

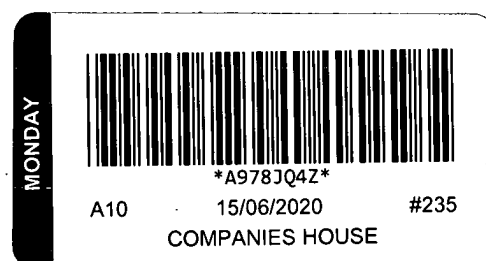


Knorr-Bremse Systems for Commercial Vehicles Limited

Annual report and financial statements

Registered number 529247

31 December 2019



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Strategic report

The Directors here present their Strategic Report for the year to 31 December 2019, in compliance of Section 172 of the Companies Act 2006, and relevant regulations related thereto, and consider it to be fair, balanced and understandable.

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").

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

The key purpose of the company is to enhance shareholder value whilst providing competitive and goods and services, including technical expertise, to its customers, business partners and where appropriate regulatory bodies.

In order to achieve this purpose, the company sources goods from both within and outside the Knorr-Bremse group as well as drawing upon significant expertise within its employees and those within the wider group. Knorr-Bremse AG, as ultimate parent entity (see note 21), invests significantly in research and development to maintain its position as a leading technological leader in the commercial vehicle market worldwide. This enables the company to offer leading edge technology to its customers.

The company regularly discusses its objectives with its shareholders and the wider group to develop and agree short term financial targets along longer term strategy.

The company aims to supply and support various commercial vehicle markets both in the UK and overseas (see note 2) to retain exposure to both original equipment manufacturers (OE) and independent spares market (AM).

	<u>2019</u>	<u>2018</u>
Sales to OE	43%	46%
Sales to AM	57%	54%

The mix of sales is important to reduce exposure to each markets' separate economic cycle as well as to maintain an acceptable level of competitive margin. The company also undertakes some value-add kitting activities in the UK to support its customers.

The company nonetheless does see fluctuations due to the relative position of each key market and its market share within each.

The company's principal measures are sales and profit. Total sales in 2019 were £42.7m (2018: £49.1m). The year represents a decrease in sales versus 2018 largely due to flat economic conditions, uncertainty with the Brexit negotiations and the change of a customer supply route to a group company.

This represents a decrease in sales of 13.0% year on year with UK customers decreasing by 11.6% over the year and overseas sales that decreased 18.6%. UK sales represented 80% of turnover (2018: 79%).

Despite the decrease in sales, gross margins improved to 22.1% (2018: 21.7%) being driven mainly by product mix and strengthening in the EUR:GBP exchange rate and continued cost controls.

In line with agreed recovery plans, the company significantly reduced its contributions into the defined benefit pension schemes. During 2019 this amounted to £0.1m (2018: £4.2m). An actuarial valuation was undertaken during the 2018 which showed that the Main Scheme was in surplus and the smaller Executive Scheme had a small shortfall.

Administration costs have decreased over the year to £4.5m (2018: £6.5m) mainly due to increased pension costs in 2018 related to the provision for equalisation of Guaranteed Minimum Pensions (GMPs) following the "Lloyds" case judgement in October 2018.

Return on sales (profit before taxation divided by turnover) for the year is reported at 12.6% (2018: 9.2%). The two main reasons for the improvement are the higher margins and decreased pension cost.

The directors are pleased with the results, despite the lower sales, and their underlying performance.

Strategic report (continued)

Principle areas of risk

Key factors likely to affect the company's future development, performance and business are described in below:

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.
Risk:	Disaster – significant disruption to business from a range of adverse incidents
Mitigation:	The Company has a formal Business Continuity 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 to lower risk inherent within the plans and to attempt to maintain sufficient funding levels.

