).

The emoluments, excluding pension contributions, of the directors (including the highest paid director) were within the following ranges:

	Number of directors	
	1994	1993
£0 - £ 5,000	5	3
£10,001 - £15,000	1	1
£15,001 - £20,000	1	-
£30,001 - £35,000	1	-
£40,001 - £45,000	-	1

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	1994	1993
	(Year)	(13 months)
Hourly - paid	527	534
Staff	237	253
	<u>764</u>	<u>787</u>

The aggregate payroll costs of these persons were as follows:

	1994	1993
	(Year)	(13 months)
	£000	£000
Wages and salaries	12,403	5,495
Social security costs	1,005	436
Other pension costs (see note 19)	453	336
	<u>13,861</u>	<u>6,267</u>

6 Taxation

	1994	1993
	(year)	(13 months)
	£000	£000
Based on the profit for the year:		
Corporation tax at 33%	971	-
Adjustment relating to an earlier year	(16)	-
	<u>955</u>	<u>-</u>

There was no charge to taxation in 1993 due to losses incurred.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

7 Intangible fixed assets

	Patents £000	Goodwill £000	Total £000
<i>Cost</i>			
At beginning of year	139	23	162
Written off	(139)	(23)	(162)
	<hr/>	<hr/>	<hr/>
At end of year	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At beginning of year	139	4	143
Written off	(139)	(4)	(143)
	<hr/>	<hr/>	<hr/>
At end of year	-	-	-
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 December 1994	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 1993	-	19	19
	<hr/>	<hr/>	<hr/>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings	Plant and machinery	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000
Cost				
At beginning of year	4,290	20,768	7,870	32,928
Acquisition of business	-	20	-	20
Additions	112	694	732	1,538
Disposals	-	(303)	(4,654)	(4,957)
At end of year	4,402	21,179	3,948	29,529
Depreciation				
At beginning of year	1,140	13,895	5,819	20,854
Acquisition of business	-	14	-	14
Charged in year	94	979	1,114	2,187
Disposals	-	(247)	(4,623)	(4,870)
At end of year	1,234	14,641	2,310	18,185
Net book value				
At 31 December 1994	3,168	6,538	1,638	11,344
At 31 December 1993	3,150	6,873	2,051	12,074

Included in freehold land and buildings are depreciable buildings of £3,508,000 (1993: £3,396,000).

9 Fixed asset investment

The investment represents 100% of the share capital of Knorr-Bremse (UK) Limited, which is incorporated in the United Kingdom and registered in England and Wales. This investment was acquired on 31 October 1994 by the issue of 97,150 'A' ordinary shares of £1 each at par. On the same date the business assets and liabilities of Knorr-Bremse (UK) Limited were transferred to the company at book value.

Knorr-Bremse (UK) Limited has been dormant since acquisition and had net assets of £206,831 at 31 December 1994. Because this subsidiary is dormant and its balance sheet amounts are immaterial, the directors have not prepared group accounts as permitted by the Companies Act 1985 and accounting standards.

The business acquired from Knorr-Bremse (UK) Limited contributed approximately £576,000 of turnover and £51,000 of profit to the results of the company in the year.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

10 Stocks

	1994 £000	1993 £000
Raw materials and work in progress	2,942	2,387
Finished goods and goods for resale	2,094	1,797
	<u>5,036</u>	<u>4,184</u>

In the opinion of the directors there is no material difference between the replacement cost of stocks and their balance sheet amounts.

11 Debtors

	1994 Due within one year £000	1993 Due within one year £000
Trade debtors	6,673	6,095
Amounts owed by parent and fellow subsidiary undertakings	7,282	2,010
Income tax recoverable	45	11
Other debtors	183	230
Prepayments and accrued income	289	356
	<u>14,472</u>	<u>8,702</u>

12 Creditors: amounts falling due within one year

	1994 £000	1993 £000
Trade creditors	4,855	3,919
Amounts owed to parent and fellow subsidiary undertakings	3,750	1,794
Amounts owed to subsidiary undertakings	215	-
Corporation Tax	1,012	-
Other tax and social security	359	275
Other creditors	1,256	881
Accruals and deferred income	2,216	2,881
	<u>13,663</u>	<u>9,750</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

