

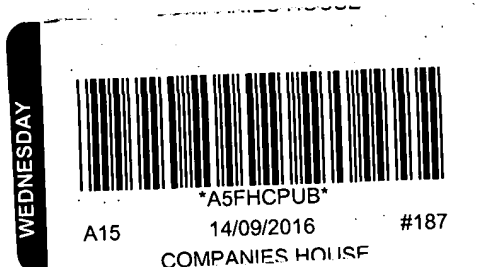


**Knorr-Bremse Systems for Commercial Vehicles Limited**

Annual report and financial statements

Registered number 529247

31 December 2015



## **Contents**

Strategic report	3 - 4
Directors' report	5 - 6
Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements	7
Independent auditor's report to the members of Knorr-Bremse Systems for Commercial Vehicles Limited	8 - 9
Profit and Loss Account and Other Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Equity	12
Notes	13 - 26

## **Strategic report**

The directors present their strategic report for the year to 31 December 2015.

### **Review of the business and its prospects**

The company's principal activity is the supply of commercial vehicle braking, air suspension and other associated equipment for the UK and overseas markets.

The reports and financial statements here presented have been prepared in accordance with Financial Reporting Standard 102 the financial reporting standard applicable in the UK and Republic of Ireland ("FRS 102"). More details about the impact of conversion to FRS102 are provided in the notes to the financial statements.

Total sales in 2015 were £42.2m (2014: £48.5m) which was slightly ahead of directors' expectations following the changes made to manufacturing and overseas sales responsibilities in 2014. This represents a reduction of 13% which should be compared to the anticipated 15% reduction. Sales to UK customers increased by 2.7% over the year but the changes outlined above led to an expected decrease in overseas sales of 50%. UK sales now represent 83% of turnover (2014: 70%).

Despite the reduction in sales, gross margins have increased significantly to 30.6% (2014: 22.9%) being driven by a number of factors including currency exchange rates, cost efficiency and lower fixed overheads following the restructuring. This is despite continued price pressures within the UK market.

Average headcount fell to 58 (2014: 102) as a result of the restructuring programme, which bar a few outstanding actions was completed by the end of 2015.

During the year the company, in conjunction with its parent organisation, agreed to a further payment toward the defined benefit pension scheme deficit. Thus a special payment of £11m (2014: £2m), over and above the agreed recovery plan, was agreed with the scheme Trustees. Of this amount £7m was paid at the end of 2015 with a further £4m paid in early 2016. Thus, during 2015 pension costs (before adjustment for FRS102) were £15.8m (2014: £6.9m).

Return on sales for the year is reported at 4.2% (2014: 12.7%) after adjustment for the conversion to FRS102 and the additional special pension contributions. Without these influences, and that of the restructuring programme of 2014, the "like-for-like" return on sales for 2015 would be 4.1% an improvement over 2014 at 3.9%.

Given the challenges faced by the company through the period of restructuring the directors are pleased with the result and its underlying performance.

The directors anticipate a similar level of sales and operating profitability during 2016, however, the recent UK vote to leave the European Union has led to uncertainties and volatilities in the economic and political environment which is likely to feed through to company performance to some extent although no significant impacts are expected in the near term.

### **Principal areas of risk**

Aside from the Brexit issues, the directors have identified the following areas of principal risk in the business and believe that adequate measures have been identified and implemented to mitigate these.

Risk	Information Technology – obsolescence and security
Mitigation	We continue to invest in updated technology and undergo regular Knorr-Bremse Group audits of our security procedures and systems.
Risk	Foreign exchange – adverse movement in rates
Mitigation	The Company hedges significant foreign currency exposures in conjunction with group treasury where no natural hedging exists. The company follows corporate policy in order that exposures are hedged at an appropriate level and that no speculative risks exist.

