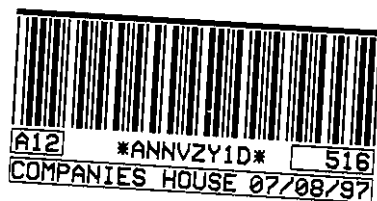


Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report and financial statements
31 December 1996

Registered number 529247



Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report and financial statements

<i>Contents</i>	<i>Page</i>
Directors' report	1
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Notes	9 - 19

Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

Principal activities

The company's principal activity remains the manufacture and marketing of commercial vehicle braking equipment for the worldwide markets.

Business review

The results for the year are detailed in the attached financial statements but in summary show a decline in profit before tax of £1,552,000 to £3,044,000, reflecting the reduction in turnover of some 8% to £51,075,000 and high reorganisation costs. Markets for the company's products, particularly in the UK and Europe, weakened through 1996 and were also affected by new legislation. Return on Sales (ROS) declined from 8.3% to 6.0%, however, excluding the change in reorganisation costs ROS in fact remained stable at 8.3% reflecting the continued flexibility and efficiency of all within the organisation.

Average employees numbers fell some 13.5% from 731 to 632 over this period in reaction to lower volumes and efficiency gains.

Profit after taxation amounted to £2,250,000 and was appropriated as noted below.

Dividends

An interim dividend of £3,000,000 was paid during November 1996. A final dividend has not been paid due to the reduced level of profitability.

Market value of land and buildings

In the opinion of the directors, the market value of the company's land and buildings is not materially different from the book value recognised in the accounts in their present use.

Directors and directors' interests

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

MJ Field
HJ Koch (Germany) - resigned 31 December 1996
E Liesenfeld (Germany)
M Smith
D Zaps (Germany) - resigned 31 December 1996

Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report *(continued)*

Directors and directors' interests *(continued)*

On 13 May 1997, O Flach (Germany) was appointed as a director.

None of the directors who held office at the end of the financial year had any interests in the shares of the company or any other group companies located in the United Kingdom at any time during the year.

Employees

It is the company's policy to involve employees fully in its plans for the future and to keep them regularly acquainted with the operating position of the business. In order to achieve this goal regular meetings are held with the leadership and union groups to provide information and opportunity for questions. This information is cascaded throughout the organisation.

The company's policy in relation to the employment of disabled persons is:

- a) In its employee recruitment practices, full consideration is given to job applications received from disabled persons. Candidates are selected and appointed on the basis of their ability to perform the duties of the job. Where disabled persons have the aptitudes and abilities necessary for the job, sympathetic consideration is given to their applications. Where necessary, and where possible, special training arrangements are made to facilitate the engagement and induction of selected disabled applicants.
- b) Where an employee becomes disabled whilst employed by the company, arrangements are made, wherever possible, either to transfer the person to suitable alternative employment or to retrain them in order to enable them to perform a job identified as appropriate to their aptitudes and abilities.
- c) Encouragement is given in the training, career development, and promotion of all employees according to opportunities available, organisational requirements, and individual aptitudes and abilities. This policy includes disabled employees for whom any further necessary training is arranged taking into account their particular needs.

Political and charitable contributions

The company made no political contributions during the year (1995 - *£nil*). Donations to UK charities amounted to £4,226 (1995 - £3,039).

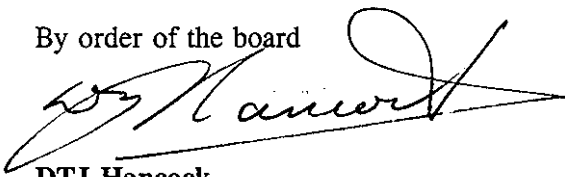
Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report *(continued)*

Auditors

KPMG have continued to act as auditors to the company and, pursuant to a shareholders resolution, the company is not obliged to reappoint its auditors annually and KPMG will therefore continue in office.

By order of the board

A handwritten signature in black ink, appearing to read 'DTJ Hancock', written over a horizontal line.

DTJ Hancock
Secretary

Douglas Road
Kingswood
Bristol BS15 2NL

Knorr-Bremse Systems for Commercial Vehicles Limited

Statement of directors' responsibilities

Company law requires that the directors prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which 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 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Richmond Park House
15 Pembroke Road
Clifton
Bristol BS8 3BG

Report of the auditors to the members of Knorr-Bremse Systems for Commercial Vehicles Limited

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.


Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Chartered Accountants
Registered Auditors



Knorr-Bremse Systems for Commercial Vehicles Limited

Profit and loss account

for the year ended 31 December 1996

	Note	Continuing operations 1996 £000	Continuing operations 1995 £000
Turnover	2	51,075	55,402
Cost of sales		(37,152)	(42,122)
Gross profit		13,923	13,280
Distribution costs		(809)	(926)
Administrative expenses		(9,737)	(7,862)
Other operating income		121	315
Trading profit on continuing activities		3,498	4,807
Interest receivable		118	273
Interest payable	6	(572)	(484)
Profit on ordinary activities before taxation	3-5	3,044	4,596
Tax on profit on ordinary activities	7	(794)	(1,370)
Profit for the financial period		2,250	3,226
Retained profit brought forward		1,026	738
Dividend paid	8	(3,000)	(2,200)
Capital redemption		-	(738)
Retained profit carried forward		276	1,026

There were no recognised gains and losses other than those included in the above profit and loss account.

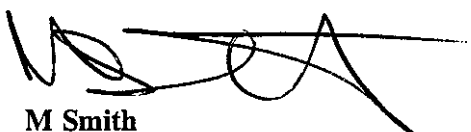
There is no difference between the profit on ordinary activities for the year as disclosed in the profit and loss account and the results on an unmodified cost basis.

Knorr-Bremse Systems for Commercial Vehicles Limited

Balance sheet at 31 December 1996

	Note	1996		1995	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		9,913		10,772
Investment	10		97		97
			<u> </u>		<u> </u>
			10,010		10,869
Current assets					
Stocks	11	5,144		5,634	
Debtors	12	9,628		9,868	
Cash at bank and in hand		35		362	
		<u> </u>		<u> </u>	
		14,807		15,864	
Creditors: amounts falling due within one year	13	(18,321)		(18,960)	
		<u> </u>		<u> </u>	
Net current assets			(3,514)		(3,096)
			<u> </u>		<u> </u>
Total assets less current liabilities			6,496		7,773
Provisions for liabilities and charges	14		-		(527)
			<u> </u>		<u> </u>
Net assets			6,496		7,246
			<u> </u>		<u> </u>
Capital and reserves					
Called up share capital	15		390		390
Share premium account			5,830		5,830
Profit and loss account			276		1,026
			<u> </u>		<u> </u>
Equity shareholders' funds			6,496		7,246
			<u> </u>		<u> </u>

These financial statements were approved by the board of directors on 15th July 1997 and were signed on its behalf by:


M Smith
Director

Knorr-Bremse Systems for Commercial Vehicles Limited

Cash flow statement

for the year ended 31 December 1996

	Note	1996		1995	
		£000	£000	£000	£000
Net cash inflow from operating activities	20		2,162		12,201
Returns on investments and servicing of finance					
Interest received		118		273	
Interest paid		(580)		(466)	
Dividends paid		(3,000)		(2,200)	
Net cash inflow from returns on investments and servicing of finance			(3,462)		(2,393)
Taxation					
Corporation tax paid (including advance corporation tax)		(1,465)		(1,106)	
Tax repayment		108		-	
Tax paid			(1,357)		(1,106)
Investing activities					
Purchase of tangible fixed assets		(1,310)		(1,500)	
Proceeds from sale of tangible assets		140		5	
Net cash outflow from investing activities			(1,170)		(1,495)
Net cash inflow before financing			(3,827)		7,207
Financing					
Repurchase of ordinary share capital		-		(13,000)	
Net cash outflow from financing			-		(13,000)
Decrease in cash and cash equivalents	21		(3,827)		(5,793)

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	30 to 40 years
Plant and machinery	-	3 to 15 years
Fixtures, fittings, tools and equipment	-	5 to 10 years

No depreciation is provided on freehold land.

Leases

Rental charges under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Pension costs

The company operates contributory and non-contributory pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company, being invested in trustee administered funds. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Research and development expenditure

Expenditure on research and development is written off against profits in the period in which it is incurred.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the latest purchase price is used. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

2 Analysis of turnover by geographical market

	1996 £000	1995 £000
United Kingdom	28,060	28,542
Overseas	23,015	26,860
	<hr/>	<hr/>
	51,075	55,402
	<hr/>	<hr/>

All of the turnover was derived from the company's principal activity, which is carried out wholly within the United Kingdom.

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

3 Profit on ordinary activities before taxation

	1996 £000	1995 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	25	25
Other services	13	34
Depreciation and other amounts written off fixed assets:		
Tangible assets	2,074	2,071
Hire of plant and machinery - rentals payable under operating leases	-	153
Hire of other assets - operating leases	535	413
Exceptional items charged to administrative expenses:		
Reorganisation costs	1,606	393

4 Remuneration of directors

	1996 £000	1995 £000
Directors' emoluments:		
Remuneration as executives	164	136

The company had no chairman during the period. The emoluments, excluding pension contributions, of the highest paid director were £85,941 (1995: £78,242).

