



Knorr-Bremse

Systems for Commercial Vehicles Limited

**Directors' report and financial statements
31 December 2006**

Registered number 529247

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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

for the year ended 31 December 2006

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The Company's principal activities remain the marketing, manufacture and remanufacture of commercial vehicle braking and air suspension equipment for the world-wide markets

Business Review

The Company continues to develop its position in the market through the provision of quality products and services. Product portfolio continues to be sourced from the Knorr-Bremse global network as well manufactured locally and sourced from third parties.

The markets the Company operates in have had a volatile year with a weak start to 2006 being followed by a slow recovery towards the end of the year.

The year under review saw small decline in sales turnover of 0.2% compared to 2005 which itself had delivered a 3.3% increase over 2004. In 2006, sales into the UK market remained stable at around 67%

Average headcount reduced from 146 to 144 despite the flat sales volume, reflecting continued operational efficiencies and improvements primarily related to the manufacturing processes.

The stable sales turnover coupled with effective cost controls and improved productivity have led to improved gross margins at 29.6% up from 27.9%. Return on Sales has increased to 11.1% from 10.4% reflecting the improved margins and operational improvements during the year

The Directors' are particularly pleased with these results given the backdrop of severe cost pressures, particularly in the area of utility and raw material costs. These led to inevitable price increases to the Company's customers and the need to reduce operational costs without jeopardising quality or customer service.

Dividends

An interim dividend of £3,866,000 was paid to the shareholders in June 2006. No final dividend has been recommended or approved



Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' Report

for the year ended 31 December 2006

Business Outlook

The Company has started 2007 with an increasing orderbook being driven by strong markets throughout Europe. This has led to some issues regarding delivery lead times which is affecting the whole European industry sector and thus our customers. We continue to work to resolve this situation as promptly as possible.

It would appear that the cost pressure in some areas, notably utility costs, seem to be easing but that others remain very strong. It remains an issue for the Company to continue to remain cost effective in this economic situation.

2007 brings the first Pension Scheme valuation since the introduction of the Pensions Regulator and the Pensions Act 2004. Significant improvement in funding levels of the Defined Benefit Pension Schemes, generated by the changes in contributions and benefits in 2004 as well as investment performance, have been detrimentally affected by changes to the financial and mortality assumptions being used in the 2007 valuation. More detail on that latest valuation can be seen in Note 20 to these Accounts.

The Company has agreed a Recovery Plan with the Scheme Trustees that seeks to eliminate the shortfall over a 10 year period as well as continue to fund future service accrual. This will lead to higher costs commencing in 2008.

The Company is exposed to significant exchange rate risks (and opportunity) due to the disparity of outgoing and incoming funds in Euro's. The Company attempts to reduce these risks by the use of hedge contracts where possible and cost effective.

Despite the above risks, the strong market and continued cost effectiveness of the business has yielded a positive start to 2007 which the Directors and Management team are working to maintain and thus the Directors' forecast that 2007 offers the opportunity to further increase profitability, but that 2008 may well see a decline due to increased pension costs.

Directors and Directors' interests

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

M. Smith
O. Flach (Germany)
S. Craddock
U. Kastner (Germany)

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 company located in the United Kingdom at any time during the year.



Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' Report

for the year ended 31 December 2006

Political and charitable contributions

The Company made no political contributions during the year (2005: £nil). Donations to events and charities amounted to £1,032 (2005: £969)

Auditors

KPMG LLP have continued to act as auditors to the company and, pursuant to a shareholders resolution, the company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office.

Simon Craddock

Managing Director

By order of the board on: 26 October 2007

Century House
Folly Brook Road
Emersons Green
Bristol BS16 7FE



Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' Report

for the year ended 31 December 2006

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires that the Directors prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and UK law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

KPMG LLP

100 Temple Street

Bristol

BS1 6AG

**Independent Auditors' Report to the members of:
Knorr-Bremse Systems for Commercial Vehicles Limited**

We have audited the financial statements of Knorr-Bremse Systems for Commercial Vehicles Ltd for the year ended 31 December 2006 which comprise the primary statements such as the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is not consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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.

