

Westinghouse Brakes (UK) Limited

**Directors' report and financial
statements**

Registered number 3974921

31 December 2000



Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the auditors to the members of Westinghouse Brakes (UK) Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Directors' report

The directors present their annual report and the audited financial statements for the 8 month and 16 day period ended 31 December 2000.

Principal activities

The company's principal activity during the period was that of the design and manufacture of braking systems and related products for rail vehicles and the design, manufacture, and installation of platform screen doors for railway applications.

Business review

Background:

The company was incorporated on 12 April 2000 as Knorr-Bremse Management (UK) Ltd and on 14 April 2000 purchased the trade, assets, trademarks, and patents from Westinghouse Brakes, a division of Westinghouse Brake and Signal Holdings Limited within Invensys PLC. The company subsequently changed its name to Knorr-Bremse Westinghouse Brakes (UK) Limited on 2 May 2000, and then to Westinghouse Brakes (UK) Ltd on 30 October 2000.

The company operates on its former site under long-term leasing arrangements with the landlord Westinghouse Brake and Signal Holdings Ltd.

Review:

The company continues to be the major supplier of brake control systems for railways within the UK. The customer service centre provided a strong result in the after market despite competition and fragmentation of the UK customer base.

Gross profit margins have been maintained despite cost-down pressures from major customers. This has been achieved through a significant reduction in direct costs including a planned headcount reduction of 8% in September 2000.

Spend on research and development has been more than 5% of sales, and investment in future products will continue through the next financial period. The majority of the research and development spend is the result of investment into the EP2002 distributed brake control system, which is to become a product sold world-wide through the Knorr-Bremse SfS group.

The orders received during the period matched sales and maintained the orderbank at a high level. Orders on hand at 31 December 2000 were sufficient to cover approximately three quarters of the planned sales for the next year. Major orders received in the year were from Siemens under the Desiro framework contract, and a platform screen door contract for Guangzhou Metro China.

The company is on course to repay its £20million funding loan. The directors plan to repay the £17million balance outstanding at 31 December 2000 over the next 4 years.

The £2.3million loss for the period is net of a prudent level of depreciation and amortisation, which was £4.7million during the reporting period. The underlying trading result was strong and comparable with the trading results achieved in prior years as a division of Westinghouse Brake and Signal Holdings Ltd.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors' report *(continued)*

Directors and directors' interests

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

Mr P R Johnson (appointed Managing Director and Company Secretary 2 May 2000)

Dr D Wilhelm (appointed 12 April 2000)

Dr W Schlosser (appointed 12 April 2000)

There are no directors' interests requiring disclosure under the Companies Act 1985.

Employee Policies

The company operates within published policies for Health and Safety, Human Resources, Quality, Environmental Safety, and Product Safety.

Disabled Employees

It is our policy to encourage the employment and development of suitable disabled persons. No unnecessary limitations are placed on the type of work that they perform and in appropriate cases consideration is given to modifications to equipment or premises and to adjustments in working practices.

Fair and full consideration will be given to disabled applicants for employment and existing employees who become disabled will have the opportunity to retrain and continue in employment.

Employee Involvement

Employee consultation, communication and involvement are recognised as being of great value and these practices will be maintained as a vital element in our drive to achieve the highest standards of training and development. Appropriate consultation enables employees' views to be taken into account in matters which may affect their interests. Regular meetings are held between management and employees to facilitate an exchange of information and ideas.

The Company is a recognised Investor in People (IIP) facility and is using the IIP framework to ensure that training and development is linked to customer needs and business objectives.

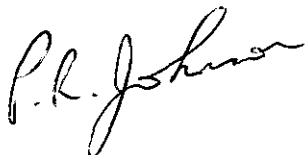
The period in this report was one of considerable change and the support of the management and employees during the period was fundamental to the continuing success of the company.

Auditors

A resolution to reappoint KPMG as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Paul Johnson
Managing Director



P.O. Box 74
Foundry Lane
Chippenham
Wiltshire
SN15 1HY

2001

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of 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 disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.



