

KNORR-BREMSE



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

Annual report and financial statements

Registered number 529247

31 December 2016

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Strategic report

The directors present their strategic report for the year to 31 December 2016.

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").

Total sales in 2016 were £43.1m (2015: £42.2m), given the challenging economic environment and volatility following the vote to leave the EU, the results are ahead of the expectations of the directors. This represents an increase of 2.2% year on year. Sales to UK customers increased by 2.9% over the year but overseas sales decreased by 1.1%. UK sales represent 83% of turnover (2015: 83%).

Despite the increase in sales, gross margins have decreased to 28.3% (2015: 30.6%) being mainly driven by the volatility in the EUR:GBP exchange rate, partially offset by results of hedging activities, in addition to price pressures in the UK market.

Average headcount fell to 53 (2015: 58) as a result of cost containment measures.

During the year, the company, in conjunction with its parent organisation, made the balance payment toward the defined benefit pension scheme deficit. In 2015 a special payment of £11m, over and above the recovery plan, was agreed with the scheme Trustees, the balance of £4m (2015: £7m) was paid in early 2016.

Return on sales for the year is reported at 26.3% (2015: 4.2%) after adjustments for pensions. Without adjustments for pensions, the "like-for-like" return on sales for 2016 would be 6.7%, an improvement over 2015 at 4.1%.

Given continued volatility faced by the company through the period the directors are pleased with the results and its underlying performance.

The directors anticipate a similar level of sales during 2017, however, due to the vote to leave the EU and the subsequent triggering of Article 50, the directors are expecting continued challenges in the UK marketplace and further volatility in the currency markets leading to pressures on pricing and profitability. However, given the financial strength of the company and its parent, the Directors' are confident in its ability to withstand any unexpected volatility and/or market shocks. The balance sheet reveals £15.9m (2015: £12.1m) of Net Current Assets with £10.8m (2015: £11.9m) available in short term liquidity.

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

1st September 2017

Directors' report

Proposed dividend

During the year the company did not pay a dividend (2015: nil).

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.

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 2016.

Political contributions

The Company made no political donations or incurred any political expenditure during the year. (2015: nil).

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.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 3.

Directors' report *(continued)*

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

1st September 2017

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 2016 set out on pages 10 to 25. 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.

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 2016 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.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.



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

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.

A handwritten signature in black ink, appearing to read 'H Brown', followed by a long, wavy horizontal line.

Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

18 September 2017

Profit and Loss Account and Other Comprehensive Income
for the year to 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Turnover	2	43,088	42,150
Cost of Sales		<u>(30,898)</u>	<u>(29,272)</u>
Gross Profit		12,190	12,878
Distribution costs		(190)	(247)
Administrative expenses		<u>(703)</u>	<u>(10,880)</u>
Operating profit	3-5	11,297	1,751
Other interest receivable and similar income	6	<u>27</u>	<u>29</u>
Profit before taxation		11,324	1,780
Tax on profit	7	<u>(2,319)</u>	<u>(448)</u>
Profit for the financial year		<u>9,005</u>	<u>1,332</u>
Other comprehensive income			
Re-measurement of the net defined benefit liability/(asset)		(934)	617
Net change in fair value of cash flow hedges		3,152	(80)
Income tax on other comprehensive income	7	<u>(444)</u>	<u>(107)</u>
Other comprehensive income for the year net of tax		<u>1,774</u>	<u>430</u>
Total comprehensive income for the year		<u>10,779</u>	<u>1,762</u>

The notes on pages 13 to 25 form an integral part of these financial statements.

Balance Sheet
at 31 December 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed Assets:					
Tangible assets	8		142		162
Non-Current Assets:					
Defined benefit pension scheme asset	16		9,886		2,374
Current Assets:					
Stocks	9	4,208		2,970	
Debtors	10	20,847		19,902	
Cash at hand and in bank	11	<u>540</u>		<u>446</u>	
		25,595		23,318	
Creditors: amounts falling due within one year	12	<u>(9,721)</u>		<u>(11,199)</u>	
Net current assets			<u>15,874</u>		<u>12,119</u>
Total assets less current liabilities			25,902		14,655
Provisions for liabilities	15		<u>(2,480)</u>		<u>(2,012)</u>
Net assets			<u>23,422</u>		<u>12,643</u>
Capital and reserves:					
Called up share capital	17		5,890		5,890
Share premium account			5,830		5,830
Profit and loss account			<u>11,702</u>		<u>923</u>
Equity shareholders' funds			<u>23,422</u>		<u>12,643</u>

These financial statements were approved by the Board of Directors on 1st September 2017 and were signed on its behalf by:



Mark Smith
Finance Director
Company registered number: 529247

The notes on pages 13 to 25 form an integral part of these financial statements.

Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	5,890	5,830	923	12,643
Total comprehensive income for the period:				
Profit for the year	-	-	9,005	9,005
Other comprehensive income	-	-	1,774	1,774
Total comprehensive income for the period	5,890	5,830	10,779	10,779
Transactions with owners, recorded directly in equity:				
Issue of shares	-	-	-	-
Dividends	-	-	-	-
Balance at 31 December 2016	<u>5,890</u>	<u>5,830</u>	<u>11,702</u>	<u>23,422</u>
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
Total comprehensive income for the period:				
Profit for the year	-	-	1,332	1,332
Other comprehensive income	-	-	430	430
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	-	-	-	-
Balance at 31 December 2015	<u>5,890</u>	<u>5,830</u>	<u>923</u>	<u>12,643</u>

The notes on pages 13 to 25 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 private company limited by shares and incorporated and domiciled in the UK.

These financial statements are for the year ended 31 December 2016. Comparative figures are for the year ended 31 December 2015.

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 amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

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.

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 where no forward currency contract is in place. If such a contract is in place the transaction is booked at the contractual hedge rate. 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.

Notes (continued)

1 Accounting policies (continued)

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. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease; including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

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.

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.

Notes (continued)

1 Accounting policies (continued)

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 in the period in which it occurs.

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

Notes (continued)

1 Accounting policies (continued)

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.

2 Turnover

Analysis of turnover by geographical market is shown below.

	2016	2015
	£000	£000
United Kingdom	35,902	34,882
Overseas	<u>7,186</u>	<u>7,268</u>
	<u>43,088</u>	<u>42,150</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.

Notes (continued)

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2016 £000	2015 £000
Auditors remuneration:		
Audit of these financial statements	18	18
Advisory services	<u>-</u>	<u>9</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 2016	Number of employees 2015
Manual workers	8	9
Administration staff	<u>45</u>	<u>49</u>
	<u>53</u>	<u>58</u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	2,284	2,603
Social security costs	277	315
Pension contributions	<u>4,517</u>	<u>15,838</u>
	<u>7,078</u>	<u>18,756</u>

5 Directors' remuneration

	2016 £000	2015 £000
Directors' emoluments	266	258
Pension contributions	<u>45</u>	<u>44</u>
	<u>311</u>	<u>302</u>

The remuneration above relates to two directors (2015: two). Retirement benefits are accruing to two directors under a defined contribution scheme (2015: two). The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £147,000 (2015:£147,000), and company pension contributions of £39k (2015:£38k) were made to a money purchase scheme on his behalf.

6 Interest receivable and similar income

	2016 £000	2015 £000
Receivable from group undertakings	<u>27</u>	<u>29</u>
Total interest receivable and similar income	<u>27</u>	<u>29</u>

Notes (continued)

7 Taxation

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

	2016		2015	
	£000	£000	£000	£000
Current tax				
Current tax on income for the period	(196)		(1,102)	
Adjustments in respect of prior periods	<u>44</u>		<u>7</u>	
Total current tax		(152)		(1,095)
Deferred tax (see note 13)				
Origination and reversal of timing differences	2,917		1,666	
Adjustments in respect of prior periods	<u>(2)</u>		<u>(16)</u>	
Total deferred tax		<u>2,915</u>		<u>1,650</u>
Total tax expense/(income)		<u><u>2,763</u></u>		<u><u>555</u></u>

	2016		2015	
	£000	£000	£000	£000
	Current tax	Deferred tax	Current tax	Deferred tax
Recognised in profit and loss account	(152)	2,471	(1,095)	1,543
Recognised in other comprehensive income	-	444	-	107
Total tax expense/(income)	<u><u>(152)</u></u>	<u><u>2,915</u></u>	<u><u>(1,095)</u></u>	<u><u>1,650</u></u>

