

KNORR-BREMSE



Knorr-Bremse Systems for Commercial Vehicles Limited

Annual report and financial statements

Registered number 529247

31 December 2020



Contents

| | |
|---|---------|
| Strategic Report (<i>including Section 172(1) statement</i>) | 3 - 7 |
| Directors' Report | 8 - 9 |
| Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements | 10 |
| Independent auditor's report to the members of Knorr-Bremse Systems for Commercial Vehicles Limited | 11 - 14 |
| Profit and Loss Account and Other Comprehensive Income | 15 |
| Balance Sheet | 16 |
| Statement of Changes in Equity | 17 |
| Notes | 18 - 32 |

Strategic Report

The directors here present their Strategic Report for the year to 31 December 2020, 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").

During the year the directors determined that the deferred taxation of the pension scheme surplus should be recognised at a rate of 35% (surplus refund rate) as opposed to the prevailing 19% corporation tax rate. Additionally, that discounts and rebates should be deducted from turnover and not included within cost of sales. The impact of these changes is identified within the notes to the accounts and prior year comparatives updated where appropriate. Details of the changes to prior financial statements can be seen in note 24.

The key purpose of the company is to enhance shareholder value whilst providing competitive 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 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>2020</u> | <u>2019</u> |
|-------------------|-------------|-------------|
| Gross Sales to OE | 41% | 43% |
| Gross Sales to AM | 59% | 57% |

Gross sales are calculated prior to the deduction of discounts and rebates.

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 gross sales and profit. Total gross sales in 2020 were £37.6m (2019: £42.7m). The year represents a decrease in gross sales versus 2019 largely due to the market impact due to the COVID-19 pandemic. The decline was particularly evidenced in the UK OE bus market.

This represents a decrease in gross sales of 12.0% year on year with UK customers decreasing by 13.4% over the year and overseas sales that decreased 6.7%. UK gross sales represented 79% of turnover (2019: 80%).

Despite the decrease in gross sales, gross profit improved to 22.5% (2019: 22.1%) being driven mainly by product and market mix, albeit the absolute gross profit value was reduced due the volume decline.

Administration costs have increased over the year to £5.7m (2019: £4.5m) mainly due to defined benefit pension costs, an increase in bad debts and higher exchange rate losses, partially offset by with cost reduction activities related to the Covid-19 downturn.

Return on sales (profit before taxation divided by gross sales) for the year is reported at 8.5% (2019: 12.6%). The main reasons for this are outlined above.

Given the continued uncertainty surrounding the Brexit trade negotiations through the year, the directors were pleased that the eventual outcome meant no barriers to trade or new applicable tariffs on EU transactions. Regardless of the eventual deal, this uncertainty led to significant management investment into scenario planning, customer interactions and volatility of inventory planning.

Strategic Report *(continued)*

Of course, the major feature of 2020, expected to be Brexit, transpired as the Covid-19 pandemic. The impact of this was seen throughout the economy and had impact on the company.

The company continued to operate and trade throughout this period to support the essential road transport sector.

However, the significant downturn in gross sales volumes, particularly in the second and third quarters of the year meant that costs had to be closely monitored and reduction activities instigated. The company used the Government Job Retention Scheme where appropriate and additionally agreed with employees for a significant period of short time working with reduced pay. Cost savings were further supported in the major reduction in business travel and marketing budgets, including the cancellation of trade shows.

The fourth quarter of the year saw market demand returning and increases in sales towards pre-pandemic levels which supported the overall results of the year.

Given the pandemic affected environment through most of the year, the directors are pleased with the results and the underlying business performance.

Section 172(1) statement

Compliance with Section 172 of Companies Act 2006

The company remains a supplier of commercial vehicle braking, air suspension and other associated equipment for the UK and overseas markets which, as safety critical products, are reliant upon research and development, and manufacturing quality. Most of the research and development along with production activities are sourced through group companies and therefore the success and longevity of the company is aligned with that of the group.

The group has policies and procedures that are required to be followed by the subsidiary entities and the directors thereof. The directors have an over-riding responsibility to act in the best interests of the company for the benefit of its members as a whole.

These duties are detailed in Section 172 of the Companies Act 2006 and the relevant sections are summarised below along with the actions undertaken by the directors to meet these requirements.

Strategic aims and likely long-term consequences

The director's detail in the strategic report relevant details surrounding the company's activities which is integral to the group's overall development and performance. Ongoing investment in research and development, along with cost effective quality production is crucial to maintain the product supply in both the short and long term to the company's customers.