Brexit Risks

The implications of the UK's exit from the European Union are still not fully defined due to current uncertainty over the terms of any future trade deal. Regardless, the company and its sister companies have been working diligently in order to mitigate the potential risks by:

Supplier risks:

The Company is continuing work with its suppliers to ensure continuation of supplies. Subject to a future trade agreement, additional costs may be incurred for such items such as freight and import duties which will need to be passed on to the market as and when appropriate.

Customer risks:

The Company has been in regular contact with its customers about its plans with a view to reducing any uncertainty in their supply chain. In addition, an increase in stock holdings remains in place to provide for cover in the event of any transit delays.

Exchange rate:

The Company has significant exchange rate exposure and a fall in the value of the GBP versus the EUR would place additional costs on the business. However, these risks are mitigated by the hedging of future cash flows.

General:

The general economic and political uncertainties around the trade deal negotiations that may prevail, could lead to some dampening of demand in the short term, but the company is well placed to handle these effects and would expect business to return to "normal" within a few months of any "hard" end to the transition period. The Company is working to modify its IT systems to manage the change from EU to "third country" transactions.

Coronavirus – COVID-19

On December 31st, 2019, an outbreak of a respiratory disease was detected in Wuhan City, Hubei Province, China which on the 8th January 2020, was defined as the Coronavirus (Covid-19) and identified as the cause of the illness. Health officials in China have reported thousands of infections, with the virus continuing to spread throughout China affecting every country in the world now. On the 30th of January, the World Health Organisation (WHO) declared the virus a "public health emergency of international concern".

Strategic report (continued)

Coronavirus – COVID-19 (continued)

With a growing risk of the virus in the UK, where it is now declared as a pandemic, the UK has followed other countries in declaring a temporary lockdown of the population's movement. The Company has performed various scenario analysis of the potential effects of the Covid-19 pandemic on the operations of the company and the market that it trades in. In a worst-case scenario, the Company would have a significant reduction in revenue in the financial year ending 2020 which would affect profitability levels.

The Knorr-Bremse Group ("KB Group") has high liquidity and a good creditworthiness combined with a robust business model. The KB Group is well placed to master the uncertain times ahead and we are preparing for different scenarios. With the continued support of the KB Group, the Company can meet its financial liabilities when they fall due and remains a going concern.

The Company has plans both locally and globally through the KB Group to attempt to minimise the potential impact.

Customers – with 80% of revenues generated from UK customers, we are working to maintain a level of inventory commensurate with customer demand. This has benefited from the additional inventory carried as a result of the Brexit support.

Suppliers – there is exposure to suppliers (and sub-suppliers) where the pandemic has led to difficulties and delays in supplies. The KB Group has established an expert team who are working with all affected supply chains to ensure the exposure to delay is minimised and to look for alternative solutions where this is not possible.

Employees and internal issues – the Company has implemented plans to limit the exposure of employees to the infection by both remote and split team working and have increased the environmental routines to include enhanced and deep cleaning as well as encouraging employees to follow all government advice with regards to isolation and sanitisation. All travel has been banned and restricted to only essential needs as approved by senior executives. Greater use of technology is in place to ensure continued operations and communications.

All reasonable actions are being undertaken to ensure continuity of business whilst protecting our stakeholders and business partners. The financial strength of both the Company and the KB Group means that the Directors' do not envisage any significant impact to the "going concern" of the Company once the pandemic has passed.

The Directors' Report below provides further information with regards to the company's relationship and interaction with its employees, including policies, communication and involvement.

The company, along with the wider group, continually works to maintain and improve its environmental and social impacts from its operations and relationships.

Future Prospects

The directors anticipate a similar level of sales during 2020. Brexit uncertainty remains surrounding the pending trade deal negotiations with the European Union, but this is reduced from a year ago given the political balance following the December 2019 election. The directors expect that volatility will continue in exchange rates during this period along with continued challenges in the UK market. The impact of Covid-19 cannot be realistically estimated. Thus, the level of profitability is expected to decline during 2020.