The emoluments, excluding pension contributions, of the directors (including the highest paid director) were within the following ranges:

		Number of directors	
		1996	1995
£0	- £ 5,000	3	4
£5,001	- £10,000	-	1
£45,001	- £50,000	-	1
£55,001	- £60,000	1	-
£75,001	- £80,000	-	1
£85,001	- £90,000	1	-

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	1996	1995
Hourly - paid	464	519
Staff	168	212
	<u>632</u>	<u>731</u>

The aggregate payroll costs of these persons were as follows:

	1996 £000	1995 £000
Wages and salaries	11,053	12,390
Social security costs	887	997
Other pension costs	290	458
	<u>12,230</u>	<u>13,845</u>

6 Interest payable

	1996 £000	1995 £000
On bank loans and other loans wholly repayable within five years	<u>572</u>	<u>484</u>

Of the above amount, £70,000 (1995: £363,000) was payable to group undertakings

7 Taxation

	1996 £000	1995 £000
Based on the profit for the year:		
UK corporation tax at 33% (1995: 33%)	1,397	1,663
Adjustment relating to an earlier year	(76)	(99)
Deferred tax credit	(527)	(194)
	<u>794</u>	<u>1,370</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

8 Dividends

	1996 £000	1995 £000
Interim dividend paid	<u>3,000</u>	<u>2,200</u>

9 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures fittings tools and equipment £000	Total £000
Cost				
At beginning of year	4,428	21,759	4,636	30,823
Additions	61	629	620	1,310
Disposals	-	(1,046)	(2,144)	(3,190)
	<u>4,489</u>	<u>21,342</u>	<u>3,112</u>	<u>28,943</u>
At end of year				
Depreciation				
At beginning of year	1,324	15,472	3,255	20,051
Charged in year	104	1,140	830	2,074
Disposals	-	(957)	(2,138)	(3,095)
	<u>1,428</u>	<u>15,655</u>	<u>1,947</u>	<u>19,030</u>
At end of year				
Net book value				
At 31 December 1996	<u>3,061</u>	<u>5,687</u>	<u>1,165</u>	<u>9,913</u>
At 31 December 1995	<u>3,104</u>	<u>6,287</u>	<u>1,381</u>	<u>10,772</u>

Included in freehold land and buildings are depreciable buildings of £3,595,000 (1995: £3,535,000).

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

10 Fixed asset investment

The investment represents 100% of the share capital of Knorr-Bremse (UK) Limited, which is incorporated in the United Kingdom and registered in England and Wales. This investment was acquired on 31 October 1994 by the issue of 97,150 'A' ordinary shares of £1 each at par. On the same date the business assets and liabilities of Knorr-Bremse (UK) Limited were transferred to the company at book value.

Knorr-Bremse (UK) Limited has been dormant since acquisition and had net assets of £206,831 at 31 December 1996 consisting of amounts owed by Knorr-Bremse Systems for Commercial Vehicles Limited. Because this subsidiary is dormant and its balance sheet amounts are immaterial, the directors have not prepared group accounts as permitted by the Companies Act 1985 and accounting standards.

11 Stocks

	1996 £000	1995 £000
Raw materials and work in progress	2,589	2,913
Finished goods and goods for resale	2,555	2,721
	<u>5,144</u>	<u>5,634</u>

12 Debtors

	1996 Due within one year £000	1995 Due within one year £000
Trade debtors	7,765	7,692
Amounts owed by parent and fellow subsidiary undertakings	1,310	1,706
Income tax recoverable	-	32
Other debtors	272	238
Prepayments and accrued income	281	200
	<u>9,628</u>	<u>9,868</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

13 Creditors: amounts falling due within one year

	1996 £000	1995 £000
Bank loans	7,000	3,500
Trade creditors	3,446	3,657
Bill of exchange in favour of parent undertakings	562	1,798
Amounts owed to parent and fellow subsidiary undertakings	1,460	4,567
Amounts owed to subsidiary undertakings	207	207
Corporation Tax	1,389	1,457
Other tax and social security	483	560
Other creditors	1,989	1,789
Accruals and deferred income	1,785	1,425
	<u>18,321</u>	<u>18,960</u>

14 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	527
Profit and loss account	(527)
	<u>-</u>
At end of year	-