Each year, a strategic plan including such activities is developed within the group to ensure the business model can be successfully sustained and to permit early maximisation of opportunities and/or mitigation of risks. The directors ensure that any such items are identified and actions relevant to the company are considered.

A regular review of major risk issues in the company is also undertaken and supplied to group.

Employee interest and involvement

As noted in the Directors' Report the company places significant value on the involvement and participation of employees with formal and informal communications, including regular Managing Director briefings open to all. This is supplemented by group intranet communications and quarterly magazine.

Business relationships with customers and stakeholders

The company maintains regular communication with its customers on both a local and European level as appropriate. This is intended to provide for open commercial dialogue between the parties to ensure the interests of both are optimised where possible and for any disputes to be resolved.

A high proportion of the company's purchases are from group suppliers, however, where this is not the case a similar open approach is adopted.

Regular communication with other stakeholders such as group shareholders and banks are also undertaken, providing updates on performance and future plans.

Strategic Report *(continued)* **Section 172(1) statement** *(continued)*

Impact of company operations on the community and environment

Both the company and the group operate to minimise its impact on the environment and to seek improvements wherever possible. Active programmes to reduce waste and energy usage in facilities have been in operation for a number of years.

Longevity of product lifecycle, reduction of vehicle weight and emissions, and a product remanufacturing programme all serve to minimise the impacts of products. Additionally, improvements in safety performance enhance road safety.

Maintaining a reputation for high standards of business conduct

As a supplier of safety critical product, the trust of customers and stakeholders is essential to the business performance and development.

The company and group have embedded policies to ensure legal, ethical, and personal conduct expectations for all directors and employees. Regular reminders are communicated, and training provided.

The directors have acted in accordance with their duties codified in law, which includes their duty to act in good faith to promote the best interests of the company to the benefit of its members as a whole whilst having regard to stakeholders' interest and matters as set out in section 172(1) of Companies Act 2006.

Principal 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. |
| Risk: | Climate change drive to lower emissions environment |
| Mitigation: | The Group continues to develop products supporting reduction in vehicle emissions along with activities in the field of electric vehicles. |

Strategic Report *(continued)*

Brexit Risks

At the very end of 2020, the UK government and the European Union finally agreed to the terms of a trade agreement signalling tariff and quota free transactions between the parties. The early weeks of trading after this deal is still providing challenges to the company – particularly in trade with Ireland and freight documentation. Regardless, the company and its sister companies continue to work diligently in order to mitigate these, hopefully, short term issues:

Supplier risks:

The Company is continuing work with its suppliers to ensure continuation of supplies and minimise documentation issues relating to transport delays.

Customer risks:

The Company remains in regular contact with its customers about the situation its plans with a view to reducing any uncertainty in their supply chain. Increased stock in the UK continues to mitigate transport 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, in the early weeks of post Brexit trading, the GBP has strengthened against the EUR and any risks are mitigated by the hedging of future cash flows within the group where natural hedging opportunities exist.

Coronavirus – COVID-19

On 31 December 2019, an outbreak of a respiratory disease was detected in Wuhan City, Hubei Province, China which on the 8 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 30 January 2020, the World Health Organisation (WHO) declared the virus a “public health emergency of international concern”.

As is now known this led to a global health pandemic which has affected all economies of the world – aside of the effects of ill health and unfortunately many deaths. Many governments around the world reacted to different phases of the pandemic by “locking down” their populations and economy.

The company and group took every reasonable precaution to protect the health of its employees and business partners throughout this period.

As stated above, despite the volatility in global economies, the company continued to trade profitably through this period despite the fall in market activity.

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 continued 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 relatively recent availability of vaccines has led to the anticipation of growth in economic activity and markets through the spring/summer of 2021.

The company has plans both locally and globally through the KB Group to attempt to minimise any continued impacts of the pandemic.

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.

Strategic Report *(continued)*

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 encouraging employees to follow all government advice with regards to isolation and sanitisation. Business travel continues to be 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 continue to ensure continuity of business whilst protecting our stakeholders and business partners. The financial strength of the both the Company and the KB Group means that the directors' do not envisage any significant impact to the "going concern" of the Company as we hopefully approach the end.

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 and operating profitability during 2021 with the hopeful significant reduction of the effects of the pandemic and short-term Brexit disruptions.