**Strategic report** *(continued)*

Risk	Disaster – significant disruption to business from a range of adverse incidents
Mitigation	The Company has a formal Disaster Recovery Plan across all areas of the business. The plan is reviewed and updated on a regular basis.
Risk	Defined benefit pension obligations within the macro-economic environment.
Mitigation	The company and group continue to work with the Trustees of the defined benefit pension plans with a view to a medium term plan to buy-out the risks. This entails additional funding from time to time and a structured de-risking plan within investment strategy.

By order of the board



**Mike Hall**  
*Managing Director*

Century House,  
Folly Brook Road,  
Bristol BS16 7FE

7<sup>th</sup> September 2016

## **Directors' report**

### **Proposed dividend**

During the year the company did not pay a dividend (2014: £261,000).

### **Directors**

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

M Hall

M Smith

B Spies (Germany)

A Wagner (Germany)

### **Employee policies**

The Company operates within published policies for Health, Safety, Environmental, and Human Resources.

The Company provided a defined benefit pension scheme for all employees who joined before 31 December 2004 and were over 18 years of age through participation in the Knorr-Bremse (UK) Pension Scheme. The defined benefits scheme was closed to new entrants from 1 January 2004 and closed to future accrual with effect from 1 January 2013. The company has contributed to a designated defined contribution scheme for new employees since January 2004.

### **Disabled employees**

It is our policy to encourage the employment and development of suitable disabled persons. No unnecessary limitations are placed on the type of work that they perform and in appropriate cases consideration is given to modifications to equipment or premises and to adjustments in working practices.

Fair and full consideration will be given to disabled applicants for employment and existing employees who become disabled will have the opportunity to retrain and continue in employment where suitable positions exist.

### **Directors' indemnity provisions**

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year.

## **Directors' report** *(continued)*

### **Employee involvement**

Employee consultation, communication and involvement are recognised as being of great value and these practices will be maintained and developed. Regular meetings are held between management and employees to facilitate an exchange of information and ideas.

The directors would like to record their thanks and appreciation to all of our employees who have actively supported the business performance and development in 2015.

### **Disclosure of information to auditor**

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 auditor is 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 auditor is aware of that information.

### **Auditor**

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

By order of the board



**Mike Hall**  
*Managing Director*

Century House,  
Folly Brook Road,  
Bristol BS16 7FE

7<sup>th</sup> September 2016

## **Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements**

The directors are responsible for preparing the Strategic Report, 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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

## **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 2015 set out on pages 8 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 7, 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 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **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 [year end date] 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.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and 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.



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



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

9 September 2016

**Profit and Loss Account and Other Comprehensive Income**  
*for the year to 31 December 2015*

	<i>Note</i>	<b>2015</b> £000	2014 £000
<b>Turnover</b>	<b>2</b>	<b>42,150</b>	48,493
Cost of Sales		<u>(29,272)</u>	<u>(37,382)</u>
<b>Gross Profit</b>		<b>12,878</b>	11,111
Distribution costs		(247)	(277)
Administrative expenses		<u>(10,880)</u>	<u>(5,168)</u>
<b>Operating profit</b>	<b>3-5</b>	<b>1,751</b>	5,666
Profit on sale of manufacturing activities		-	446
Other interest receivable and similar income	<b>6</b>	<u>29</u>	<u>24</u>
<b>Profit on ordinary activities before taxation</b>		<b>1,780</b>	6,136
Tax on profit on ordinary activities	<b>7</b>	<u>1,873</u>	<u>(103)</u>
<b>Profit for the financial year</b>		<u><b>3,653</b></u>	<u>6,033</u>
<b>Other comprehensive income</b>			
Re-measurement of the net defined benefit liability/(asset)		617	(1,842)
Net change in fair value of cash flow hedges		(80)	(1,276)
Income tax on other comprehensive income	<b>7</b>	<u>(2,428)</u>	<u>(830)</u>
<b>Other comprehensive income for the year net of tax</b>		<u><b>(1,891)</b></u>	<u>(3,948)</u>
<b>Total comprehensive income for the year</b>		<u><b>1,762</b></u>	<u>2,085</u>

The notes on pages 13 to 26 form an integral part of these financial statements.