Regardless, given the financial strength of the company and its parent, the directors are confident in its ability to withstand any such market volatility.

By order of the board

M. Hall

Mike Hall
Managing Director

Century House,
Folly Brook Road,
Bristol BS16 7FE

20 April 2020

Directors' report

Dividend

During the year the company paid a dividend of £3.6m (2018: £2.9m). No final dividend is planned.

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 benefit 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 designated defined contribution schemes for new employees since January 2004.

Disabled employees

It is our policy to encourage the suitable employment and development of 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 our employees who have actively supported the business performance and development in 2019.

Political contributions

The Company made no political donations or incurred any political expenditure during the year. (2018: 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 any 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 and 4.

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

M. Hall

Mike Hall
Managing Director

Century House,
Folly Brook Road,
Bristol BS16 7FE

20 April 2020

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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

Opinion

We have audited the financial statements of Knorr-Bremse Systems for Commercial Vehicles Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that given reasonably possible downside forecast scenarios, the entity will be reliant upon group funding of which the ability of the ultimate parent to provide this funding is uncertain. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

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

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

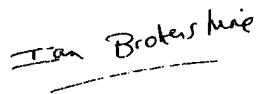
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



Ian Brokenshire (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square, Bristol. BS1 4BE

21 April 2020

Profit and Loss Account and Other Comprehensive Income
for the year to 31 December 2019

		2019	2018
	Note	£000	£000
Turnover	2	42,720	49,140
Cost of Sales		<u>(33,299)</u>	<u>(38,462)</u>
Gross Profit		9,421	10,678
Distribution costs		(162)	(202)
Administrative expenses		<u>(4,520)</u>	<u>(6,521)</u>
Operating profit	3-5	4,739	3,955
Interest receivable and similar income	6	<u>653</u>	<u>576</u>
Profit before taxation		5,392	4,531
Tax on profit	7	<u>(1,043)</u>	<u>(671)</u>
Profit for the financial year		<u>4,349</u>	<u>3,860</u>
Other comprehensive income			
Re-measurement of the net defined benefit asset		492	(258)
		-	-
Income tax on other comprehensive income	7	<u>(93)</u>	<u>49</u>
Other comprehensive income for the year net of tax		<u>399</u>	<u>(209)</u>
Total comprehensive income for the year		<u>4,748</u>	<u>3,651</u>

The notes on pages 14 to 29 form an integral part of these financial statements.

Balance Sheet
at 31 December 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Fixed Assets:					
Tangible assets	8		114		116
Non-Current Assets:					
Defined benefit pension scheme asset	16		<u>20,540</u>		<u>19,482</u>
Total Fixed & Non-Current Assets			20,654		19,598
Current Assets:					
Stocks	9	5,712		4,310	
Debtors	10	18,741		21,290	
Cash at hand and in bank	11	<u>392</u>		<u>317</u>	
		24,845		25,917	
Creditors: amounts falling due within one year	12	<u>(7,578)</u>		<u>(8,982)</u>	
Net current assets			<u>17,267</u>		<u>16,935</u>
Total assets less current liabilities			37,921		36,533
Provisions for liabilities	15		<u>(4,243)</u>		<u>(4,003)</u>
Net assets			<u>33,678</u>		<u>32,530</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>21,958</u>		<u>20,810</u>
Equity shareholders' funds			<u>33,678</u>		<u>32,530</u>

These financial statements were approved by the Board of Directors on 20 April 2020 and were signed on its behalf by:



Mark Smith
Finance Director
Company registered number: 529247

The notes on pages 14 to 29 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 2019	5,890	5,830	20,810	32,530
Total comprehensive income for the period:				
Profit for the year	-	-	4,349	4,349
Other comprehensive income	-	-	399	399
Total comprehensive income for the period	-	-	4,748	4,748
Transactions with owners, recorded directly in equity:				
Issue of shares	-	-	-	-
Dividends	-	-	(3,600)	(3,600)
Balance at 31 December 2019	<u>5,890</u>	<u>5,830</u>	<u>21,958</u>	<u>33,678</u>
Balance at 1 January 2018	5,890	5,830	20,073	31,793
Total comprehensive income for the period:				
Profit for the year	-	-	3,860	3,860
Other comprehensive income	-	-	(209)	(209)
Total comprehensive income for the period	-	-	3,651	3,651
Transactions with owners, recorded directly in equity:				
Issue of shares	-	-	-	-
Dividends	-	-	(2,914)	(2,914)
Balance at 31 December 2018	<u>5,890</u>	<u>5,830</u>	<u>20,810</u>	<u>32,530</u>

The notes on pages 14 to 29 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 and registered at Century House, Folly Brook Road, Bristol BS16 7FE.

These financial statements are for the year ended 31 December 2019. Comparative figures are for the year ended 31 December 2018.

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 International Financial Reporting Standards and are available to the public. These may be obtained from Moosacher Str. 80, D80809 München, Germany or on www.knorr-bremse.com. 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:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

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 22.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The Company has net current assets of £17.3 million, including cash balances of £0.4 million and is in a profitable trading position. The directors have prepared the financial statements on a going concern basis having reviewed the cash-flow forecast of the Company for the foreseeable future and the possible downside risks with the Covid-19 pandemic as noted in the strategic report on page 4. The directors are satisfied that the Company will continue operations and be able to satisfy its liabilities as they fall due. The Company continues to monitor the “Brexit” process and Covid-19 pandemic and their potential impacts on the business as noted in the Strategic Report.

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through its bank facilities and in downside cases funding from its ultimate parent company, Knorr-Bremse AG, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Knorr Bremse AG not withdrawing financial support during that period. Knorr Bremse AG has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Notes (continued)

1 Accounting policies (continued)

However, the ability of Knorr-Bremse AG to continue to provide this support is dependent on the global effect of COVID19 on the performance and position of the Group. At the date of this report, it is not possible to quantify the effect of COVID19 on the Group sufficiently to enable the Directors to rely on this support.

Based on these indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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 forward hedge contracts exist, the settlement transaction is booked at the contractual hedge rate when the obligation is satisfied. 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. Foreign exchange differences arising on translation are recognised in the profit and loss account.

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 re-translated 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 interest 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 interest for a similar debt instrument.

Financial derivatives

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

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.

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.

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.

Notes (continued)

1 Accounting policies (continued)

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 lease remaining; 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.

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

Notes (continued)

1 Accounting policies (continued)

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.

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 includes interest receivable on funds invested and net foreign exchange gains and net interest on the defined benefit pension schemes.

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. 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 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.

	2019	2018
	£000	£000
United Kingdom	34,163	38,626
Overseas	<u>8,557</u>	<u>10,514</u>
	<u>42,720</u>	<u>49,140</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:

	2019	2018
	£000	£000
Auditors remuneration:		
Audit of these financial statements	<u>22</u>	<u>19</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 2019	Number of employees 2018
Manual workers	8	9
Administration staff	<u>38</u>	<u>40</u>
	<u>46</u>	<u>49</u>

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	2,233	2,304
Social security costs	297	270
Pension contributions	170	171
Provision for equalisation of GMPs in DB pension schemes	-	2,444
	<u>2,700</u>	<u>5,189</u>

Notes (continued)

5 Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	298	297
Pension contributions	<u>49</u>	<u>47</u>
	<u>347</u>	<u>344</u>

The remuneration above relates to four directors (2018: four). The fees for two (2018: two) of these Directors are borne by other group companies. Retirement benefits are accruing to two directors under a defined contribution scheme (2018: two).