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



Mike Hall
Managing Director

Century House,
Folly Brook Road,
Bristol BS16 7FE

30 April 2021

Directors' Report

Dividend

During the year the company paid a dividend of £3.7m (2019: £3.6m). No final dividend is planned.

Directors

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

M Hall

M Smith

B Spies

A Wagner

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.

Financial Instruments

The treatment of applicable financial instruments is disclosed within Note 1.4 below

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, particularly during the pandemic disruptions, in 2020.

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2019: 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.

Directors' report *(continued)*

Energy and Greenhouse Gas reporting

The company discloses below its calculated energy usage and greenhouse gas emissions

| <u>Energy</u> | <u>Units</u> | <u>2020</u> | <u>2019</u> |
|----------------------------------|---------------------|----------------|----------------|
| Electricity | kWh | 212,432 | 212,033 |
| Gas | kWh | 156,430 | 148,357 |
| Vehicle Fuel | kWh | 118,112 | 286,936 |
| Total | kWh | 486,974 | 647,326 |
| | | | |
| GHG Emissions | kgCO ₂ e | 95,523 | 117,989 |
| Intensity Ratio (per £000 sales) | kWh | 15.2 | 13.0 |

The overall usage of energy has reduced primarily as a result of reduced vehicle movements during the pandemic in 2020.

The company and group remained committed to reduction of GHG emissions in its activities and further details can be found in the group annual report.

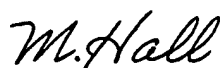
Other information

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 to 5.

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

30 April 2021

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 2020 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including 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.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management.

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

- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets/ overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that turnover is recorded in the wrong period.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual, unrelated, or seldom-used accounts;
- Sampling transactions around the period end to verify whether they were recorded in an appropriate period of account.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with directors and other management (as required by auditing standards), and discussed with directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and pensions legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and automotive industry standards, recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

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; or

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 10, 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.

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

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.

A handwritten signature in black ink that reads "Alexander Chong". The signature is written in a cursive style with a horizontal line underneath the name.

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

30 April 2021

Profit and Loss Account and Other Comprehensive Income

for the year to 31 December 2020

| | | 2020 | 2019 |
|--|------|-----------------|-----------------|
| | | | As restated |
| | Note | £000 | £000 |
| Turnover | 2 | 37,163 | 42,342 |
| Cost of Sales | | <u>(28,717)</u> | <u>(32,921)</u> |
| Gross Profit | | 8,446 | 9,421 |
| Distribution costs | | (144) | (162) |
| Administrative expenses | | <u>(5,653)</u> | <u>(4,520)</u> |
| Operating profit | 3-5 | 2,649 | 4,739 |
| Interest receivable and similar income | 6 | <u>536</u> | <u>653</u> |
| Profit before taxation | | 3,185 | 5,392 |
| Tax on profit | 7 | <u>(596)</u> | <u>(1,124)</u> |
| Profit for the financial year | | <u>2,589</u> | <u>4,268</u> |
| Other comprehensive income | | | |
| Re-measurement (expense)/income of the net defined benefit asset | | (1,842) | 492 |
| Income tax credit/(charge) on other comprehensive income | 7 | <u>645</u> | <u>(181)</u> |
| Other comprehensive (loss)/income for the year net of tax | | <u>(1,197)</u> | <u>311</u> |
| Total comprehensive income for the year | | <u>1,392</u> | <u>4,579</u> |

The notes on pages 18 to 32 form an integral part of these financial statements. Note 24 details the changes related to the restatements of prior year.

Balance Sheet
at 31 December 2020

| | <i>Note</i> | 2020 | 2020 | 2019 | 2019 |
|---|-------------|-----------------|----------------|----------------|----------------|
| | | | | As restated | As restated |
| | | £000 | £000 | £000 | £000 |
| Fixed Assets: | | | | | |
| Tangible assets | 8 | | 132 | | 114 |
| Current Assets: | | | | | |
| Defined benefit pension scheme asset | 16 | 18,867 | | 20,540 | |
| Stocks | 9 | 3,784 | | 5,712 | |
| Debtors | 10 | 21,720 | | 18,834 | |
| Cash at hand and in bank | 11 | <u>594</u> | | <u>392</u> | |
| | | 44,965 | | 45,478 | |
| Creditors: amounts falling due within one year | 12 | <u>(10,039)</u> | | <u>(7,578)</u> | |
| Net current assets | | | <u>34,926</u> | | <u>37,900</u> |
| Total assets less current liabilities | | | 35,058 | | 38,014 |
| Provisions for liabilities | 15 | | <u>(6,975)</u> | | <u>(7,623)</u> |
| Net assets | | | <u>28,083</u> | | <u>30,391</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>16,363</u> | | <u>18,671</u> |
| Equity shareholders' funds | | | <u>28,083</u> | | <u>30,391</u> |

These financial statements were approved by the Board of Directors on 30 April 2021 and were signed on its behalf by:



Mark Smith
Finance Director
 Company registered number: 529247

The notes on pages 18 to 32 form an integral part of these financial statements. Note 24 details the changes related to the restatements of prior year.