**Balance Sheet**  
at 31 December 2015

	Note	2015	2015	2014	2014
		£000	£000	£000	£000
<b>Fixed Assets: Tangible assets</b>	8		162		229
<b>Non-Current Assets: Defined benefit pension scheme asset</b>	15		2,374		-
<b>Current Assets:</b>					
Stocks	9	2,970		4,154	
Debtors	10	19,902		20,696	
Cash at hand and in bank	11	<u>446</u>		<u>406</u>	
		23,318		25,256	
<b>Creditors: amounts falling due within one year</b>	12	<u>(11,199)</u>		<u>(8,284)</u>	
<b>Net current assets</b>			<u>12,119</u>		<u>16,972</u>
<b>Total assets less current liabilities</b>			14,655		17,201
Defined benefit pension scheme liability	14/15	-		(9,305)	
Other provisions for liabilities	14	(2,012)		(2,515)	
<b>Provisions for liabilities</b>			<u>(2,012)</u>		<u>(11,820)</u>
<b>Net assets</b>			<u>12,643</u>		<u>5,381</u>
<b>Capital and reserves:</b>					
Called up share capital	16		5,890		390
Share premium account			5,830		5,830
Profit and loss account			<u>923</u>		<u>(839)</u>
<b>Equity shareholders' funds</b>	22		<u>12,643</u>		<u>5,381</u>

These financial statements were approved by the Board of Directors on 7<sup>th</sup> September 2016 and were signed on its behalf by:



**Mark Smith**  
Finance Director  
Company registered number: 529247

The notes on pages 13 to 26 form an integral part of these financial statements.

## Statement of Changes in Equity

	<b>Called up share capital £000</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
Balance at 1 January 2015	390	5,830	7,638	13,858
Effect of change of accounting policy	-	-	(8,477)	(8,477)
Balance at 1 January restated	390	5,830	(839)	5,381
<b>Total comprehensive income for the period:</b>				
Profit	-	-	3,653	3,653
Other comprehensive income	-	-	(1,891)	(1,891)
Total comprehensive income for the period	-	-	1,762	1,762
Transactions with owners, recorded directly in equity:				
Issue of shares	5,500	-	-	5,500
Dividends	-	-	-	-
<b>Balance at 31 December 2015</b>	<b><u>5,890</u></b>	<b><u>5,830</u></b>	<b><u>923</u></b>	<b><u>12,643</u></b>

The notes on pages 13 to 26 form an integral part of these financial statements.

## Notes

(forming part of the financial statements)

### 1 Accounting policies

Knorr-Bremse Systems for Commercial Vehicles Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

These financial statements are for the year ended 31 December 2015. Comparative figures are for the year ended 31 December 2014.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

In the transition to FRS 102 from UK GAAP, the Company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the Company is provided in note 22.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102 in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 January 2015 have not been restated.
- Separate financial instruments – carrying amount of the Company’s cost of investment in subsidiaries is its deemed cost at 1 January 2014, transition date.

The Company’s ultimate parent undertaking, Knorr-Bremse AG includes the Company in its consolidated financial statements. The consolidated financial statements of Knorr-Bremse AG are prepared in accordance with German GAAP and are available to the public and may be obtained from Moosacher Str. 80, D80809 München, Germany. In these financial statements, the company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and

As the consolidated financial statements of Knorr-Bremse AG include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2 Going concern

The directors believe that the company is well placed to manage its business risks successfully, including the continuing legacy pension costs.