Reconciliation of effective tax rate

	2016	2015
	£000	£000
Profit for the year	9,005	1,332
Total tax expense/(income)	<u><u>2,763</u></u>	<u><u>555</u></u>
Profit excluding taxation	11,324	1,780
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	2,265	360
Expenses not deductible for tax purposes	1	3
Differences between capital allowances and depreciation	(5)	(6)
Amounts charged directly to reserves through OCI	444	107
Origination and reversal of other timing differences	16	100
Under/(over) provided in prior years	<u>42</u>	<u>(9)</u>
Total tax expense/(income)	<u><u>2,763</u></u>	<u><u>555</u></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 (Leasehold improvements) £000	Plant and Machinery £000	Total £000
<i>Cost</i>			
Balance at 1 January 2016	388	690	1,078
Additions	-	20	20
Disposals	-	(1)	(1)
Balance at 31 December 2016	<u>388</u>	<u>709</u>	<u>1,097</u>
<i>Depreciation and impairment</i>			
Balance at 1 January 2016	254	662	916
Depreciation charge for the period	28	12	40
Disposals	-	(1)	(1)
Balance at 31 December 2016	<u>282</u>	<u>673</u>	<u>955</u>
<i>Net book value</i>			
At 1 December 2016	<u>106</u>	<u>36</u>	<u>142</u>
At 31 December 2015	<u>134</u>	<u>28</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

	2016 £000	2015 £000
Raw materials and work in progress	804	478
Finished goods	<u>3,404</u>	<u>2,492</u>
	<u>4,208</u>	<u>2,970</u>

10 Debtors

	2016 £000	2015 £000
Trade debtors	7,127	5,313
Amounts owed by group undertakings	11,848	12,151
Other debtors	129	165
Corporation tax	-	247
Deferred tax assets	-	1,837
Fair value of derivatives	1,646	-
Prepayments and accrued income	97	189
Debtors due within one year	<u>20,847</u>	<u>19,902</u>

Notes (continued)

10 Debtors (continued)

Intercompany trade debtors of £1.6m (2015: £0.7m) are settled by the end of the 2nd or 3rd month following month of invoice in line with corporate policy.

The company is part of a sterling cash pooling arrangement whereby cleared balances are pooled each bank working day and repayable the following day. Interest is payable on any outstanding balance.

11 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	<u>540</u>	<u>446</u>

12 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	1,588	2,065
Amounts owed to group companies	4,514	2,885
Taxation and social security	1,263	1,097
Other creditors	1,527	4,415
Accruals and deferred income	<u>829</u>	<u>737</u>
	<u>9,721</u>	<u>11,199</u>

Intercompany trade creditors of £4.2m (2015: £2.6m) are settled by the end of the 2nd or 3rd month following month of invoice in line with corporate policy.

13 Deferred tax assets

Deferred tax assets are attributable to the following:

	2016 £000	2015 £000
Accelerated capital allowances	35	44
Other short term timing differences	90	865
Loss carry forwards available against group relief in 2016	<u>196</u>	<u>1,102</u>
	<u>321</u>	<u>2,011</u>

14 Deferred tax liabilities

	2016 £000	2015 £000
Deferred tax on fair value of derivatives	(329)	301
Deferred tax on defined benefit pension schemes	<u>(1,977)</u>	<u>(475)</u>
	<u>(2,306)</u>	<u>(174)</u>

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

Notes (continued)

15 Provisions

	Deferred Tax £000	Restructurin g £000	Warranty £000	Derivatives £000	Other £000	Total £000
Balance at 1 January 2016	-	196	79	1,506	231	2,012
Provisions made during year	1,985	-	10	-	189	2,184
Provisions used during year	-	(180)	-	-	(14)	(194)
Provisions reversed during year	-	(16)	-	(1,506)	-	(1,522)
Balance at 31 December 2016	<u>1,985</u>	<u>-</u>	<u>89</u>	<u>-</u>	<u>406</u>	<u>2,480</u>

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.

16 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 asset

	2016 £000	2015 £000
Defined benefit obligation	(100,395)	(82,151)
Plan assets	<u>110,281</u>	<u>84,525</u>
Net pension asset	<u>9,886</u>	<u>2,374</u>

Movements in present value of defined benefit obligation

	2016 £000	2015 £000
At 1 January	82,151	86,290
Net interest income	3,204	3,115
Benefit payments from plan assets	(4,075)	(4,176)
Re-measurements due to: effect of change in actuarial assumptions	<u>19,115</u>	<u>(3,078)</u>
At 31 December	<u>100,395</u>	<u>82,151</u>

Notes (continued)