Statement of Changes in Equity

| | Called up share capital £000 | Share premium account £000 | Profit and loss account £000 | Total equity £000 |
|--|---|---|---|----------------------------------|
| Balance as at 1 January 2020 (as restated) | 5,890 | 5,830 | 18,671 | 30,391 |
| Total comprehensive income for the period: | | | | |
| Profit for the year | - | - | 2,589 | 2,589 |
| Other comprehensive loss | - | - | (1,197) | (1,197) |
| Total comprehensive income for the period | - | - | 1,392 | 1,392 |
| Transactions with owners, recorded directly in equity: | | | | |
| Dividends | - | - | (3,700) | (3,700) |
| Balance as at 31 December 2020 | <u>5,890</u> | <u>5,830</u> | <u>16,363</u> | <u>28,083</u> |
| Balance as at 1 January 2019 | 5,890 | 5,830 | 20,810 | 32,530 |
| Prior year adjustment in respect of pension surplus tax rate | - | - | (3,118) | (3,118) |
| Balance as at 1 January 2019 as restated | 5,890 | 5,830 | 17,692 | 29,412 |
| Total comprehensive income for the period: | | | | |
| Profit for the year (as restated) | - | - | 4,268 | 4,268 |
| Other comprehensive income (as restated) | - | - | 311 | 311 |
| Total comprehensive income for the period | - | - | 4,579 | 4,579 |
| Transactions with owners, recorded directly in equity: | | | | |
| Dividends | - | - | (3,600) | (3,600) |
| Balance as at 31 December 2019 (as restated) | <u>5,890</u> | <u>5,830</u> | <u>18,671</u> | <u>30,391</u> |

The notes on pages 18 to 32 form an integral part of these financial statements. Note 24 details the changes related to the restatements of prior year (*small difference due to rounding*).

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 2020. Comparative figures are for the year ended 31 December 2019 (as restated for the effect of change in deferred tax rate).

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 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 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, 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 seeking repayment of the amounts currently due to the group, which at balance sheet date amounted to £13,933k, and providing additional 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, and that it does not intend to seek repayment of the amounts due at the balance sheet date, 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)

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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

Any applicable 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
- Land and Buildings (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

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.

Notes (continued)

1 Accounting policies (continued)

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)**1 Accounting policies (continued)****1.13 Prior Year Adjustment**

During the year, it was identified that the deferred tax rate applied to the net defined benefit pension surplus was incorrectly applied at 19%, instead of the 35% rate which is charged on pension surplus refunds. As a consequence of the higher tax rate, there is an increased deferred tax liability in 2019 and earlier years and amounts charged to OCI and to P&L have correspondingly increased. This treatment is consistent with the current financial year ended 31 December 2020 where a rate of 35% has been applied.

An additional prior year adjustment was noted in that rebate arrangements had historically been netted against cost of sales, whereas they should be netted against Revenue. This has no margin impact in either year, but reduces revenue and decreases cost of sales by £378k in 2019.

The impact of these adjustments is identified in note 24.

2 Turnover

Analysis of turnover (gross sales less discounts & rebates) by geographical market is shown below:

| | 2020 | 2019 |
|----------------|---------------|---------------|
| | | As restated |
| | £000 | £000 |
| United Kingdom | 29,169 | 33,795 |
| Spain | 4,004 | 4,428 |
| Hong Kong | 1,281 | 1,035 |
| Eire | 916 | 983 |
| Holland | 882 | 902 |
| Others | <u>911</u> | <u>1,199</u> |
| | <u>37,163</u> | <u>42,342</u> |

3 Expenses and auditor's remuneration

Included in profit/loss are the following:

| | 2020 | 2019 |
|---|-----------|-----------|
| | £000 | £000 |
| Change in impairment of stocks | (177) | 43 |
| Auditors' remuneration: Audit of these financial statements | <u>22</u> | <u>29</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 2020 | Number of employees 2019 |
|----------------------|--------------------------------|--------------------------------|
| Manual workers | 7 | 8 |
| Administration staff | <u>38</u> | <u>38</u> |
| | <u>45</u> | <u>46</u> |