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 strategic report on pages 3 to 4.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

#### 1.4 Basic financial instruments

##### *Trade and other debtors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

##### *Trade and other creditors*

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### 1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- |   |   |
|---|---|
| • Plant and machinery                     | - 3 to 15 years   |
| • Fixtures, fittings, tools and equipment | - 3 to 10 years   |
| • Short term leasehold improvements       | - over estimated useful life or length of remaining lease; whichever is the shorter |

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.6 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

#### 1.7 Impairment excluding stocks, and deferred tax assets

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### 1.8 Employee benefits

##### *Defined contribution plans and other long term employee benefits*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by the directors or a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Re-measurement of the net defined benefit liability/asset is recognised in other comprehensive income.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.9 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

#### 1.10 Turnover

Turnover is measured at the fair value of consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

#### 1.11 Expenses

##### *Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

##### *Interest receivable and interest payable*

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

#### 1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.



## Notes (continued)

### 2 Turnover

Analysis of turnover by geographical market is shown below.

	2015	2014
	£000	£000
United Kingdom	34,882	33,968
Overseas	<u>7,268</u>	<u>14,525</u>
	<u>42,150</u>	<u>48,493</u>

Segmental analyses are made in the accounts of the ultimate parent company, Knorr-Bremse AG, in which the results of the company are consolidated.

### 3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2015	2014
	£000	£000
Auditors remuneration:		
Audit of these financial statements	18	17
Advisory services	<u>9</u>	<u>-</u>

### 4 Staff 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 2015	Number of employees 2014
Manual workers	9	42
Administration staff	49	60
	<u>58</u>	<u>102</u>

The aggregate payroll costs of these persons were as follows:

	2015	2014
	£000	£000
Wages and salaries	2,603	3,675
Social security costs	315	430
Pension contributions	<u>15,838</u>	<u>6,948</u>
	<u>18,756</u>	<u>11,053</u>

## Notes (continued)

### 5 Staff numbers and costs (continued)

#### Directors' remuneration

	2015 £000	2014 £000
Directors' emoluments	258	279
Pension contributions	44	72
	<u>302</u>	<u>351</u>

The remuneration above relates to two directors (2014: two). Retirement benefits are accruing to two directors under a defined contribution scheme (2014: two).

### 6 Interest receivable and similar income

	2015 £000	2014 £000
Receivable from group undertakings	29	24
Other interest receivable	-	-
Total interest receivable and similar income	<u>29</u>	<u>24</u>

## Notes (continued)

### 7 Taxation

Total tax expense/(income) recognised in the profit and loss account, other comprehensive income and equity

	2015		2014	
	£000	£000	£000	£000
<b>Current tax</b>				
Current tax on income for the period	(1,102)		50	
Adjustments in respect of prior periods	<u>7</u>		<u>(7)</u>	
<b>Total current tax</b>		(1,095)		43
<b>Deferred tax (see note 13)</b>				
Origination and reversal of timing differences	(762)		57	
Adjustments in respect of prior periods	<u>(16)</u>		<u>3</u>	
<b>Total deferred tax</b>		(778)		60
Tax expense relating to change in accounting policies		<u>2,428</u>		<u>830</u>
<b>Total tax expense/(income)</b>		<u>555</u>		<u>933</u>

	2015		2014	
	£000	£000	£000	£000
	Current tax	Deferred tax	Current tax	Deferred tax
Recognised in profit and loss account	(1,095)	(778)	43	60
Recognised in other comprehensive income	<u>-</u>	<u>2,428</u>	<u>-</u>	<u>830</u>
<b>Total tax expense/(income)</b>	<u>(1,095)</u>	<u>1,650</u>	<u>43</u>	<u>890</u>

### Reconciliation of effective tax rate

	2015	2014
	£000	£000
Profit for the year	3,653	6,033
Total tax expense/(income)	<u>(1,873)</u>	<u>103</u>
Profit excluding taxation	1,780	6,136
Tax using the UK corporation tax rate of 20.25% (2014: 21.5%)	360	1,319
Expenses not deductible for tax purposes	3	2
Differences between capital allowances and depreciation	(6)	(20)
Adjustments in respect of defined benefit pension schemes	(3,030)	(1,244)
Movements on provisions	779	(6)
Origination and reversal of other timing differences	30	55
Under/(over) provided in prior years	<u>(9)</u>	<u>(3)</u>
<b>Total tax expense/(income)</b>	<u>(1,873)</u>	<u>103</u>

### Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly.

