Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report and financial statements

Registered number 529247

For the year ended 31 December 2011

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2011

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

2011 saw continued strong recovery in the economic and commercial vehicle market situation reflected in sales turnover growth of 12 7% when compared to 2010 Sales were recorded at £48 2m during the year *(2010 £42 8m)* Sales into the UK market remained stable at around 71% *(2010 71%)* of turnover.

Average headcount increased from 112 to 113 during the year reflecting higher volumes net of operational efficiencies

Despite the increased sales turnover and operating efficiencies, gross margins have decreased to 20 8% *(2010 22 9%)* This is primarily because of the over proportionate increase in the Original Equipment market at lower margins than the spares market, and in addition, continued inflationary pressures in commodity and utility prices.

Return on sales for the year decreased to 5 8% *(2010 9 9%)* despite the increased sales turnover. This was primarily due to the lower margins and the effect of increased pension costs on the Defined Benefit Pension Schemes as outlined in the 2010 report

The Directors are pleased to report the continued profitability of the company, despite the significant inflationary pressures of commodity markets and the agreed pension scheme Recovery Plans

Current projections for 2012 show that the year is expected to return a similar level of sales turnover as 2011 Competition in the company's markets remains keen with pricing a key driver Inflationary cost pressures continue to challenge profitability levels, but this is also projected to remain positive

Dividends

An interim dividend of £2,127,000 *(2010 £1,620,000)* was paid to the shareholder in June 2011 No final dividend has been recommended or approved *(2010 £nil)*

Directors

The directors who held office during the year and subsequently were as follows

M Smith	
S Craddock	
U Kastner (Germany)	(resigned 31 March 2012)
W Sauter (Germany)	
A Wagner (Germany)	(appointed 1 April 2012)

Political and charitable contributions

The Company made no political contributions during the year *(2010 £ Nil)* Donations to events and charities amounted to £337 *(2010 £65)*

Directors' report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board

Simon Craddock
Managing Director

Century House
Folly Brook Road
Emersons Green
Bristol BS16 7FE

28/05/2012

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

Under company law, the directors must not approve the financial statements unless they are satisfied that they 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 then apply them consistently,
- make judgments 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 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP

100 Temple Street
Bristol
BS1 6AG
United Kingdom

Independent auditor's 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 Limited for the year ended 31 December 2011 set out on pages 6 to 18 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent auditor's report to the members of Knorr-Bremse Systems for Commercial Vehicles Limited *(continued)*

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

N P Hall (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol
BS1 6AG

7 June Date 2012

Profit and Loss Account
for the year ended 31 December 2011

	Note	2011 £000	2010 £000
Turnover	2	**48,198**	42,766
Cost of sales		**(38,195)**	(32,983)
Gross profit		**10,003**	9,783
Distribution costs		**(303)**	(302)
Administrative expenses		**(6,939)**	(5,274)
Operating profit		**2,761**	4,207
Interest receivable	6	**27**	27
Profit on ordinary activities before taxation	3-5	**2,788**	4,234
Tax on profit on ordinary activities	7	**(773)**	(1,096)
Profit on ordinary activities after taxation	15	**2,015**	3,138

There are no recognised gains or losses in the current period other than those reflected in the profit and loss account

The notes on pages 8 to 18 form part of these financial statements

All matters relate to continuing operations

Balance Sheet
at 31 December 2011

	Note	2011		2010	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		459		584
Current assets					
Stocks	10	4,079		4,131	
Debtors	11	16,279		17,164	
Cash at bank and in hand		107		165	
		20,465		21,460	
Creditors: amounts falling due within one year	12	(6,903)		(7,893)	
Net current assets			13,562		13,567
Total assets less current liabilities			14,021		14,151
Provisions for liabilities	13		(300)		(318)
Net assets			13,721		13,833
Capital and reserves					
Called up share capital	14		390		390
Share premium account	15		5,830		5,830
Profit and loss account	15		7,501		7,613
Equity shareholders' funds	16		13,721		13,833

These financial statements were approved by the board of directors on 28/05/2012 and were signed on its behalf by