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Report of the auditors to the members of Westinghouse Brakes (UK) Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

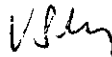
Basis of opinion

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 2000 and of its loss for the 8 month and 16 day period then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG
Chartered Accountants
Registered Auditors

11th October 2001

Profit and loss account
for the period ended 31 December 2000

	<i>Note</i>	2000 £000
Turnover		
Continuing operations	2	23,397
Change in stocks of finished goods and work in progress		(11,043)
Other operating income	3	1,940
Raw materials and consumables		(10,547)
Staff costs	6	(7,714)
Depreciation and other amounts written off tangible and intangible fixed assets	4	(4,748)
Other operating charges		(3,542)
Release of negative goodwill	24	10,820
Operating loss		
Continuing operations		(1,437)
Other interest receivable and similar income	7	90
Interest payable and similar charges	8	(992)
Retained loss for the year		<u>(2,339)</u>

There were no recognised gains or losses other than the loss for the period.

All of the company's turnover and operating loss were derived from operations acquired during the period.

Balance sheet
at 31 December 2000

	<i>Note</i>	2000	
		£000	£000
Fixed assets			
Intangible assets	9		6,676
Tangible assets	10		26,776
			33,452
Current assets			
Stocks	12	6,780	
Debtors	13	9,092	
Cash at bank and in hand		261	
		16,133	
Creditors: amounts falling due within one year	14	(29,924)	
Net current liabilities			(13,791)
Net assets			19,661
Capital and reserves			
Called up share capital	15		-
Share premium account	16		22,000
Profit and loss account	16		(2,339)
Shareholders' funds	17		19,661

These financial statements were approved by the board of directors on 13 August 2001 and were signed on its behalf by:

Paul Johnson
 Managing Director



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.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Knorr-Bremse AG, within which this company is included, are publicly available and can be obtained from Moosacher Str. 80 D-80809 München, Germany.

Goodwill

Negative goodwill arising on acquisitions is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

Fixed assets and depreciation

Depreciation is provided 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:

Plant and machinery	-	5 to 15 years
Motor vehicles	-	2 to 5 years
Fixtures & fittings, tools & equipment	-	3 to 5 years
Computer equipment	-	5 years

Intangible fixed assets and amortisation

Patents purchased by the company are amortised to nil by equal annual instalments over their average useful economic life of 15 years.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. 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.

Leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Notes (continued)

1 Accounting policies (continued)

Post-retirement benefits

The company offers an employee pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested in trustee administered funds. Contributions to the scheme 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 year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of raw materials, consumables and goods purchased for resale is determined on a first-in, first-out basis. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year 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.

2 Analysis of turnover and retained loss

The directors' are of the opinion that to comply fully with the requirements of SSAP25 'Segmental Reporting' would be seriously prejudicial to the interests of the group.

3 Exceptional items

Included in other operating income is an amount of £1,771,000 in respect of a realised gain on an expired foreign exchange contract.

Notes (continued)

4 Retained loss

2000
 £000

Retained loss is stated:

After charging

Auditors' remuneration:

Audit	25
Other services - fees paid to the auditor and its associates	5
Depreciation and other amounts written off owned tangible fixed assets:	4,424
Amortisation of intangible fixed assets	324
Rent of land and buildings - operating leases	625
Hire of other assets - operating leases	20
Research and development expenditure	957

After crediting

Exchange gains	43
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5 Remuneration of directors

2000
 £000

Directors' emoluments	90
Company contributions to defined benefit pension schemes	10
	100

Retirement benefits are accruing to one director under a defined benefit scheme.