KPMG LLP

100 Temple Street

Bristol

BS1 6AG

**Independent Auditors' Report to the members of:
Knorr-Bremse Systems for Commercial Vehicles Limited**

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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then stated,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

26 October 2007



Knorr-Bremse Systems for Commercial Vehicles Limited

Profit and Loss account

for the year ended 31 December 2006

		2006	2005
		£000	£000
Turnover	Note 2	41,303	41,395
Cost of sales		(29,074)	(29,833)
Gross profit		<u>12,229</u>	<u>11,562</u>
Distribution costs		(460)	(504)
Administrative expenses		(7,440)	(7,218)
Other operating income		-	110
Operating profit		<u>4,329</u>	<u>3,950</u>
Interest receivable	6	<u>263</u>	<u>346</u>
Profit on ordinary activities before taxation	3-5	<u>4,592</u>	<u>4,296</u>
Tax on profit on ordinary activities	7	<u>(1,352)</u>	<u>(1,284)</u>
Profit on ordinary activities after taxation		<u><u>3,240</u></u>	<u><u>3,012</u></u>

Statement of Total Recognised Gains and Losses

	2006	2005
	£000	£000
Profit for the financial year after taxation	3,240	3,012
Total recognised gains and losses relating to the year	<u>3,240</u>	<u>3,012</u>
Total recognised gains and losses since the last report	<u><u>3,240</u></u>	<u><u>3,012</u></u>



Knorr-Bremse Systems for Commercial Vehicles Limited

Balance Sheet

as at 31 December 2006

	Note	2006		2005	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		1,131		1,301
Investment	10		-		97
			<u>1,131</u>		<u>1,398</u>
Current assets					
Stocks	11	3,354		3,734	
Debtors	12	11,216		11,721	
Cash at bank and in hand		<u>1,207</u>		<u>1,252</u>	
		15,777		16,707	
Creditors: amounts falling due within one year	13	<u>(6,789)</u>		<u>(7,408)</u>	
Net current assets			<u>8,988</u>		<u>9,299</u>
Total assets less current liabilities			10,119		10,697
Provisions for liabilities	14		(565)		(517)
			<u></u>		<u></u>
Net assets			<u>9,554</u>		<u>10,180</u>
Capital and reserves					
Called up share capital	15		390		390
Share premium account	16		5,830		5,830
Profit and loss account	16		<u>3,334</u>		<u>3,960</u>
Equity shareholders' funds	17		<u>9,554</u>		<u>10,180</u>

These financial statements were approved by the Board of Directors on 26 October 2007 and were signed on its behalf by

Mark Smith
Financial Director



Knorr-Bremse Systems for Commercial Vehicles Limited

Cash Flow Statement

for the year ended 31 December 2006

	Note	2006	2005
		£000	£000
Net cash inflow from operating activities	21	4,839	5,224
Returns on investments and servicing of finance			
Interest received		263	346
Net cash inflow		263	346
Taxation			
Corporation tax paid		(1,702)	(1,268)
Corporation tax received		82	
Tax paid		(1,620)	(1,268)
Capital Expenditure			
Payments to acquire tangible fixed assets		(162)	(195)
Receipts from sale of tangible fixed assets		1	-
Net cash outflow for capital expenditure		(161)	(195)
		3,321	4,107
Equity Dividends Paid		(3,866)	(4,467)
Financing			
Decrease in loans to parent and group undertakings		500	1,000
Net cash outflow from financing		500	1,000
(Decrease)/Increase in cash in the year	22	(45)	640
Reconciliation of Net Cash Flow to movement in Net Debt			
(Decrease)/Increase in cash in the year		(45)	640
(Decrease)/Increase in Cash		(45)	640
Net Cash as at 1 January		1,252	612
Net Cash as at 31 December	22	1,207	1,252



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

1 Accounting policies

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

Convention

The financial information is prepared under the historic cost convention and in accordance with applicable Accounting Standards

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 life as follows

Plant and machinery	3 to 15 years
Fixtures, fittings, tools and equipment	3 to 10 years
Leasehold Improvements	over estimated useful life or length of remaining lease, whichever is the shorter

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.