6 Interest receivable and similar income

	2019 £000	2018 £000
Net interest income relative to defined benefit pension schemes	596	522
Receivable from group undertakings	<u>57</u>	<u>54</u>
Total interest receivable and similar income	<u>653</u>	<u>576</u>

Notes (continued)**7 Taxation**

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

	2019		2018	
	£000	£000	£000	£000
Current tax				
Current tax on income for the period	944		556	
Adjustments in respect of prior periods	<u>18</u>		<u>(197)</u>	
Total current tax		962		359
Deferred tax (see notes 13 and 14)				
Origination and reversal of timing differences	180		263	
Adjustments in respect of prior periods	<u>(6)</u>		<u>-</u>	
Total deferred tax		<u>174</u>		<u>263</u>
Total tax expense/(income)		<u><u>1,136</u></u>		<u><u>622</u></u>

	2019			2018		
	£000	£000	£000	£000	£000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit and loss account	962	81	1,043	359	312	671
Recognised in other comprehensive income	<u>-</u>	<u>93</u>	<u>93</u>	<u>-</u>	<u>(49)</u>	<u>(49)</u>
Total tax expense/(income)	<u><u>962</u></u>	<u><u>174</u></u>	<u><u>1,136</u></u>	<u><u>359</u></u>	<u><u>263</u></u>	<u><u>622</u></u>

Reconciliation of effective tax rate

	2019	2018
	£000	£000
Profit for the year	4,349	3,860
Total tax expense/(income)	<u><u>1,043</u></u>	<u><u>671</u></u>
Profit excluding taxation	5,392	4,531
Tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	1,025	861
Expenses not deductible for tax purposes	2	(1)
Differences between capital allowances and depreciation	(4)	2
Origination and reversal of other timing differences	2	6
Under provided in prior years	<u>18</u>	<u>(197)</u>
Total tax expense	<u><u>1,043</u></u>	<u><u>671</u></u>

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability as at 31 December 2019 has been calculated based on the 19% rate. In the 11 March 2020 UK budget, it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020, although this has not been substantively enacted as at the balance sheet date.

The impact of using the 19% tax rate as opposed to the 17% tax rate shows that the net deferred tax liability would have decreased by £400k.

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 2019	400	765	1,165
Additions	-	43	43
Disposals	-	(4)	(4)
Balance at 31 December 2019	<u>400</u>	<u>804</u>	<u>1,204</u>
<i>Depreciation and impairment</i>			
Balance at 1 January 2019	338	711	1,049
Depreciation charge for the period	21	24	45
Disposals	-	(4)	(4)
Balance at 31 December 2019	<u>359</u>	<u>731</u>	<u>1,090</u>
<i>Net book value</i>			
At 31 December 2019	<u>41</u>	<u>73</u>	<u>114</u>
At 31 December 2018	<u>62</u>	<u>54</u>	<u>116</u>

Land and buildings

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

9 Stocks

	2019 £000	2018 £000
Raw materials and work in progress	6	5
Finished goods	<u>5,706</u>	<u>4,305</u>
	<u>5,712</u>	<u>4,310</u>

10 Debtors

	2019 £000	2018 £000
Trade debtors	6,499	5,853
Amounts owed by group undertakings	11,670	15,043
Other debtors	504	94
Fair value of derivatives	-	63
Prepayments and accrued income	68	237
Debtors due within one year	<u>18,741</u>	<u>21,290</u>

Amounts owed by group undertakings are made up of £11.1m (2018: £14.0m) cash pooling and £0.6m (2018: £1.0m) intercompany receivables.

Notes (continued)

10 Debtors (continued)

Intercompany trade debtors of £0.6m (2017: £1.0m) are settled by the end of the 2nd or 3rd month following month of invoice in line with group policy.

The Company is part of a sterling cash pooling arrangement whereby cleared balances are pooled each working day and repayable the following day. Interest is payable on any outstanding balance. The cash pooling balance earns interest at BoE base rate less 0.25%.