Notes (continued)**4 Staff numbers and costs (continued)**

The aggregate payroll costs of these persons were as follows:

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Wages and salaries | 2,110 | 2,233 |
| Social security costs | 260 | 297 |
| Pension contributions | 169 | 170 |
| Provision for equalisation of GMPs in DB pension schemes | 270 | - |
| | <u>2,809</u> | <u>2,700</u> |

5 Directors' remuneration

| | 2020 £000 | 2019 £000 |
|-----------------------|--------------|--------------|
| Directors' emoluments | 290 | 298 |
| Pension contributions | 50 | 49 |
| | <u>340</u> | <u>347</u> |

The remuneration above relates to four directors (2019: four). The fees for two (2019: two) of these Directors are borne by other group companies. Retirement benefits are accruing to two directors under a defined contribution scheme (2019: two).

6 Interest receivable and similar income

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Net interest income relative to defined benefit pension schemes | 474 | 596 |
| Receivable from group undertakings | 62 | 57 |
| Total interest receivable and similar income | <u>536</u> | <u>653</u> |

7 Taxation

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

| | 2020 | | 2019 As restated | |
|--|-------------|--------------|---------------------|--------------|
| | £000 | £000 | £000 | £000 |
| Current tax | | | | |
| Current tax on income for the period | 562 | | 944 | |
| Adjustments in respect of prior periods | <u>(34)</u> | | <u>18</u> | |
| Total current tax | | 528 | | 962 |
| Deferred tax (see notes 13 and 14) | | | | |
| Origination and reversal of timing differences | (571) | | 349 | |
| Adjustments in respect of prior periods | <u>(6)</u> | | <u>(6)</u> | |
| Total deferred tax | | <u>(577)</u> | | <u>343</u> |
| Total tax expense/(income) | | <u>(49)</u> | | <u>1,305</u> |

Notes (continued)**7 Taxation (continued)****Total tax expense/(income) recognised in the profit and loss account, other comprehensive income, and equity (continued)**

| | 2020 | | | 2019 As restated | | |
|--|------------------------|-------------------------|-------------------|---------------------|-------------------------|-------------------|
| | £000 Current tax | £000 Deferred tax | £000 Total tax | £000 Current tax | £000 Deferred tax | £000 Total tax |
| Recognised in profit and loss account | 528 | 68 | 596 | 962 | 162 | 1,124 |
| Recognised in other comprehensive income | - | (645) | (645) | - | 181 | 181 |
| Total tax expense/(income) | <u>528</u> | <u>(577)</u> | <u>(49)</u> | <u>962</u> | <u>343</u> | <u>1,305</u> |

Reconciliation of effective tax rate

| | 2020 | 2019 As restated |
|--|------------|---------------------|
| | £000 | £000 |
| Profit for the year | 2,589 | 4,268 |
| Total tax expense/(income) | <u>596</u> | <u>1,124</u> |
| Profit excluding taxation | 3,185 | 5,392 |
| Tax using the UK corporation tax rate of 19.00% (2019: 19.00%) | 606 | 1,025 |
| Expenses not deductible for tax purposes | 1 | 2 |
| Difference in prevailing tax-rate and pension surplus tax rate | 27 | 81 |
| Timing differences and rounding on non-deductible provisions | 2 | (2) |
| Adjustment related to prior years | (40) | 18 |
| Total tax expense | <u>596</u> | <u>1,124</u> |

Factors that may affect future current and total tax charges

The current corporate tax rate in 2020 is 19%. A reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The UK Budget Announcement on 11 March 2020 stated that the corporation tax rate reduction to 17% from 1 April 2020 will no longer take place and that the current rate of 19% will remain in force. The UK Budget Announcement on 3 March 2021 stated that the corporation tax rate would increase to 25% (effective 1 April 2023), this increase has not been substantively enacted yet.