Mark Smith
Financial Director

Company registered number 529247

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 financial statements

Going concern

The directors believe that the company is well placed to manage its business risks successfully, despite the current uncertain economic outlook

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis in preparing the annual financial statements

Further information regarding the company's business activities, together with the factors likely to affect its future development, performance and position is set out in the Directors' Report on page 1

Basis of preparation

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

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 100 percent or more of the voting rights are controlled within the group

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 The provision is calculated based on the expected future cash flows over the remaining life of the lease where management do not expect the site to be sub-let

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 contracted rate or 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

Notes *(continued)*

1 Accounting policies *(continued)*

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 schemes on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the schemes as if they were defined contribution schemes As a result, the amount charged to the profit and loss account represents the contributions payable to the schemes 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 net realisable value In determining the cost of raw materials, consumables and goods purchased for resale, the latest average 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 on 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

Notes *(continued)*

2 Analysis of turnover by geographical market

	2011 Turnover £000	2010 Turnover £000
United Kingdom	**34,205**	30,154
Overseas	**13,993**	12,612
	48,198	42,766

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

	2011 £000	2010 £000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration		
Audit	**18**	18
Depreciation and other amounts written off		
Owned Tangible Fixed Assets	**213**	272
Hire of assets other than plant and machinery – rentals payable under operating leases	**819**	716

4 Remuneration of Directors

	2011 £000	2010 £000
Directors' emoluments (excluding company pension contributions)	**267**	242
Company pension contributions	**49**	61
	316	303

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 contributions, of the highest paid Director was £136,000 *(2010 £124,000)* 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 £102,000 *(2010 £99,000)*

	Number of directors 2011	2010
Retirement benefits are accruing to the following numbers of Directors under·		
Defined benefit schemes	**2**	2

Notes *(continued)*

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	
	2011	2010
Manual workers	**49**	49
Administration staff	**64**	63
	113	112

The aggregate payroll costs of these persons were as follows

	2011	2010
	£000	£000
Wages and salaries	**3,579**	3,248
Social security costs	**325**	278
Other pension costs	**3,513**	1,832
	7,417	5,358

6 Other interest receivable and similar income

	2011	2010
	£000	£000
Receivable from group undertakings	**25**	24
Interest on bank deposits	**2**	3
	27	27

Notes *(continued)*

7 Taxation

	2011 £000	2010 £000
Current tax		
UK corporation tax on profits of the period	763	1,183
Adjustment in respect of previous periods	18	(65)
	781	1,118
Deferred tax		
Origination and reversal of timing differences	(2)	11
Adjustments in respect of previous periods	(6)	(33)
	(8)	(22)
Tax on profit on ordinary activities	773	1,096

Factors affecting the tax charge for the current period:

The tax assessed for the period differs from the blended rate of Corporation Tax (26 5%) The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	2,788	4,234
Tax on profit on ordinary activities at blended rate of 26 5% *(2010 28%)*	739	1,186
Effects of		
Movements on provisions	13	(31)
Expenses not deductible for tax purposes	19	10
Capital allowances in the period in excess of depreciation	(8)	18
Adjustments in respect of previous periods	18	(65)
Total current tax charge for period	781	1,118

Notes *(continued)*

8 Dividends

	2011 £000	2010 £000
Equity shares		
Interim dividend paid	**2,127**	1,620

9 Tangible fixed assets

	Land and buildings (Leasehold Improvements) £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
At beginning of year	347	6,337	1,277	7,961
Additions	6	43	39	88
At end of year	353	6,380	1,316	8,049
Depreciation				
At beginning of year	149	6,047	1,181	7,377
Charge for year	25	121	67	213
At end of year	174	6,168	1,248	7,590
Net book value				
At 31 December 2011	**179**	**212**	**68**	**459**
At 31 December 2010	198	290	96	584

Notes *(continued)*

10 Stocks

	2011	2010
	£000	£000
Raw materials and work in progress	**1,222**	1,129
Finished goods and goods for resale	**2,857**	3,002
	4,079	4,131