11 Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	<u>392</u>	<u>317</u>

12 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	1,114	809
Amounts owed to group companies	2,633	4,367
Taxation and social security	1,496	1,518
Other creditors	1,461	1,602
Accruals and deferred income	<u>874</u>	<u>686</u>
	<u>7,578</u>	<u>8,982</u>

Intercompany trade creditors of £2.6m (2018: £4.4m) are settled by the end of the 2nd or 3rd month following month of invoice in line with group policy.

13 Deferred tax assets

Deferred tax assets are attributable to the following:

	2019 £000	2018 £000
Accelerated capital allowances	14	15
Other short-term timing differences	79	63
	<u>-</u>	<u>-</u>
	<u>93</u>	<u>78</u>

14 Deferred tax liabilities

	2019 £000	2018 £000
Deferred tax on fair value of derivatives	-	(12)
Deferred tax on defined benefit pension schemes	<u>(3,902)</u>	<u>(3,701)</u>
	<u>(3,902)</u>	<u>(3,713)</u>

The deferred tax 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	Warranty	Other	Total
	£000	£000	£000	£000
Balance at 1 January 2019	3,635	136	232	4,003
Provisions made during year	174	42	214	430
Provisions used during year	-	(59)	(131)	(190)
Provisions reversed during year	-	-	-	-
Balance at 31 December 2019	<u>3,809</u>	<u>119</u>	<u>315</u>	<u>4,243</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, as well as a number of provisions relating to property, employee and deferred cost matters.

16 Employee benefits**Defined benefit plans**

The directors wish to draw the attention of the reader to the uncertainty of the value of the net defined pension plan asset, due to the Covid-19 pandemic as noted in the Strategic Report and under Note 24 below.

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 were 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.

The consolidated defined benefit plans of the Knorr-Bremse A.G. group are publicly available, as documented in Note 1 - Accounting Policies.

Net pension asset

	2019	2018
	£000	£000
Defined benefit obligation	(104,663)	(94,313)
Plan assets	<u>125,203</u>	<u>113,795</u>
Net pension asset	<u>20,540</u>	<u>19,482</u>

Movements in present value of defined benefit obligation

	2019	2018
	£000	£000
At 1 January	94,313	99,195
Net interest income	2,691	2,572
Benefit payments from plan assets	(3,432)	(3,976)
Provision for effect of GMP Equalisation	-	2,444
Re-measurements due to effect of change in actuarial assumptions	<u>11,091</u>	<u>(5,922)</u>
At 31 December	<u>104,663</u>	<u>94,313</u>

Notes (continued)**16 Employee benefits** (continued)*Movements in present value of plan assets*

	2019 £000	2018 £000
At 1 January	113,795	116,773
Net interest income	3,287	3,094
Employer contributions	156	4,276
Benefit payments from plan assets	(3,432)	(3,976)
Administrative expenses paid from plan assets	(185)	(192)
Return on plan assets	<u>11,582</u>	<u>(6,180)</u>
At 31 December	<u>125,203</u>	<u>113,795</u>

(Income)/Expense recognised in the profit and loss account

	2019 £000	2018 £000
Staff costs	-	2,444
Administration costs	185	192
Interest receivable and similar income	<u>(596)</u>	<u>(522)</u>
Total (income)/expense recognised in profit or loss	<u>(411)</u>	<u>2,114</u>
Total (income) recognised in Other comprehensive income	<u>(492)</u>	<u>(258)</u>

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

	2019 Fair value £000	2018 Fair value £000
Equities	783	19,432
Government debt	30,455	50,487
Corporate bonds	80,075	23,696
Other	<u>13,890</u>	<u>20,180</u>
	<u>125,203</u>	<u>113,795</u>
Average annual return on plan assets	+10%	-3%

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

	2019 %	2018 %
Discount rate to determine defined benefit obligations	2.10%	2.90%
RPI Inflation	2.90%	3.40%
CPI Inflation	2.40%	2.40%
Salary inflation	3.40%	3.40%
Pensions in payment increase rate	2.75%	3.15%

The assumptions for increases in pensions in payment range from 1.75% to 3.50% (2018: 1.75% to 3.70%) depending on the benefit structure of the pensioner concerned and subject to various caps and floors.