6 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 2000
Manufacturing	277
Engineering	82
Administration	26
Sales, marketing and project management	32
	417

The aggregate payroll costs of these persons were as follows:

	2000 £000
Wages and salaries	6,587
Social security costs	440
Other pension costs	687
	7,714

Notes (continued)

7 Other interest receivable and similar income

	2000 £000
Other interest receivable	90
	<u>90</u>

8 Interest payable and similar charges

	2000 £000
On bank loans and overdrafts	468
On other loans from group companies	524
	<u>992</u>

9 Intangible Fixed Assets

	Goodwill £000	Patents £000	Total £000
Cost			
Additions – on acquisition	-	7,000	7,000
Capitalisation of negative goodwill	(10,820)	-	(10,820)
	<u>(10,820)</u>	<u>7,000</u>	<u>(3,820)</u>
At end of period	(10,820)	7,000	(3,820)
	<u>(10,820)</u>	<u>7,000</u>	<u>(3,820)</u>
Amortisation			
Charge for period	-	324	324
Negative goodwill written back in the period	(10,820)	-	(10,820)
	<u>(10,820)</u>	<u>324</u>	<u>(10,496)</u>
At end of period	(10,820)	324	(10,496)
	<u>(10,820)</u>	<u>324</u>	<u>(10,496)</u>
Net book value			
At 31 December 2000	-	6,676	6,676
	<u>-</u>	<u>6,676</u>	<u>6,676</u>

Notes (continued)

10 Tangible fixed assets

	Motor Vehicles £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Computer Equipment £000	Total £000
<i>Cost</i>					
Additions - on acquisition	35	22,903	5,575	2,207	30,720
Additions - other	-	348	11	145	504
Disposals	-	(18)	-	(27)	(45)
At end of period	35	23,233	5,586	2,325	31,179
<i>Depreciation</i>					
Charge for period	14	3,227	787	396	4,424
Disposals	-	(16)	-	(5)	(21)
At end of period	14	3,211	787	391	4,403
<i>Net book value</i>					
At 31 December 2000	21	20,022	4,799	1,934	26,776

11 Fixed asset investments

On 31 October 2000, Westinghouse Brakes (UK) Ltd acquired the entire share capital of Westinghouse Brakes Ltd. The share capital comprised 6 ordinary shares each of £1. The consideration paid was £10.

Westinghouse Brakes Ltd is a dormant company and did not trade during the period.

12 Stocks

	2000 £000
Raw materials and consumables	3,686
Work in progress	3,094
	<u>6,780</u>

The difference between the purchase price or production cost of stocks and their replacement cost is not material.

13 Debtors

	2000 £000
Trade debtors	7,386
Amounts owed by group undertakings	153
Other debtors	1,488
Prepayments and accrued income	65
	<u>9,092</u>

Notes (continued)

14 Creditors: amounts falling due within one year

	2000 £000
Bank loan (see below)	17,000
Payments received on account	2,495
Trade creditors	6,175
Bills of exchange payable	1,359
Amounts owed to group undertakings	1,367
Taxation and social security	130
Other creditors	702
Accruals and deferred income	696
	29,924

The bank loan is repayable on demand, and as such is included within current liabilities. It is however the intention of the directors to utilise this loan to fund the company and repay the loan over the next four years.

Interest is payable on the bank loan at a rate of 1.1% above LIBOR.

15 Share capital

The authorised share capital on incorporation of the company was £1,000, made up of 1,000 ordinary shares each of £1. Of this, 100 ordinary shares each of £1 were allotted, called up and fully paid on subscription. No further movements in share capital have occurred since.

16 Share premium and reserves

	Share premium account £000	Profit And loss Account £000
Retained for the period	-	(2,339)
Premium on share issues	22,000	-
At end of year	22,000	(2,339)

17 Reconciliation of movements in shareholders' funds

	2000 £000
Loss for the financial year	(2,339)
New share capital subscribed	22,000
Closing shareholders' funds	19,661

Notes(continued)

18 Deferred taxation

The amounts unprovided for deferred taxation are set out below:

	2000 Unprovided £000
Accelerated capital allowances	68
Relief for losses	3,778
Revaluation of fixed assets	(3,321)
Deferred tax asset	525

Provision is not made for any deferred taxation on the revaluation of fixed assets as it is not anticipated that the liability will crystallise.

There is no provided deferred tax.

