

**Knorr-Bremse Systems for
Commercial Vehicles Limited**
(formerly Bendix HVCG Europe Limited)

Directors' report and financial statements
31 December 1995

Registered number 529247



Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report and financial statements

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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 1995.

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 given in the attached financial statements but in summary show an increase in profit before taxation of £1,665,000 to £4,596,000 on an increase in turnover of £7,354,000 to £55,402,000. The increase in turnover has been achieved by supporting an increasing market of both OEM and after-market business by increased flexibility and customer focus by all in the organisation.

Profits after taxation amount to £3,226,000 which have been appropriated as noted below. Overall, average employee numbers fell by 33 to 731 during the period, despite the higher sales volumes.

Equity restructuring

On 10 April 1995 the company repurchased 707,104 ordinary shares out of reserves and capital for a consideration of £13,000,000 of which £738,000 represented distribution of reserves brought forward from 1994.

Dividends

Apart from the equity restructuring, a dividend of £2,200,000 was paid to the shareholders in October 1995 as an interim dividend. No final dividend is recommended by the directors.

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.

Directors and directors' interests

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

DTJ Hancock (resigned 23 February 1995)
E Werner (Germany) (resigned 23 February 1995)
HJ Koch (Germany)
E Liesenfeld (Germany)
M Smith
MJ Field
D Zaps (Germany) (appointed 23 February 1995)

Knorr-Bremse Systems for Commercial Vehicles Limited

Directors' report *(continued)*

Directors and directors' interests *(continued)*

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 all employees informing them of the achievements and direction of the company giving the opportunity for any questions to be asked.

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 (1994 - *£nil*). Donations to UK charities amounted to £3,039 (1994 - £3,454).

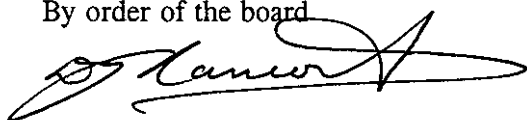
Knorr-Bremse Systems for Commercial Vehicles Limited

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

3 July 1996

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 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'W. M. M.', written over a horizontal line.

KPMG
Chartered Accountants
Registered Auditors

3 July 1996

Knorr-Bremse Systems for Commercial Vehicles Limited

Profit and loss account

for the year ended 31 December 1995

	Note	1995 £000	1994 £000
Turnover	2	55,402	48,048
Cost of sales		(42,122)	(37,656)
Gross profit		13,280	10,392
Distribution costs		(926)	(849)
Administrative expenses		(7,862)	(7,085)
Other operating income		315	304
Trading profit on continuing activities		4,807	2,762
Interest receivable		273	169
Interest payable	6	(484)	-
Profit on ordinary activities before taxation	3-5	4,596	2,931
Tax on profit on ordinary activities	7	(1,370)	(955)
Profit for the financial period		3,226	1,976
Retained profit/(deficit) brought forward		738	(1,238)
Dividend paid	8	(2,200)	-
Capital redemption		(738)	-
Retained profit carried forward		1,026	738

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

A statement of movements on reserves is given in note 16.

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 1995

	Note	1995		1994	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		10,772		11,344
Investment	10		97		97
			<u>10,869</u>		<u>11,441</u>
Current assets					
Stocks	11	5,634		5,036	
Debtors	12	9,868		14,472	
Cash at bank and in hand		362		2,655	
		<u>15,864</u>		<u>22,163</u>	
Creditors: amounts falling due within one year	13	<u>(18,960)</u>		<u>(13,663)</u>	
Net current assets			<u>(3,096)</u>		<u>8,500</u>
Total assets less current liabilities			<u>7,773</u>		<u>19,941</u>
Provisions for liabilities and charges	14		<u>(527)</u>		<u>(721)</u>
Net assets			<u>7,246</u>		<u>19,220</u>
Capital and reserves					
Called up share capital	15		390		1,097
Share premium account	16		5,830		17,385
Profit and loss account			1,026		738
Equity shareholders' funds			<u>7,246</u>		<u>19,220</u>

These financial statements were approved by the board of directors on 3 July 1996 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 1995