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1996		1995	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	830	-	897	-
Other timing differences	(830)	-	(370)	-
	<u>-</u>	<u>-</u>	<u>527</u>	<u>-</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

15 Called up share capital

	1996	1995
	£000	£000
<i>Authorised</i>		
Ordinary shares of £1 each	1,000	1,000
Ordinary 'A' shares of £1 each	97	97
	<u>1,097</u>	<u>1,097</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	293	293
Ordinary 'A' shares of £1 each	97	97
	<u>390</u>	<u>390</u>

16 Reconciliation of movements in equity shareholders' funds

	1996	1995
	£000	£000
Opening equity shareholders' funds	7,246	19,220
Profit for the financial period	2,250	3,226
Re-purchase of shares	-	(13,000)
Dividends	(3,000)	(2,200)
	<u>6,496</u>	<u>7,246</u>
Closing equity shareholders' funds		

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

17 Contingent liabilities

The company has contingent liabilities in respect of guarantees to HM Customs & Excise of £100,000 (1995 : £100,000).

18 Commitments

- (i) Capital commitments at the end of the financial year for which no provision has been made:

	1996 £000	1995 £000
Contracted	53	260
Authorised but not contracted	175	368
	<u>228</u>	<u>628</u>

- (ii) In addition to the commitments set out in (i), at the end of the financial year the company had entered into commitments amounting to £254,000 in respect of computer services for 1997.

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

	1996		1995	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	17	75	-	111
In the second to fifth years inclusive	-	252	23	242
Over five years	-	5	-	37
	<u>17</u>	<u>332</u>	<u>23</u>	<u>390</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

19 Pension schemes

As explained in the accounting policies set out on page 9, the company operates funded contributory and non-contributory pension schemes providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 June 1995. The assumptions which have the most significant effect on the results of the valuation are set out below:

Rate of return on investments	9% per annum
Rate of pensionable salary increases	7% per annum
Rate of increase of present and future pensions	By RPI up to a max of 5%
Rate of dividend growth for equities	4.5% per annum

The pension charge for the year of £235,000 (1995 : £447,000) takes into account the amortisation of experience surpluses that are being recognised over 13 years, the average remaining service lives of employees. The amount of the provision at the end of the year included in other creditors was £1,563,000 (1995: £1,328,000).

The most recent actuarial valuation showed that the market value of the scheme's assets was £30,871,000 and that the actuarial value of those assets represented 108% of the benefits that had accrued to members, after allowing for expected future increases in earnings. In order to provide the annual pension increases as introduced in the Pensions Act 1995, the trustees have approved a joint increase in both employer and employee contribution rates, commencing 1 January 1997, of 7.1% and 5% of earnings respectively.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

20 Reconciliation of operating profit to net cash inflow from operating activities

	1996 £000	1995 £000
Operating profit	3,498	4,807
Depreciation charges	2,074	2,071
Profit on sale of tangible fixed assets	(45)	(4)
Decrease/(increase) in stocks	490	(598)
Increase in debtors	(188)	(985)
Increase/(decrease) in creditors	280	(1,273)
(Increase)/decrease in net amounts due from group undertakings	(3,947)	8,183
Net cash inflow from operating activities	<u>2,162</u>	<u>12,201</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

21 Analysis of changes in cash and cash equivalents during the year

	1996 £000	1995 £000
Balance at beginning of period	(3,138)	2,655
Net cash outflow	(3,827)	(5,793)
Balance at end of period	<u>(6,965)</u>	<u>(3,138)</u>

22 Analysis of the balance of cash and cash equivalents as shown in the balance sheet

	1996 £000	1995 £000	Change in year £000
Cash at bank and in hand	35	362	(327)
Bank overdrafts	(7,000)	(3,500)	(3,500)
Balance at end of period	<u>(6,965)</u>	<u>(3,138)</u>	<u>(3,827)</u>

23 Related party disclosures

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

Under FRS8 the company is exempt from the requirement to disclose transactions with other group undertakings and investors of the group qualifying as related parties of the group, as it is a wholly owned subsidiary undertaking of Knorr-Bremse Systeme für Nutzfahrzeuge GmbH.

24 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Knorr-Bremse Systeme für Nutzfahrzeuge GmbH, which is incorporated and registered in Germany.

The largest and smallest group in which the results of the company are consolidated is that headed by Knorr-Bremse AG, incorporated and registered in Germany. The consolidated accounts of this group are available to the public and may be obtained from Amtsgericht München, Registergericht, Postfach, 80097, Munich, Germany.