11 Debtors

	2011 Due within one year £000	2010 Due within one year £000
Trade debtors	**6,347**	6,103
Amounts owed by parent and fellow subsidiary undertakings	**9,475**	10,517
Other debtors	**127**	238
Deferred tax assets	**213**	205
Prepayments and accrued income	**117**	101
	16,279	17,164

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

	2011		2010	
	Provided £000	**Unprovided £000**	Provided £000	Unprovided £000
Accelerated capital allowances	**82**	**-**	100	-
Other timing differences	**131**	**-**	105	-
	213	**-**	205	-

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012 This will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 31 December 2011 (which has been calculated based on a rate of 25% substantively enacted at the balance sheet date) by £16,000 It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly

Notes *(continued)*

12 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**2,111**	2,440
Amounts owed to parent and fellow subsidiary undertakings	**2,694**	3,109
Corporation tax	**374**	655
Other tax and social security	**895**	902
Other creditors	**201**	131
Accruals and deferred income	**628**	656
	6,903	7,893

13 Provisions for liabilities

	Warranty £000	Other £000	Total £000
At beginning of year	170	148	318
Utilised during year	(44)	-	(44)
Charge/credit to the profit and loss for the year			
Additional provision	32	62	94
Released provision	(32)	(36)	(68)
At end of year	126	174	300

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 future costs

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

14 Called up share capital

	2011 £000	2010 £000
Allotted, called up and fully paid		
Equity Ordinary shares of £1 each	**293**	293
Equity Ordinary 'A' shares of £1 each	**97**	97
	390	390

Notes *(continued)*

15 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	5,830	7,613
Profit after taxation	-	2,015
Dividends paid	-	(2,127)
At end of year	**5,830**	**7,501**

16 Reconciliation of movements in shareholders' funds

	2011 £000	2010 £000
Profit for the financial year	**2,015**	3,138
Dividends	**(2,127)**	(1,620)
Net (decrease)/increase in shareholders' funds	**(112)**	1,518
Opening equity shareholders' funds	**13,833**	12,315
Closing equity shareholders' funds	**13,721**	13,833

17 Contingent liabilities

The company has contingent liabilities in respect of bank guarantees to HM Revenue and Customs of £200,000 *(2010 £200,000)* covering the needs of deferred import duty and VAT

Notes *(continued)*

18 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows

	2011 £000	2010 £000
Contracted	**14**	20

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

	2011 Land and buildings £000	2011 Other £000	2010 Land and buildings £000	2010 Other £000
Operating leases which expire				
Within one year	-	20	-	20
In the second to fifth years inclusive	323	206	323	96
Over five years	249	-	249	-
	572	226	572	116

19 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 re-valued 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 was carried out as at 1 January 2010, using the projected unit method

At this date the market value of the Schemes' assets was £79 8 million and the value of these assets represented 72% of the benefits that had accrued to members, a shortfall of £31 7 million The Company has agreed a Recovery Plan with the Trustees that is planned to eliminate the shortfall over a 10 year period

As at 31 December 2011, the Actuary has prepared an update to the valuation results which show that the Schemes assets are now valued at £91 5 million, representing 64% of the benefits that had accrued to members, a shortfall of £50 5 million

The main long term assumptions used were that the investment return would be 4.9% per annum pre-retirement, 3 4% per annum post-retirement and pensionable salaries would increase at 4 2% per annum

Notes *(continued)*

19 Pension schemes *(continued)*

The Schemes have been closed to new entrants 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 £3,493,000 *(2010 £1,813,000)*

There is an additional pension charge for the year includes £20,000 *(2010 £19,000)* for employers contributions to the designated stakeholder scheme

The Knorr-Bremse (UK) Pension Scheme had net contributions amounting to £33,000 payable to the scheme year end *(2010 £99,000 payable to the company)* which is included within creditors

The Knorr-Bremse (UK) Executive Scheme had net contributions amounting to £91,000 *(2010 £138,000)* payable to the company at year end which is included in Other Debtors

Contributions amounting to £3,000 (*2010 £3,000*) were payable to the designated stakeholder scheme at the year end, and are included in creditors

20 Related party disclosures

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 100% 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

21 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 Amstgericht München, Registergericht, Postfach 80097, Munich, Germany