	Note	1995 £000	1994 £000
Net cash inflow from operating activities	21	12,201	1,094
Returns on investments and servicing of finance			
Interest received		273	169
Interest paid		(466)	-
Dividends paid		(2,200)	-
		<u> </u>	<u> </u>
Net cash inflow from returns on investments and servicing of finance		(2,393)	169
Taxation			
Corporation tax paid (including advance corporation tax)		(1,119)	-
Income tax on royalties received		13	(34)
		<u> </u>	<u> </u>
Tax paid		(1,106)	(34)
Investing activities			
Purchase of tangible fixed assets		(1,500)	(1,538)
Acquisition of investment		-	(97)
Proceeds from sale of tangible assets		5	134
		<u> </u>	<u> </u>
Net cash outflow from investing activities		(1,495)	(1,501)
Net cash inflow/(outflow) before financing		7,207	(272)
Financing			
Issue of ordinary share capital (including premium)		-	97
Repurchase of ordinary share capital		(13,000)	-
		<u> </u>	<u> </u>
Net cash inflow/(outflow) from financing		(13,000)	97
Decrease in cash and cash equivalents	22	<u>(5,793)</u>	<u>(175)</u>

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 20 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

	1995 £000	1994 £000
United Kingdom	28,542	22,475
Overseas	26,860	25,573
	<hr/>	<hr/>
	55,402	48,048
	<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

	1995 £000	1994 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	25	24
Other services	34	11
Depreciation and other amounts written off fixed assets:		
Tangible assets	2,071	2,187
Intangible assets	-	19
Hire of plant and machinery - rentals payable under operating leases	153	412
Hire of other assets - operating leases	413	509
Exceptional items charged to administrative expenses:		
Reorganisation costs	393	484

4 Remuneration of directors

	1995 £000	1994 £000
Directors' emoluments:		
Remuneration as executives	136	64

The company had no chairman during the period. The emoluments, excluding pension contributions, of the highest paid director were £78,242 (1994 : £31,512).

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

	Number of directors	
	1995	1994
£0 - £ 5,000	4	5
£5,001 - £10,000	1	-
£10,001 - £15,000	-	1
£15,001 - £20,000	-	1
£30,001 - £35,000	-	1
£45,001 - £50,000	1	-
£75,001 - £80,000	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	
	1995	1994
Hourly - paid	519	527
Staff	212	237
	<hr/>	<hr/>
	731	764
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1995	1994
	£000	£000
Wages and salaries	12,390	12,403
Social security costs	997	1,005
Other pension costs (see note 19)	458	453
	<hr/>	<hr/>
	13,845	13,861
	<hr/>	<hr/>

6 Interest payable

	1995	1994
	£000	£000
On bank loans and other loans wholly repayable within five years	484	-

Of the above amount, £363,000 was payable to group undertakings

7 Taxation

	1995	1994
	£000	£000
Based on the profit for the year:		
UK corporation tax at 33%	1,663	971
Adjustment relating to an earlier year	(99)	(16)
Deferred tax credit	(194)	-
	<hr/>	<hr/>
	1,370	955
	<hr/>	<hr/>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

8 Dividends

	1995 £000	1994 £000
Interim dividend paid	<u>2,200</u>	<u>-</u>

9 Tangible fixed assets

	Freehold land and buildings	Plant and machinery	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000
Cost				
At beginning of year	4,402	21,179	3,948	29,529
Additions	26	752	722	1,500
Disposals	-	(172)	(34)	(206)
	<u>4,428</u>	<u>21,759</u>	<u>4,636</u>	<u>30,823</u>
At end of year	<u>4,428</u>	<u>21,759</u>	<u>4,636</u>	<u>30,823</u>
Depreciation				
At beginning of year	1,234	14,641	2,310	18,185
Charged in year	90	1,002	979	2,071
Disposals	-	(171)	(34)	(205)
	<u>1,324</u>	<u>15,472</u>	<u>3,255</u>	<u>20,051</u>
At end of year	<u>1,324</u>	<u>15,472</u>	<u>3,255</u>	<u>20,051</u>
Net book value				
At 31 December 1995	<u>3,104</u>	<u>6,287</u>	<u>1,381</u>	<u>10,772</u>
At 31 December 1994	<u>3,168</u>	<u>6,538</u>	<u>1,638</u>	<u>11,344</u>

Included in freehold land and buildings are depreciable buildings of £3,535,000 (1994: £3,508,000).

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 1995 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

	1995 £000	1994 £000
Raw materials and work in progress	2,913	2,942
Finished goods and goods for resale	2,721	2,094
	<u>5,634</u>	<u>5,036</u>

In the opinion of the directors there is no material difference between the replacement cost of stocks and their balance sheet amounts.