## Notes (continued)

### 8 Tangible fixed assets

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
<b>Cost</b>				
Balance at 1 January 2015	410	2,121	32	2,563
Additions	4	12	-	16
Disposals	<u>(26)</u>	<u>(1,443)</u>	<u>(32)</u>	<u>(1,501)</u>
Balance at 31 December 2015	<u>388</u>	<u>690</u>	<u>-</u>	<u>1,078</u>
<b>Depreciation and impairment</b>				
Balance at 1 January 2015	249	2,055	30	2,334
Depreciation charge for the period	27	8	-	35
Disposals	<u>(22)</u>	<u>(1,401)</u>	<u>(30)</u>	<u>(1,453)</u>
Balance at 31 December 2015	<u>254</u>	<u>662</u>	<u>-</u>	<u>916</u>
<b>Net book value</b>				
At 1 January 2015	<u>161</u>	<u>66</u>	<u>2</u>	<u>229</u>
<b>At 31 December 2015</b>	<u>134</u>	<u>28</u>	<u>-</u>	<u>162</u>

#### Land and buildings

Land and buildings represent the value of leasehold improvements to buildings held on short term lease.

### 9 Stocks

	2015 £000	2014 £000
Raw materials and work in progress	478	803
Finished goods	<u>2,492</u>	<u>3,351</u>
	<u>2,970</u>	<u>4,154</u>

### 10 Debtors

	2015 £000	2014 £000
Trade debtors	5,313	6,555
Amounts owed by group undertakings	12,151	11,310
Other debtors	165	89
Corporation tax	247	155
Deferred tax assets	1,837	2,385
Prepayments and accrued income	<u>189</u>	<u>202</u>
Debtors due within one year	<u>19,902</u>	<u>20,696</u>

## Notes (continued)

### 11 Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	<u>446</u>	<u>406</u>

### 12 Creditors: amounts falling due within one year

	2015 £000	2014 £000
Trade creditors	2,065	2,651
Amounts owed to group companies	2,885	3,172
Taxation and social security	1,097	1,090
Other creditors	4,415	471
Accruals and deferred income	737	900
	<u>11,199</u>	<u>8,284</u>

### 13 Deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

	2015 £000	2014 £000
Accelerated capital allowances	44	31
Other short term timing differences	865	100
Loss carry forwards available against group relief in 2016	1,102	0
Deferred tax on FRS102 adjustments	<u>(174)</u>	<u>2,254</u>
	<u>1,837</u>	<u>2,385</u>

The deferred tax on FRS102 adjustments relate to the taxation effect of the recognition of defined benefit pension schemes and the adjustment for fair value of derivatives.

### 14 Provisions

	Restructuring £000	Warranty £000	DB Pension £000	Derivatives £000	Other £000	Total £000
Balance at 1 January 2015	796	94	9,305	1,426	199	11,820
Provisions made during year	5	-	-	80	221	306
Provisions used during year	(605)	-	-	-	(117)	(722)
Provisions reversed during year	-	(15)	(9,305)	-	(72)	(9,392)
Balance at 31 December 2015	<u>196</u>	<u>79</u>	<u>-</u>	<u>1,506</u>	<u>231</u>	<u>2,012</u>

The restructuring provision represents costs committed but not yet paid with regards to downsizing of the manufacturing activities.

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 derivatives provision represents the revaluation to fair value of our open EUR hedge contracts.

## Notes (continued)

### 15 Employee benefits

#### Defined benefit plans

The information disclosed below is in respect of the proportion of the plans for which the Company has been allocated a share of cost under an agreed group policy throughout the periods shown. These are the Knorr-Bremse (UK) Pension Scheme and the Knorr-Bremse (UK) Executive Scheme ("the Schemes"). 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 schemes have now been closed to the future accrual of benefits with effect from 1 January 2013. The company provided a defined contribution plan for employees with effect from 1st January 2013.