16 Employee benefits (continued)

Movements in present value of plan assets

	2016 £000	2015 £000
At 1 January	84,525	76,985
Net interest income	3,542	2,851
Employer contributions	8,277	11,536
Benefit payments from plan assets	(4,075)	(4,176)
Administrative expenses paid from plan assets	(167)	(210)
Return on plan assets	18,179	(2,461)
At 31 December	<u>110,281</u>	<u>84,525</u>

Expense recognised in the profit and loss account

	2016 £000	2015 £000
Total (income)/expense recognised in profit or loss	<u>(171)</u>	<u>740</u>

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

	2016 Fair value £000	2015 Fair value £000
Equities	22,003	21,129
Government debt	46,229	29,320
Corporate bonds	22,476	19,942
Other	19,573	14,134
	<u>110,281</u>	<u>84,525</u>
Average annual return on plan assets	21%	(3%)

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

	2016 %	2015 %
Discount rate to determine defined benefit obligations	2.70%	4.00%
Discount rate to determine costs relating to defined benefit plans	4.00%	3.70%

The last full actuarial valuation was performed as at 1 January 2015. This was updated to 31 December 2016 by a qualified independent actuary.

In valuing the liabilities of the pension fund at 31 December 2016 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 £171,000 (2015: £211,000)

Notes (continued)

17 Capital and reserves

Share capital

	Ordinary shares 2016
<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>5,890,046</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.

18 Operating leases

Non-cancellable operating lease rentals are as follows:

	2016 £000	2015 £000
Less than one year	25	26
Between one and five years	166	204
More than five years	<u>1,867</u>	<u>2,117</u>
	<u>2,058</u>	<u>2,347</u>

During the year £377,000 (2015: £383,000) was recognised as an expense in the profit and loss account in respect of operating leases.

19 Commitments

Capital commitments

The Company's contractual commitments to purchase tangible fixed assets at the year-end were £nil (2015: £nil).

20 Contingent liability

The company has contingent liabilities in respect of bank guarantees to HM Revenue & Customs of £200,000 (2015: £200,000) covering the needs of deferred import duty and VAT.

21 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.

Notes (continued)

22 Accounting estimates and judgements

Key sources of estimation uncertainty

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 and hence management have made a judgement based upon those historical trends which may differ from the actual future warranty cost.

Core Surcharges

In order to keep parts that are past their useful life off the market, we apply a core surcharge to certain parts that we sell. Customers receive a credit when they return the used part within a certain period of time. It is uncertain what returns will be experienced in actuality so a provision is held based upon full returns.

Pensions

The company is principle employer to two defined benefit pension schemes which have inherent risks relating to longevity, inflation, legislation and asset returns. In order to mitigate these risks, the company in conjunction with the Trustees, have agreed to a de-risking programme to better match the assets and liabilities over time and have delegated the operation of the investment strategy to the schemes' professional advisors. The valuation of assets and obligations in the accounts are based upon an independent actuarial valuation update. However, there remains uncertainty to these valuations for factors beyond the control of the company.

Debtors

The debtors included within the balance sheet are shown after allowance for potential bad debts. This allowance is based upon recent experience and the aging of the debtor book as at the end of the year under review. Provision is made for any other known or likely specific risks within the debtor book. Risk exists where full knowledge of debtors' situation does not exist and/or where factors beyond the control of the debtor and company, however, the allowance is considered appropriate with existing knowledge.

23 Related Parties

Identity of related parties with which the Company has transacted

If there have been transactions with related parties (including non-wholly owned subsidiaries and other non-wholly owned members of a wider group), disclose here the nature of relationship with the related party, information about transactions and outstanding amounts, including terms and conditions, security and guarantees. The immediate parent company is Knorr-Bremse Systeme für Nutzfahrzeuge GmbH.

Other related party transactions

	Sales to		Administrative expenses incurred from	
	2016	2015	2016	2015
	£000	£000	£000	£000
Entities with control, joint control or significant influence	<u>1,727</u>	<u>1,751</u>	<u>(858)</u>	<u>(758)</u>

Notes (continued)

23 Related parties (continued)

	Receivables outstanding		Creditors outstanding	
	2016	2015	2016	2015
	£000	£000	£000	£000
Entities with control, joint control or significant influence	<u>316</u>	<u>333</u>	<u>(2,419)</u>	<u>(1,349)</u>

The transactions with related parties are for the sale of product, the rest are management charges related to personnel costs based in the central office.