Onerous lease provisions are recognised when required and reviewed on a periodic basis

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

Net cash and debt

Net cash and debt is defined as that cash held on hand and at bank due on demand less any bank borrowings outstanding at the balance sheet date. Any intercompany loans are shown separately as part of debtors and/or creditors if applicable at balance sheet date.



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

Pension schemes

The company operates contributory pension schemes providing benefits based upon final pensionable pay. The assets of the schemes are held separately from those of the company, being invested in Trustee administered funds.

The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

In addition the company operates a Defined Contribution Group Stakeholder Scheme. The contributions payable to this Scheme are charged to the profit and loss account.

Stocks

Stocks are stated at the lower of cost or 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 any attributable overheads.

Taxation

The charge for taxation is based upon the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised on all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax have occurred at the Balance Sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based upon tax rates enacted at the Balance Sheet date.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the manufacture, remanufacture and distribution of commercial vehicle braking systems. Sales are recognised at the point of despatch from the company's premises.



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

2 Analysis of turnover by geographical market

	2006 £000	2005 £000
United Kingdom	27,776	27,713
Overseas	13,527	13,682
	<u>41,303</u>	<u>41,395</u>

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

3 Profit on ordinary activities before taxation

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging:-</i>		
Auditors' remuneration		
Audit	23	33
Other services	26	27
Depreciation and other amounts written off		
Owned Tangible Fixed Assets	332	416
Hire of assets other than plant and machinery - rentals payable under operating leases	664	950

4 Remuneration of Directors

	2006 £000	2005 £000
Directors' emoluments (excluding company pension contributions)	233	208
Company pension contributions	52	48
	<u>285</u>	<u>256</u>

There were no amounts paid to, or on behalf of, Directors in respect of long term incentive schemes, money purchase pension schemes or excess retirement benefits over original entitlements. The emoluments, excluding pension contribution, of the highest paid Director was £120,042 (2005 £110,890). The highest paid Director, at the year end, is a member of a defined benefit pension scheme under which the accrued pension benefit at the year end was £67,000 (2005: £73,000)

Number of Directors	
2006	2005

Retirement benefits are accruing to the following numbers of Directors under:

Defined benefit schemes	<u>2</u>	<u>2</u>
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Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

5 Personnel numbers and costs

The average number of persons employed by the company (including Directors) during the year, analysed by category, was as follows

	Number of employees	
	2006	2005
Manual workers	71	71
Staff	73	75
	<u>144</u>	<u>146</u>

The aggregate payroll costs of these persons was as follows

	2006	2005
	£000	£000
Wages and salaries	4,094	3,962
Social security costs	333	341
Other pension costs	1,731	1,720
	<u>6,158</u>	<u>6,023</u>

6 Other interest receivable and similar income

	2006	2005
	£000	£000
Receivable from group undertakings	111	199
Interest on bank deposits	152	147
	<u>263</u>	<u>346</u>



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

7 Taxation

	2006 £000	2005 £000
<u>Current tax</u>		
UK corporation tax on profits of the period	1,358	1,225
Adjustment in respect of previous periods	(54)	30
	<u>1,304</u>	<u>1,255</u>
<u>Deferred Tax</u>		
Origination and reversal of timing differences	44	35
Adjustments in respect of previous periods	4	(6)
	<u>48</u>	<u>29</u>
Tax on profit on ordinary activities	<u>1,352</u>	<u>1,284</u>

Factors affecting tax charge for the current period:

The tax assessed for the period differs from the standard rate of Corporation Tax in the UK (30%)
The differences are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	<u>4,592</u>	<u>4,296</u>
Tax on profit on ordinary activities at UK standard rate 30% (2005: 30%)	1,378	1,289
Effects of		
Movements on provisions	(18)	(28)
Expenses not deductible for tax purposes	20	17
Dividend income received	-	(33)
Capital allowances in the period in excess of depreciation	(22)	(20)
Total current tax charge for period	<u>1,358</u>	<u>1,225</u>

8 Dividends

	2006 £000	2005 £000
Equity shares		
Interim dividend paid	<u>3,866</u>	<u>4,467</u>