#### *Net pension (liability)/asset*

	2015 £000	2014 £000
Defined benefit obligation	(82,151)	(86,290)
Plan assets	<u>84,525</u>	<u>76,985</u>
Net pension asset/(liability)	<u>2,374</u>	<u>(9,305)</u>

#### *Movements in present value of defined benefit obligation*

	2015 £000	2014 £000
At 1 January	86,290	79,992
Net interest income/(expense)	3,115	3,602
Benefit payments from plan assets	(4,176)	(3,346)
Re-measurements due to: effect of change in actuarial assumptions	(3,078)	10,473
Re-measurements due to: effect of experience adjustments	-	(4,431)
At 31 December	<u>82,151</u>	<u>86,290</u>

#### *Expense recognised in the profit and loss account*

	2015 £000	2014 £000
Total expense recognised in profit or loss	<u>740</u>	<u>474</u>

The fair value of the plan assets and the return on those assets were as follows:

	2015 Fair value £000	2014 Fair value £000
Equities	21,129	25,304
Government debt	29,320	18,096
Corporate bonds	19,942	19,588
Other	<u>14,134</u>	<u>13,997</u>
	<u>84,525</u>	<u>76,985</u>
Actual return on plan assets	(3%)	6%

## Notes (continued)

### 15 Employee benefits (continued)

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2015 %	2014 %
Discount rate to determine defined benefit obligations	4.00%	3.70%
Discount rate to determine costs relating to defined benefit plans	3.70%	4.60%

The last full actuarial valuation was performed as at 1 January 2015.

In valuing the liabilities of the pension fund at 31 December 2015 mortality rates are based on S2PA base tables with CMI\_2014 projections with a long term trend of 1.5% p.a. (and -1 year age rating for the Executive Scheme).

#### Defined contribution plan

The Company operates a defined contribution pension plan.

The total expense relating to these plans in the current year was £211,000 (2014: £279,000)

### 16 Capital and reserves

#### Share capital

	Ordinary shares 2015
<i>Allotted, called up and fully paid</i>	
Ordinary shares of £1	292,896
Ordinary 'A' shares of £1	97,150
Ordinary 'B' shares of £1	<u>5,500,000</u>
Total shares	<u><u>5,890,046</u></u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### 17 Operating leases

Non-cancellable operating lease rentals are as follows:

	2015 £000	2014 £000
Less than one year	26	93
Between one and five years	204	323
More than five years	<u>2,117</u>	<u>2,366</u>
	<u><u>2,347</u></u>	<u><u>2,782</u></u>

During the year £383,000 (2014: £776,000) was recognised as an expense in the profit and loss account in respect of operating leases.

## Notes (continued)

### 18 Commitments

#### *Capital commitments*

The Company's contractual commitments to purchase tangible fixed assets at the year-end were £nil (2014: £nil).

### 19 Contingent liability

The company has contingent liabilities in respect of bank guarantees to HM Revenue & Customs of £200,000 (2014: £200,000) covering the needs of deferred import duty and VAT.

### 20 Ultimate parent company and parent company of larger group

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

The largest group in which the results of the Company are consolidated is that headed by Knorr-Bremse AG, incorporated in Germany. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public and may be obtained from Moosacher Str. 80 D-80809 München, Germany.

### 21 Accounting estimates and judgements

#### *Key sources of estimation uncertainty*

##### **Derivative provisions (note 14)**

As a result of purchasing stock in EUR, we have hedge contracts in place to purchase EUR at a pre-arranged rate, this results in a fair value adjustment at year end and is subject to the EUR:GBP rate which can result in adverse movements due to market volatility.

##### **Warranty provision (note 14)**

The Company provides for the potential costs of warranty claims on the basis of experience gathered in previous years. However, this cannot fully reflect the level of unknown future warranty risk.