19 Contingent Liabilities

The company has contingent liabilities arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

20 Commitments

a) Capital commitments at the end of the financial period for which no provision has been made, are as follows:

	2000 £000
Contracted	260

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

	2000 Land and Buildings £000	Other £000
Operating leases which expire: In the second to fifth years inclusive	804	45

Notes (continued)

21 Pension scheme

The pension scheme covering the majority of UK employees during the period was the Invensys Pension Scheme. This scheme is a funded defined benefit scheme. The last valuation of the scheme was carried out as at 5 April 1999 by independent actuaries using the projected unit method. The assumptions that have the most effect on the results of the valuation are those relating to the rate of return on investments, the rates of increase in salaries and pensions in payment.

A market related approach was taken to assessing these assumptions. The principal assumption was that the discount rate to measure the scheme's liabilities would be 5.7% which was 1% over the return available on government debt; 1.75% per annum higher than the rate of salary inflation; and 2.5% per annum higher than the rate of increase in pension.

At the date of the last valuation, the market value of the assets, excluding members additional voluntary contributions was £4,246m and was sufficient to cover 118% of the benefits that had accrued to members, after allowing for future increases in salaries. The actuarial surplus is being spread over the average remaining service lives of the current employees (12 years at the valuation date) by the straight-line method.

On 1 January 2001 employees ceased to be members of the Invensys Pension Scheme. The company provided a replacement funded defined benefit scheme called the Bendix Pension Scheme. The terms under the new scheme substantially match those of its predecessor and as such no material difference is anticipated in the future pension costs to the company. The majority of employees joined the new scheme.

22 Related party disclosures

The company is controlled by Knorr-Bremse Systeme für Schienenfahrzeuge GmbH, a parent company. The ultimate controlling party is Knorr-Bremse AG.

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

The company is a wholly owned subsidiary undertaking of Knorr-Bremse Investments (UK) Limited incorporated in England.

The largest group in which the results of the company are consolidated is that headed by Knorr-Bremse AG, incorporated in Germany. The consolidated accounts of these groups are available to the public and may be obtained from Moosacher Str. 80 D-80809 München, Germany. No other group accounts include the results of the company.

Notes (continued)

24 Acquisitions

On 14 April 2000 the company acquired the trade and assets of Westinghouse Brakes, a division of Westinghouse Brake and Signal Holdings Limited. The negative goodwill arising on the acquisition arose as follows:

	Book Value	Revaluation	Accounting policy alignment	Fair value
	£000	£000	£000	£000
Fixed assets				
Intangible	-	7,000	-	7,000
Tangible	4,220	26,500	-	30,720
Current assets				
Stock	5,264	-	10,699	15,963
Debtors	20,376	-	(10,949)	9,427
Cash	35	-	-	35
Total assets	<u>29,895</u>	<u>33,500</u>	<u>(250)</u>	<u>63,145</u>
Creditors	<u>(10,325)</u>	<u>-</u>	<u>-</u>	<u>(10,325)</u>
Total liabilities	<u>(10,325)</u>	<u>-</u>	<u>-</u>	<u>(10,325)</u>
Net assets	<u>19,570</u>	<u>33,500</u>	<u>(250)</u>	<u>52,820</u>
Goodwill				<u>(10,820)</u>
Purchase consideration				<u>42,000</u>

Fair value adjustments

The fixed assets revaluations were performed by experienced personnel to reflect the fair value of the acquired assets.

£10,699,000 was transferred from amounts recoverable on contracts to inventory, to more accurately reflect the nature of the acquired asset.

£250,000 of deferred development costs were written off to comply with the accounting policy adopted by the company.

Accounting for negative goodwill

The negative goodwill was initially capitalised in the financial statements. As a result of a change in accounting policy during the period development costs previously recognised within stocks of £6,196,000 were written off. Due to the change in accounting policy, management considered that the value of the negative goodwill could not be supported. As a result, the negative goodwill of £10,820,000 was credited to the profit and loss account during the period.