The impact of a change of tax rate on the deferred tax balance at 31 December 2020 (excluding pension asset) is:

A change to 25% would increase deferred tax asset by £27k to £111k

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 2020 | 400 | 804 | 1,204 |
| Additions | - | 53 | 53 |
| Disposals | - | (81) | (81) |
| Balance at 31 December 2020 | <u>400</u> | <u>776</u> | <u>1,176</u> |
| <i>Depreciation and impairment</i> | | | |
| Balance at 1 January 2020 | 359 | 731 | 1,090 |
| Depreciation charge for the period | 9 | 26 | 35 |
| Disposals | - | (81) | (81) |
| Balance at 31 December 2020 | <u>368</u> | <u>676</u> | <u>1,044</u> |
| <i>Net book value</i> | | | |
| At 31 December 2020 | <u>32</u> | <u>100</u> | <u>132</u> |
| At 31 December 2019 | <u>41</u> | <u>73</u> | <u>114</u> |

Land and buildings

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

9 Stocks

| | 2020 £000 | 2019 £000 |
|------------------------------------|----------------------|----------------------|
| Raw materials and work in progress | 7 | 6 |
| Finished goods | <u>3,777</u> | <u>5,706</u> |
| | <u>3,784</u> | <u>5,712</u> |

Stock expensed through profit & loss account was £27.6m (2019: £31.5m). Effect of changes of impairment is disclosed in note 3.

10 Debtors

| | 2020 £000 | 2019 £000 |
|------------------------------------|----------------------|----------------------|
| Trade debtors | 6,218 | 6,499 |
| Amounts owed by group undertakings | 14,741 | 11,670 |
| Other debtors | 427 | 504 |
| Corporation tax | 104 | - |
| Deferred tax assets | 84 | 93 |
| Prepayments and accrued income | 146 | 68 |
| Debtors due within one year | <u>21,720</u> | <u>18,834</u> |

Amounts owed by group undertakings are made up of £13.9m (2019: £11.1m) cash pooling and £0.8m (2019: £0.6m) intercompany receivables.

Notes (continued)

10 Debtors (continued)

Intercompany trade debtors of £0.8m (2019: £0.6m) 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

| | 2020 £000 | 2019 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | <u>594</u> | <u>392</u> |

12 Creditors: amounts falling due within one year

| | 2020 £000 | 2019 £000 |
|---------------------------------|---------------|--------------|
| Trade creditors | 1,137 | 1,114 |
| Amounts owed to group companies | 4,779 | 2,633 |
| Taxation and social security | 2,004 | 1,496 |
| Other creditors | 1,464 | 1,461 |
| Accruals and deferred income | 655 | 874 |
| | <u>10,039</u> | <u>7,578</u> |

Intercompany trade creditors of £4.8m (2019: £2.6m) are settled by the end of the 2nd or 3rd month following month of invoice in line with group policy. These are non-interest bearing creditors.

13 Deferred tax assets

Deferred tax assets are attributable to the following:

| | 2020 £000 | 2019 £000 |
|--|--------------|--------------|
| Depreciation in excess of capital allowances | 17 | 14 |
| Other short-term timing differences | 67 | 79 |
| | <u>-</u> | <u>-</u> |
| | <u>84</u> | <u>93</u> |

14 Deferred tax liabilities

| | 2020 £000 | 2019 As restated £000 |
|---|----------------|-----------------------------|
| Deferred tax on defined benefit pension schemes | <u>(6,603)</u> | <u>(7,189)</u> |
| | <u>(6,603)</u> | <u>(7,189)</u> |

The deferred tax liabilities relate to the taxation effect of the recognition of defined benefit pension schemes.

Notes (continued)**15 Provisions**

| | Deferred Tax | Warranty | Other | Total |
|---|--------------|-----------|------------|--------------|
| | As restated | | | As restated |
| | £000 | £000 | £000 | £000 |
| Balance at 1 January 2020 | 7,189 | 119 | 315 | 7,623 |
| Provisions made during year | - | | 103 | 103 |
| Amounts credited to P&L/OCI during year | (586) | - | (101) | (687) |
| Provisions reversed during year | - | (29) | (35) | (64) |
| Balance at 31 December 2020 | <u>6,603</u> | <u>90</u> | <u>282</u> | <u>6,975</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 22 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 cost allocation of the plans is based upon assumptions and calculations as determined in conjunction with the actuary and the participating employer.

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 1 January 2013.