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

9 Tangible fixed assets

	Land and Buildings (Leasehold Improvements)	Plant and machinery	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000
Cost				
At beginning of year	327	6,708	786	7,821
Additions	12	55	95	162
Disposals	-	(115)	-	(115)
At end of year	339	6,648	881	7,868
Depreciation				
At beginning of year	31	5,898	591	6,520
Charged in year	22	190	120	332
Disposals	-	(115)	-	(115)
At end of year	53	5,973	711	6,737
Net book value				
At 31 December 2006	286	675	170	1,131
At 31 December 2005	296	810	195	1,301

10 Investments

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 was dissolved under a Members Voluntary Liquidation and was finally liquidated with effect from 28 July 2006.



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

11	Stocks	2006	2005
		£000	£000
	Raw materials and work in progress	939	1,014
	Finished goods and goods for resale	<u>2,415</u>	<u>2,720</u>
		<u>3,354</u>	<u>3,734</u>

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

12	Debtors	2006	2005
		Due	Due
		within	within
		one year	one year
		£000	£000
	Trade debtors	4,951	4,864
	Amounts owed by parent and fellow subsidiary undertakings	910	956
	Amounts loaned to parent and fellow subsidiary undertakings	5,000	5,500
	Other debtors	75	54
	Deferred tax assets	126	174
	Prepayment and accrued income	154	173
		<u>11,216</u>	<u>11,721</u>

Debtors include Deferred Tax Assets of £126,000 (2005 £174,000) due after more than one year

The elements of deferred taxation included in Debtors, under FRS19, are as noted below

	2006		2005	
	Provided	Unprovided	Provided	Unprovided
	£000	£000	£000	£000
Accelerated capital allowances	19	-	49	-
Other timing differences	107	-	125	-
	<u>126</u>	<u>-</u>	<u>174</u>	<u>-</u>



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

13 Creditors : amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	1,669	1,848
Amount owed to parent and fellow subsidiary undertakings	3,296	3,382
Amount owed to subsidiary undertakings	-	97
Corporation tax	383	699
Other tax and social security	752	694
Other creditors	58	67
Accruals and deferred income	631	621
	<u>6,789</u>	<u>7,408</u>

14 Provisions for liabilities

	<u>Restruct-</u> <u>uring</u>	<u>Warranty</u>	<u>Other</u>	<u>Total</u>
At beginning of year	0	271	246	517
Utilised during the year	0	(13)	(8)	(21)
<u>Charge/(credit) to profit and loss</u>				
Additional provision	210	41	65	316
Released provision	0	(119)	(128)	(247)
At end of year	<u>210</u>	<u>180</u>	<u>175</u>	<u>565</u>

The restructuring provision represents the amounts owing to employees with regards to severance payments yet to be paid

The warranty provision represents the expected liabilities on products already sold being returned under the warranty terms offered, given anticipated return rates. In addition a provision is made for specifically identified warranty issues at their anticipated costs

The other provisions cover onerous lease provisions for buildings under lease but no longer required and medical benefits for former employees



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

15 Called up share capital

	2006 £000	2005 £000
<i>Authorised</i>		
Equity Ordinary shares of £1 each	1,000	1,000
Equity Ordinary 'A' shares of £1 each	97	97
	<u>1,097</u>	<u>1,097</u>
<i>Allotted, called up and fully paid</i>		
Equity Ordinary shares of £1 each	293	293
Equity Ordinary 'A' shares of £1 each	97	97
	<u>390</u>	<u>390</u>

16 Share Premium and Reserves

	Share premium account £000	Profit and loss £000
At beginning of year	5,830	3,960
Profit after taxation	-	3,240
Dividends paid	-	(3,866)
At end of year	<u>5,830</u>	<u>3,334</u>

17 Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	3,240	3,012
Dividends	(3,866)	(4,467)
Net reduction in shareholders' funds	(626)	(1,455)
Opening equity shareholders' funds	10,180	11,635
Closing equity shareholders' funds	<u>9,554</u>	<u>10,180</u>



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

18 Contingent liabilities

The company has contingent liabilities in respect of guarantees to HM Revenue and Customs £200,000 (2005 : £200,000).