13 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	721
Charge for the year in the profit and loss account	-
At end of year	<u>721</u>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1994		1993	
	Provided	Unprovided	Provided	Unprovided
	£000	£000	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	985	-	187	-
Other timing differences	(264)	-	534	-
	<hr/>	<hr/>	<hr/>	<hr/>
	721	-	721	-

14 Called up share capital

	1994 £000	1993 £000
<i>Authorised, allotted, called up and fully paid</i>		
Ordinary shares of £1 each	1,000	1,000
Ordinary 'A' shares of £1 each	97	-
	<u>1,097</u>	<u>1,000</u>

The ordinary 'A' shares were issued at par to purchase a 100% shareholding in Knorr-Bremse (UK) Limited. The consideration was 97,150 £1 ordinary shares in Knorr-Bremse (UK) Limited. On 23 February 1995 the company resolved to purchase 707,174 of its own ordinary shares out of accumulated reserves and capital. The purchase price of £12,999,966 was paid on 10 April 1995.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

15 Reserves

	Share premium account £000
At beginning and end of year	17,385

16 Reconciliation of movements in equity shareholders' funds

	1994 (Year) £000	1993 (13 months) £000
Profit/(loss) for the financial period	1,976	(1,247)
Issue of shares	97	1,000
Share premium	-	17,385
Opening equity shareholders' funds	17,147	9
Closing equity shareholders' funds	220	17,147

17 Contingent liabilities

The company has contingent liabilities in respect of guarantees to HM Customs & Excise of £100,000 (1993 : £100,000).

18 Commitments

- (i) Capital commitments at the end of the financial year for which no provision has been made:

	1994 £000	1993 £000
Contracted	34	60
Authorised but not contracted	59	-
	93	60

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

18 Commitments (continued)

(ii) Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings £000	1994 Other £000	Land and buildings £000	1993 Other £000
Operating leases which expire:				
Within one year	-	313	-	151
In the second to fifth years inclusive	23	324	95	255
	<u>23</u>	<u>637</u>	<u>95</u>	<u>406</u>

19 Pension schemes

As explained in the accounting policies set out on page 9, the company operates funded contributory and non-contributory pension schemes providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 January 1993. The assumptions which have the most significant effect on the results of the valuation are set out below:

Rate of return on investments	9% per annum
Rate of pensionable salary increases	7% per annum
Rate of increase of present and future pensions	Nil other than required by legislation
Rate of dividend growth for equities	4.5% per annum

The pension charge for the year of £453,000 (1993 : £336,000) takes into account the amortisation of experience surpluses that are being recognised over 18 years, the average remaining service lives of employees. The amount of the provision at the end of the year included in other creditors was £881,000 (1993: £469,000).

The most recent actuarial valuation showed that the market value of the scheme's assets was £27,495,000 and that the actuarial value of those assets represented 119% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at nil% and 4% of earnings respectively.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

20 Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	1994 (Year) £000	1993 (13 months) £000
Operating profit/(loss)	2,931	(1,247)
Depreciation and amortisation charges	2,206	1,083
(Profit)/loss on sale of tangible fixed assets	(47)	1
(Increase)/decrease in stocks	(576)	1,609
Decrease in debtors	324	849
Increase in creditors	392	1,426
(Increase)/decrease in net amounts due from group undertakings	(3,967)	1,235
Net cash inflow from operating activities	<u>1,263</u>	<u>4,956</u>

21 Analysis of changes in cash and cash equivalents during the period

	1994 (Year) £000	1993 (13 months) £000
Balance at beginning of period	2,639	-
Net cash inflow/(outflow)	(175)	2,639
Cash received with acquisition	191	-
Balance at end of period	<u>2,655</u>	<u>2,639</u>

22 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Knorr-Bremse Systeme für Nutzfahrzeuge GmbH, which is incorporated and registered in Germany.

The largest and smallest group in which the results of the company are consolidated is that headed by Knorr-Bremse AG, incorporated and registered in Germany. The consolidated accounts of this group are available to the public and may be obtained from Amtsgericht München, Registergericht, Postfach, 80097, Munich, Germany.