Notes (continued)

16 Employee benefits (continued)

The last full actuarial valuation was performed as at 1 January 2018. This was updated to 31 December 2019 by a qualified independent actuary.

In valuing the liabilities of the pension fund at 31 December 2019 mortality rates are based on S2PA base tables with CMI_2017 projections with a long-term trend of 1.5% p.a. (and -1 year age rating for the Executive Scheme).

Effect of changes in actuarial assumptions:

On 4 September 2019, the UK Statistics Authority (UKSA) announced its intention to align the Retail Prices Index (RPI) measure of inflation with CPIH – a variant of the Consumer Prices Index that includes an estimate of owner occupiers' housing costs. CPIH inflation is currently expected to be around 1% per annum lower than RPI inflation over the long term. Therefore, if RPI were to be aligned with CPIH, RPI-linked pension increases and the payments to holders of index-linked gilts would both be expected to be lower.

The actuarial assumptions have changed since the prior year's valuation as at the 31 December 2019. The approach for setting the inflation assumptions have changed since the prior year in order to reflect the expectations of future changes to the calculation of RPI. This resulted in a decrease to RPI of 0.5% year on year.

The other main change to assumptions relative to the prior year, is a significant fall in the discount rate by 0.8% (reflecting lower corporate bond yields), which increases the value of the pension obligations. This has been offset to an extent by the fall in RPI inflation assumption noted above, which reduces the value of the pension liabilities.

Sensitivity analysis:

The impact of reducing the discount rate by 0.5% will result in an increase in the pension obligation of £8,276,000.

The impact of increasing the discount rate by 0.5% will result in a decrease in the pension obligation of £7,387,000.

The impact of reducing the salary increase rate by 0.5% will result in a decrease in the pension obligation of £321,000.

The impact of increasing the salary increase rate by 0.5% will result in an increase in the pension obligation of £331,000.

The impact of reducing the pension-in-payment rate by 0.5% will result in a decrease in the pension obligation of £2,913,000.

The impact of increasing the pension-in-payment rate by 0.5% will result in an increase in the pension obligation of £3,203,000.

Defined contribution plan

The Company operates a defined contribution pension plan. The total expense relating to this plan in the current year was £170,000 (2018: £171,000)

Notes (continued)**17 Capital and reserves**

Share capital	Ordinary shares 2019 £000
<i>Allotted, called up and fully paid</i>	
292,896 ordinary shares of £1 each	293
97,150 ordinary 'A' shares of £1 each	97
5,500,000 ordinary 'B' shares of £1 each	<u>5,500</u>
Total share capital	<u>5,890</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

Commitments to non-cancellable operating lease rentals are as follows:

	2019 £000	2018 £000
Less than one year	352	331
Between one and five years	1,026	1,036
More than five years	<u>-</u>	<u>62</u>
	<u>1,378</u>	<u>1,429</u>

During the year £372,000 (2018: £368,000) 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 (2018: £nil).

20 Contingent liability

The Company has contingent liabilities in respect of bank guarantees to HM Revenue & Customs of £200,000 (2018: £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 this group are available to the public and may be obtained from Moosacher Str. 80 D-80809 München, Germany or on www.knorr-bremse.com.

Notes *(continued)*

22 Accounting estimates and judgements

Key sources of estimation uncertainty

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. These valuations are based upon a range of assumptions and actual experience, beyond the control of the company, will inevitably differ from these assumptions.

Notes (continued)**23 Related Parties***Identity of related parties with which the Company has transacted*

Where there have been transactions with related parties (which are non-wholly owned subsidiaries and other non-wholly owned members of the wider group), disclosed here are the relationships with same related parties, information about transactions and outstanding amounts. The immediate parent company is Knorr-Bremse Systeme für Nutzfahrzeuge GmbH.