19 Commitments

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

	2006	2005
	£000	£000
Contracted	<u>32</u>	<u>58</u>

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

	2006		2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	32	-	17
In the second to fifth years inclusive	320	97	339	140
Over five years	<u>234</u>	<u>-</u>	<u>234</u>	<u>-</u>
	<u>554</u>	<u>129</u>	<u>573</u>	<u>157</u>



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

20 Pension schemes

The Company participates in three pension schemes - the Knorr-Bremse (UK) Pension Scheme, the Knorr-Bremse (UK) Executive Scheme ("the Schemes") and a stakeholder scheme. The Schemes provide retirement benefits based on career revalued and/or final pensionable salary and years of service. The Schemes are held in separate Trustee administered funds.

The pension cost of the Schemes is determined by a qualified actuary on the basis of triennial valuations, with adjustments for significant post-valuation events. The most recent actuarial valuation of the Schemes were carried out as at 1 January 2007, using the projected unit method. This was the first valuation carried out under the new Statutory Funding Objective, introduced to govern Scheme funding in 2005.

At this date the market value of the Schemes' assets was £78.4 million and the value of these assets represented 79% of the benefits that had accrued to members, a shortfall of £20.4 million.

The company has agreed a Recovery Plan with the Trustees that is planned to eliminate the shortfall over a 10 year period.

The main long term assumptions used were that the investment return would be 6.2% per annum pre-retirement, 4.75% per annum post-retirement and pensionable salaries would increase at 4.25% per annum.

The Schemes are closed to new entrants from 31 December 2003. The Company contributes to a designated stakeholder scheme for new employees.

The Company is unable to identify its share of the underlying assets and liabilities of these multi-employer schemes. As such, the Company has taken the exemption available under FRS17 allowing it to treat the Schemes as if they were Defined Contribution schemes for the purposes of the statutory accounts.

The pension charge for the year represents the employers contributions payable by the Company to the Schemes, and amounted to £1,725,840 (2005: £1,717,642).

In addition, the pension charge for the year includes £5,245 (2005: £2,256) for employers contributions to the designated stakeholder scheme.

Contributions amounting to £Nil (2005: £15,275) were payable to the Schemes at the year end, and are included in creditors.

The Schemes owed the Company £67,952 (2005: £47,400) at year end for pension payments made on the Schemes behalf, and are included in Other Debtors.

Contributions amounting to £704 (2005: £431) were payable to the designated stakeholder scheme at the year end, and are included in creditors.



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

21 Reconciliation of operating profit to net cash inflow from operating activities

	2006 £000	2005 £000
Operating profit	4,329	3,950
Depreciation charges	332	416
Profit on sales of tangible fixed assets	(1)	-
Decrease in stocks	380	19
(Increase)/Decrease in debtors	(89)	948
(Decrease) in creditors	(120)	(71)
Increase in provisions	48	176
(Increase) in net amounts due from group undertakings	(40)	(214)
Net cash inflow from operating activities	<u>4,839</u>	<u>5,224</u>

22 Analysis of changes in net cash and debt

	At 1 Jan. 2006 £000	Cash Flows £000	At 31 Dec. 2006 £000
Cash at bank and in hand	1,252	(45)	1,207
Balance at end of year	<u>1,252</u>	<u>(45)</u>	<u>1,207</u>

23 Post Balance Sheet Events

There are no material Post Balance Sheet events as at the date of signing the financial statements

24 Related Party Disclosure

The company is controlled by Knorr-Bremse Systeme für Nutzfahrzeuge GmbH. The ultimate controlling party is Knorr-Bremse AG.

Under FRS8 the company is exempt from the requirement to disclose transactions with other group undertakings and investors of the group qualifying as related parties of the group, as it is a wholly owned subsidiary undertaking of Knorr-Bremse Systeme für Nutzfahrzeuge GmbH.



Knorr-Bremse Systems for Commercial Vehicles Limited

Notes to the accounts

for the year ended 31 December 2006

25 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.