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

Net pension asset

| | 2020 | 2019 |
|----------------------------|----------------|----------------|
| | £000 | £000 |
| Defined benefit obligation | (114,085) | (104,663) |
| Plan assets | <u>132,952</u> | <u>125,203</u> |
| Net pension asset | <u>18,867</u> | <u>20,540</u> |

Movements in present value of defined benefit obligation

| | 2020 | 2019 |
|--|----------------|----------------|
| | £000 | £000 |
| At 1 January | 104,663 | 94,313 |
| Interest expense | 2,150 | 2,691 |
| Benefit payments from plan assets | (4,558) | (3,432) |
| Provision for effect of GMP Equalisation | 270 | - |
| Actuarial losses | <u>11,560</u> | <u>11,091</u> |
| At 31 December | <u>114,085</u> | <u>104,663</u> |

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

| | 2020 £000 | 2019 £000 |
|---|----------------|----------------|
| At 1 January | 125,203 | 113,795 |
| Interest income | 2,624 | 3,287 |
| Employer contributions | 84 | 156 |
| Benefit payments from plan assets | (4,558) | (3,432) |
| Administrative expenses paid from plan assets | (119) | (185) |
| Actuarial gains | 9,718 | 11,582 |
| At 31 December | <u>132,952</u> | <u>125,203</u> |

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

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Staff costs | 270 | - |
| Administration costs | 119 | 185 |
| Interest receivable and similar income | (474) | (596) |
| Total Income recognised in profit or loss | <u>(85)</u> | <u>(411)</u> |
| Total Expense/(Income) recognised in Other comprehensive income | <u>1,842</u> | <u>(492)</u> |

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

| | 2020 Fair value £000 | 2019 Fair value £000 |
|--------------------------------------|----------------------------|----------------------------|
| Equities | 653 | 783 |
| Government debt | 35,144 | 30,455 |
| Corporate bonds | 80,872 | 80,075 |
| Other | 16,283 | 13,890 |
| | <u>132,952</u> | <u>125,203</u> |
| Average annual return on plan assets | +8% | +10% |

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

| | 2020 % | 2019 % |
|--|-----------|-----------|
| Discount rate to determine defined benefit obligations | 1.40% | 2.10% |
| RPI Inflation | 2.90% | 2.90% |
| CPI Inflation | 2.40% | 2.40% |
| Salary inflation | 3.40% | 3.40% |
| Pensions in payment increase rate | 2.80% | 2.75% |

The assumptions for increases in pensions in payment range from 1.8% to 3.5% (2019: 1.75% to 3.5%) 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 2020 by a qualified independent actuary.

In valuing the liabilities of the pension fund at 31 December 2020 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:

A material change to assumptions relative to the prior year, is a significant fall in the discount rate by 0.7% (reflecting lower corporate bond yields), which increases the value of the pension obligations.

Sensitivity analysis:

The impact of reducing the discount rate by 0.5% will result in an increase in the pension obligation of £8,865,000.

The impact of increasing the discount rate by 0.5% will result in a decrease in the pension obligation of £7,918,000.

The impact of reducing the salary increase rate by 0.5% will result in a decrease in the pension obligation of £326,000.

The impact of increasing the salary increase rate by 0.5% will result in an increase in the pension obligation of £332,000.

The impact of reducing the pension-in-payment rate by 0.5% will result in a decrease in the pension obligation of £3,235,000.

The impact of increasing the pension-in-payment rate by 0.5% will result in an increase in the pension obligation of £3,562,000.

Defined contribution plan

The Company operates a defined contribution pension plan. The total expense relating to this plan in the current year was £169,000 (2019: £170,000)

17 Capital and reserves

| Share capital | Ordinary shares 2020 £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.

Notes (continued)**18 Operating leases**

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

| | 2020 £000 | 2019 £000 |
|----------------------------|--------------|--------------|
| Less than one year | 384 | 352 |
| Between one and five years | 910 | 1,026 |
| More than five years | 40 | - |
| | <u>1,334</u> | <u>1,378</u> |

During the year £411,000 (2019: £372,000) 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 (2019: £nil).

20 Contingent liability

The Company has contingent liabilities in respect of bank guarantees to HM Revenue & Customs of £200,000 (2019: £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.

22 Accounting estimates and judgements**Key sources of estimation uncertainty****Pensions**

The Company is principal 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 | |
|-----------------------------|--------------|--------------|---------------------------|--------------|-----------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| KB Media | - | - | - | - | (5) | (2) |
| KB IT Services | - | - | - | - | (292) | (277) |
| KB Rail UK | 12 | 16 | - | - | - | - |
| Bendix (US) | 36 | 18 | (141) | (149) | - | - |
| KB Brazil | - | - | (1) | - | - | - |
| KB South Africa | - | 3 | - | - | - | - |
| KB Australia | - | - | (1) | - | - | - |
| KB Hong Kong | 1,281 | 1,035 | - | - | - | - |
| Bendix Spicer (US) | - | - | (655) | (508) | - | - |
| KB Business Services | - | - | - | - | (36) | (35) |
| KB CAFF | - | - | (25) | (27) | - | - |
| | 1,329 | 1,072 | (823) | (684) | (333) | (314) |