12 Debtors

	1995 Due within one year £000	1994 Due within one year £000
Trade debtors	7,692	6,673
Amounts owed by parent and fellow subsidiary undertakings	1,706	7,282
Income tax recoverable	32	45
Other debtors	238	183
Prepayments and accrued income	200	289
	<u>9,868</u>	<u>14,472</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

13 Creditors: amounts falling due within one year

	1995 £000	1994 £000
Bank loans	3,500	-
Trade creditors	3,657	4,855
Bill of exchange in favour of parent undertakings	1,798	-
Amounts owed to parent and fellow subsidiary undertakings	4,567	3,750
Amounts owed to subsidiary undertakings	207	215
Corporation Tax	1,457	1,012
Other tax and social security	560	359
Other creditors	1,789	1,256
Accruals and deferred income	1,425	2,216
	<u>18,960</u>	<u>13,663</u>

14 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	721
Charge for the year in the profit and loss account	(194)
At end of year	<u>527</u>

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

	1995		1994	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	897	-	985	-
Other timing differences	(370)	-	(264)	-
	<u>527</u>	<u>-</u>	<u>721</u>	<u>-</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

15 Called up share capital

	1995 £000	1994 £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	1,000
Ordinary 'A' shares of £1 each	97	97
	<u>390</u>	<u>1,097</u>

On 23 February 1995 the company resolved to purchase 707,174 of its own ordinary shares out of accumulated reserves and capital. The purchase price of £12,999,966 was paid on 10 April 1995, 707,174 ordinary shares being cancelled.

16 Reserves

	Share premium account £000	Profit or loss £000
At beginning of year	17,385	738
Capital redemption	(11,555)	(738)
Retained profit for the year	-	1,026
	<u>5,830</u>	<u>1,026</u>
At end of year		

17 Reconciliation of movements in equity shareholders' funds

	1995 £000	1994 £000
Opening equity shareholders' funds	19,220	17,147
Profit for the financial period	3,226	1,976
Issue/(re-purchase) of shares	(13,000)	97
Dividends	(2,200)	-
	<u>7,246</u>	<u>19,220</u>
Closing equity shareholders' funds		

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

18 Contingent liabilities

The company has contingent liabilities in respect of guarantees to HM Customs & Excise of £100,000 (1994 : £100,000).

19 Commitments

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

	1995 £000	1994 £000
Contracted	260	34
Authorised but not contracted	368	59
	<u>628</u>	<u>93</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 £242,000 in respect of computer services for 1996.

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

	1995		1994	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	111	-	313
In the second to fifth years inclusive	23	242	23	324
Over five years	-	37	-	-
	<u>23</u>	<u>390</u>	<u>23</u>	<u>637</u>

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

20 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 January 1993. 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	Nil other than required by legislation
Rate of dividend growth for equities	4.5% per annum

The pension charge for the year of £447,000 (1994 : £453,000) takes into account the amortisation of experience surpluses that are being recognised over 18 years, the average remaining service lives of employees. The amount of the provision at the end of the year included in other creditors was £1,328,000 (1994: £881,000).

The most recent actuarial valuation showed that the market value of the scheme's assets was £32,356,000 and that the actuarial value of those assets represented 112% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at nil% and 4% of earnings respectively.

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

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

	1995 £000	1994 £000
Operating profit	4,807	2,762
Depreciation charges	2,071	2,206
Profit on sale of tangible fixed assets	(4)	(47)
Increase in stocks	(598)	(576)
(Increase)/decrease in debtors	(985)	324
Increase/(decrease) in creditors	(1,273)	392
(Increase)/decrease in net amounts due from group undertakings	8,183	(3,967)
Net cash inflow from operating activities	12,201	1,094

Knorr-Bremse Systems for Commercial Vehicles Limited

Notes (continued)

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

	1995 £000	1994 £000
Balance at beginning of period	2,655	2,639
Net cash outflow	(5,793)	(175)
Cash received with acquisition	-	191
	<hr/>	<hr/>
Balance at end of period	(3,138)	2,655
	<hr/>	<hr/>

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

	1995 £000	1994 £000	Change in year £000
Cash at bank and in hand	362	2,655	(2,293)
Bank overdrafts	(3,500)	-	(3,500)
	<hr/>	<hr/>	<hr/>
Balance at end of period	(3,138)	2,655	(5,793)
	<hr/>	<hr/>	<hr/>

24 Analysis of changes in financing during the year

	Share capital (including premium) £000
Balance at 1 January 1995	18,482
Redemption of share capital	(12,262)
	<hr/>
Balance at 31 December 1995	6,220
	<hr/>

25 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 Amstgericht München, Registergericht, Postfach, 80097, Munich, Germany.