Other related party transactions

	Sales		Material Purchases		Admin Expenses	
	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000
KB Media	-	-	-	-	(2)	(5)
KB IT Services	-	-	-	-	(277)	(209)
KB Rail UK	16	23	-	-	-	-
Bendix (US)	18	40	(149)	(406)	-	-
KB Brazil	-	1	-	(2)	-	-
KB South Africa	3	-	-	-	-	-
KB Australia	-	4	-	(2)	-	-
KB Hong Kong	1,035	1,217	-	-	-	-
KB China	-	-	-	(1)	-	-
Bendix Spicer (US)	-	-	(508)	(511)	-	-
KB Business Services	-	-	-	-	(35)	(29)
KB CAFF	-	-	(27)	(22)	-	-
	1,072	1,285	(684)	(944)	(314)	(243)

	Receivables outstanding		Creditors outstanding	
	2019	2018	2019	2018
	£000	£000	£000	£000
KB Sfs	-	-	-	(2)
KB Media	-	-	-	(3)
KB IT Services	-	26	(44)	-
KB Rail UK	-	23	(2)	(4)
Bendix (US)	-	6	(31)	(36)
KB Brazil	-	-	-	(1)
KB Australia	-	-	-	-
KB Hong Kong	344	496	-	-
KB Business Services	-	-	(6)	-
Bendix Spicer (US)	-	-	(97)	(37)
CAFF	-	-	(3)	(2)
	344	551	(183)	(85)

In the above table of related parties, the term "KB" represents Knorr-Bremse. There are other transactions with related parties where the company has taken the permissible exemption as both parties are within the 100% ownership structure. The ultimate parent company has control, joint control or significant influence over the above listed entities.

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

Notes (continued)

24 Post Balance Sheet Events

These financial statements are for the year ended 31 December 2019 and therefore the impact of COVID19 on these accounts is considered to be a non-adjusting post-balance sheet event. The impact on areas of estimation uncertainty, as assessed by the Directors, is below.

The Covid-19 pandemic has had a significant impact on global markets. Major indices fell over 30% in March 2020 with investors seeking sanctuary in perceived relative 'safe haven' assets, such as government & corporate bonds. The increase in bond prices as result of the increased demand, decreases the yields on bonds on new bonds. The likelihood of governments decreasing interest rates, in the short term in order to stimulate economics and prevent a recession, will decrease yields on new bonds. Corporate bonds also have higher risk of default in the current volatility of the market. The Company's Defined Benefit Plan assets are primarily held in corporate and government bonds. As a result, many investments, including those held in the Company's pension plan have seen reductions in value. The effects of the current market turmoil on the long-term outlook of the net defined benefit pension asset, cannot immediately be quantified. The Director's wish to draw the attention of readers to the uncertainty held in the valuation of the net defined benefit pension asset. The uncertainty has the potential to create a pension deficit that would then require the Company to fund that deficit in the future. The net defined benefit asset at 31 December 2019 is valued at £20.5 million, as disclosed in the accounting policies note at Note 16.

There have been major events in the past that caused markets to fall in the short term, but they tend to rally over the long term. The Directors believe that a change in the contributions to the pension scheme will be driven by a more longer-term view and outlook, rather than based on a very current and possibly short-term impact that has been seen in recent weeks.

Various government stimulus packages have been agreed around the world and there are signs of recovery of markets. There currently remains confidence in the markets and financial intuitions.

The Directors will continue to monitor the situation of epidemic and the effect on the Company's operations and the balance sheet. The Director's will be actively engaged with the pension trustees and the requirement for the short- and long-term funding of the scheme which the Directors believe will largely be driven by the triennial valuations.

The next date triannual valuation for the Company's Defined benefit Pension plan will be on the 1st of January 2021.