| | Receivables outstanding | | Creditors outstanding | |
|-----------------------------|--------------------------------|-------------|------------------------------|--------------|
| | 2020 | 2019 | 2020 | 2019 |
| | £000 | £000 | £000 | £000 |
| KB IT Services | - | - | (19) | (44) |
| KB Rail UK | 226 | - | - | (2) |
| Bendix (US) | 11 | - | (6) | (31) |
| KB Hong Kong | 372 | 344 | - | - |
| KB Business Services | - | - | (6) | (6) |
| Bendix Spicer (US) | - | - | (94) | (97) |
| CAFF | - | - | (13) | (3) |
| | 609 | 344 | (138) | (183) |

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 Prior Year Adjustment**

As stated in the Strategic Report, the directors concluded that the rate of 'Pension Surplus Tax' at 35% should have been used to calculate the deferred tax liability owing against the Defined Benefit Pension Scheme surplus. This was previously calculated at the prevailing corporation tax rate.

An additional prior year adjustment was noted regarding sales rebate arrangements. Sales rebates were recognised as part of cost of sales instead of netting off revenue. This has no profit effect in either year, but reduces revenue and decreases cost of sales by £378k in 2019.

In preparing this Annual Report, the company has adjusted amounts reported previously in financial statements for 2019 as set out in the following tables (*note: no Balance Sheet effect of adjustment to rebates*):

| Balance Sheet | 1st January 2019 | | | 31st December 2019 | | |
|--------------------------------------|------------------------------------|-------------------------------------|--------------------|--------------------------------------|-------------------------------------|--------------------|
| | As Reported | Effect of change in tax rate | As Restated | As Reported | Effect of change in tax rate | As Restated |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fixed Assets | 116 | - | 116 | 114 | - | 114 |
| Defined benefit pension scheme asset | 19,482 | - | 19,482 | 20,540 | - | 20,540 |
| Stock | 4,310 | - | 4,310 | 5,712 | - | 5,712 |
| Debtors | 21,290 | - | 21,290 | 18,741 | - | 18,741 |
| Cash at bank | 317 | - | 317 | 392 | - | 392 |
| Creditors: amounts due < 1 year | (8,982) | - | (8,982) | (7,578) | - | (7,578) |
| Provisions for liabilities | (4,003) | (3,117) | (7,120) | (4,243) | (3,287) | (7,530) |
| Net Assets | 32,530 | (3,117) | 29,413 | 33,678 | (3,287) | 30,391 |
| Share capital | 5,890 | - | 5,890 | 5,890 | - | 5,890 |
| Share premium | 5,830 | - | 5,830 | 5,830 | - | 5,830 |
| Profit & Loss account | 20,810 | (3,117) | 17,693 | 21,958 | (3,287) | 18,671 |
| Equity shareholders' fund | 32,530 | (3,117) | 29,413 | 33,678 | (3,287) | 30,391 |

| Profit & Loss account for year ended 31 December 2019 | | | | As Reported | Effect of change in rebates | Effect of change in tax rate | As Restated |
|--|--|--|--|--------------------|------------------------------------|-------------------------------------|--------------------|
| | | | | £000 | £000 | £000 | £000 |
| Turnover | | | | 42,720 | (378) | - | 42,342 |
| Cost of sales | | | | (33,299) | 378 | - | (32,921) |
| Distribution costs | | | | (162) | - | - | (162) |
| Administrative expenses | | | | (4,520) | - | - | (4,520) |
| Other interest & similar income | | | | 653 | - | - | 653 |
| Profit on ordinary activities before taxation | | | | 5,392 | - | - | 5,392 |
| Tax on profit on ordinary activities | | | | (1,043) | - | (81) | (1,124) |
| Profit for the financial year | | | | 4,349 | - | (81) | 4,268 |
| Other comprehensive income | | | | | | | |
| Remeasurement of the net defined benefit asset | | | | 492 | - | - | 492 |
| Income tax on other comprehensive income | | | | (93) | - | (88) | (181) |
| Other comprehensive for the year net of tax | | | | 399 | - | (88) | 311 |
| Total comprehensive income for the year | | | | 4,748 | - | (169) | 4,579 |

Note: Effect of change in tax rate has small differences due to rounding