### 22 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in notes 1.1 to 1.11 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting UK GAAP. An explanation of how the transition from UK GAAP to FRS 102 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the table.



## Notes (continued)

### 22 Explanation of transition to FRS 102 from old UK GAAP (continued)

#### Reconciliation of equity

		1 January 2014		31 December 2014		
		Effect of		Effect of		
	UK GAAP	transition to	FRS 102	UK GAAP	transition to	FRS 102
Note	£000	FRS 102	£000	£000	FRS 102	£000
<b>Fixed assets:</b>						
Tangible assets	339	-	339	229	-	229
<b>Current assets:</b>						
Stocks	3,970	-	3,970	4,154	-	4,154
Debtors	c, d 17,834	3,084	20,918	18,442	2,254	20,696
Cash at bank and in hand	440	-	440	406	-	406
<b>Creditors: amounts falling due within one year</b>	(8,420)	-	(8,420)	(8,284)	-	(8,284)
<b>Provisions for liabilities</b>	a, b (281)	(13,409)	(13,690)	(1,089)	(10,731)	(11,820)
<b>Net assets</b>	<u>13,882</u>	<u>(10,325)</u>	<u>3,557</u>	<u>13,858</u>	<u>(8,477)</u>	<u>5,381</u>
<b>Capital and reserves</b>						
Called up share capital	390	-	390	390	-	390
Share premium account	5,830	-	5,830	5,830	-	5,830
Profit and loss account	7,662	(10,325)	(2,663)	7,638	(8,477)	(839)
<b>Shareholders' equity</b>	<u>13,882</u>	<u>(10,325)</u>	<u>3,557</u>	<u>13,858</u>	<u>(8,477)</u>	<u>5,381</u>

#### Notes to the reconciliation of equity

- Under old UK GAAP the Company accounted for defined benefit pension schemes as if they were defined contribution schemes. Following the adoption of FRS102, the company accounts for its responsibilities for these schemes as set out in note 1.8. At 1 January 2014 the net deficit on these schemes was £13,259,000 and at 31 December 2014 the net deficit was £9,305,000.
- In addition, as part of the adoption of FRS102, the Fair Value of hedge contracts existent at the end of the year has been accounted for. As at 1 January 2014 this adjustment amounted to £150,000 and as at 31 December 2014 £1,426,000.
- The deferred tax asset relating to the provision for the pension scheme deficit at 1 January 2014 is £3,050,000. At 31 December 2014, there is a deferred tax asset relating to the pension scheme surplus of £1,954,000 which is offset against the net deferred tax asset arising from other transactions.
- The deferred tax asset relating to the fair value of hedge contracts at 1 January 2014 is £34,000. At 31 December 2014, there is a deferred tax asset relating to the fair value of hedge contracts of £300,000.

## Notes (continued)

### 22 Explanation of transition to FRS 102 from old UK GAAP (continued)

#### Reconciliation of Profit and Loss Account For the Year to 31 December

		2014	
		Effect of	
		transition to	
		FRS 102	FRS 102
	Note		£000
Turnover		48,493	48,493
Cost of Sales		(37,382)	(37,382)
Gross Profit		11,111	11,111
Distribution costs		(277)	(277)
Administrative expenses	a	(10,964)	(5,168)
Operating profit		(130)	5,666
Profit on sale of manufacturing activities		446	446
Other interest receivable and similar income		24	24
Profit on ordinary activities before taxation		340	6,136
Tax on profit on ordinary activities		(103)	(103)
Profit for the financial year		237	6,033

#### Notes to the reconciliation of Profit and Loss Account

a) Under old UK GAAP the Company accounted for defined benefit pension schemes as if they were defined contribution schemes. Following the adoption of FRS102, the company accounts for its responsibilities for these schemes as set out in note 1.8. This has led to adjustments, calculated by the pension scheme actuary, related to treatment of pension costs within the Profit and Loss Account and also entries within the statement of Other Comprehensive Income.