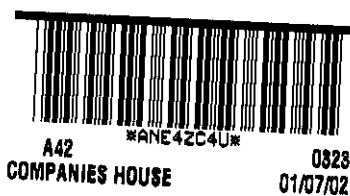


Westinghouse Brakes (UK) Limited

**Directors' report and financial
statements**

Registered number 3974921

31 December 2001



Contents

Directors' report	1
Statement of directors' responsibilities	4
Independent auditors' report to the members of Westinghouse Brakes (UK) Limited	5
Profit and loss account	6
Balance sheet	7
Notes	8

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

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. The company also represents the full range of Knorr-Bremse rail brake group products in the geographical market of the UK and Ireland.

Business review

The company operates on its site under long-term leasing arrangements. Following the sale of the site by Westinghouse Brake & Signal Holdings Ltd., ownership of the site transferred to Skelton Chippenham Limited on 23 August 2001.

The company has maintained its position as the leading supplier of brake systems for railways within the UK. Sales of both the brakes and platform screen door products were at record levels in 2001.

The brakes business volume benefited from the availability of a range of bogie disc brake products supplied from the parent Knorr-Bremse SfS GmbH.

Platform screen door sales were substantially higher as projects in Singapore and Copenhagen reached their installation phase.

The customer base continues to consolidate with the acquisition of Adtranz by Bombardier. The UK rolling stock is increasingly supplied by global solutions sourced from outside the UK. The ability of Westinghouse Brakes to supply systems compliant to UK Group standards together with a willingness to provide strong local market service support, has enabled the company to maintain its leading role in this marketplace.

Gross profit margins have been maintained despite cost-down pressures from major customers. This has been achieved through reductions in direct costs and increased throughput.

The company led participation with RIA and the DTI in a Rail Industry Masterclass programme to introduce automotive manufacture practices and techniques into rail manufacture. Based on its success, the directors intend to continue the programme through 2002.

Spend on research and development in 2001 was equal to 3% of sales (2000: 5%). This level of 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 global product for the Knorr-Bremse rail brake group in the forthcoming year.

The order intake during the period was below sales leading to a reduction in the closing orderbank. No major orders were lost during the year, however the hiatus in the UK railway industry caused by the delay in the publication of the SRA's 10 year plan, together with Railtrack being placed in administration led to delays in the placement of several major rolling stock contracts. Orders on hand at 31 December 2001 were sufficient to cover approximately 65% of the planned sales for the next year (2000: 75%). The reduction in order cover also reflects a shift in the sales mix towards customer services, which have shorter lead times than original equipment contracts. Major orders received in the year were from Siemens under the Desiro framework contract for the Southwest Trains franchise, and a platform screen door contract in Singapore for the Circle Line.

The company had a very strong cash control performance during the period. The funding loan was reduced by £9.0million from £17.0million to £8.0million (2000: from £20million to £17million). The directors now expect to repay the remaining balance within the next two years.

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. The £0.4million profit for the reporting year (2000: £2.3million loss) is net of a prudent level of £4.8million depreciation. Consequential of the decision of the Secretary of State for Transport to extend existing train operating companies franchise renewals by two years, the useful lives of assets capitalised on the purchase of the business during 2000 were extended by a similar period.

Directors' report *(continued)*

Proposed dividend

The directors do not recommend the payment of a dividend (2000: *£nil*)

Political and Charitable Donations

During the year, the Company made various charitable donations totalling £493 (2000: *£nil*).

Directors and directors' interests

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

Mr P R Johnson

Dr D Wilhelm

Dr W Schlosser (resigned 7 February 2002)

Dr A Köhler (appointed 7 February 2002)

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

The Company provides a final salary pension scheme for all employees over 18 years through participation in the Knorr-Bremse (UK) Bendix Scheme.

The Company participates in the provision of recreational facilities. Long service is valued and additional benefits are provided for employees with more than 5 years service.

Environmental Policies

The Company has implemented an environmental programme and intends to apply for accreditation under ISO 14001 in 2002.

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 and developed. 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. An in-house magazine 'Brakes Bulletin' is published 5 times a year.

The continued support of the management and our employees is fundamental to the continuing success of the company. The directors would like to record their thanks and appreciation to all our employees who have actively supported and participated in change during 2001.

Directors' report *(continued)*

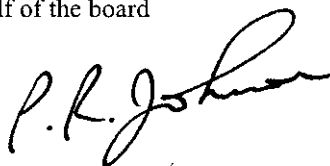
Supplier Policies

The Company values its supplier base and seeks to foster long-term relationships with world class suppliers. Agreed payment terms are respected rather than manipulated.

Auditors

Our auditors KPMG have indicated to the directors that their business has transferred to a limited liability partnership, KPMG LLP. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG LLP as auditors of the company.

On behalf of the board



Paul Johnson
Managing Director

Foundry Lane
Chippenham
Wiltshire
SN15 1JB

12th June 2002

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.



Plym House
3 Longbridge Road
Marsh Mills
Plymouth PL6 8LT
United Kingdom

Independent auditors' report to the members of Westinghouse Brakes (UK) Limited

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 1985. 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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

2002

Profit and loss account
for the year ended 31 December 2001

	Notes	2001 £000	8 month 16 day period ended 2000 £000
Turnover	2	45,965	23,397
Change in stocks of finished goods and work in progress		277	(11,043)
Other operating income	3	214	1,940
Raw materials and consumables		(21,911)	(10,547)
Staff costs	6	(11,118)	(7,714)
Depreciation and other amounts written off tangible and intangible fixed assets		(5,614)	(4,748)
Other operating charges		(6,463)	(3,542)
Release of negative goodwill	16	-	10,820
Operating profit/(loss)		1,350	(1,437)
Other interest receivable and similar income		5	90
Interest payable and similar charges	7	(986)	(992)
Retained profit/(loss) for the year		369	(2,339)

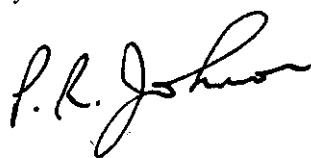
There were no recognised gains or losses other than the profit or loss for the above periods.

All of the company's turnover and operating profit for the year were derived from continuing operations.

Balance sheet
at 31 December 2001

	Note	2001 £000	2000 £000
Fixed assets			
Intangible assets	8	6,209	6,676
Tangible assets	9	22,180	26,776
		<u>28,389</u>	<u>33,452</u>
Current assets			
Stocks	11	6,952	6,780
Debtors	12	9,666	9,092
Cash at bank and in hand		1,660	261
		<u>18,278</u>	<u>16,133</u>
Creditors: amounts falling due within one year	13	<u>(25,911)</u>	<u>(29,843)</u>
Net current liabilities		(7,633)	(13,710)
Creditors: amounts falling due after more than one year	14	(726)	(81)
Net assets		<u>20,030</u>	<u>19,661</u>
Capital and reserves			
Called up share capital	15	-	-
Share premium account	16	22,000	22,000
Profit and loss account	16	(1,970)	(2,339)
Equity shareholders' funds	17	<u>20,030</u>	<u>19,661</u>

These financial statements were approved by the board of directors on 12th June 2002 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

During the year the patterns and drawings included within plant and machinery had their useful economic lives extended from 5 to 7 years, the impact of this was a credit in the profit and loss account of £1,213,000.

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.

Notes (continued)

1 Accounting policies (continued)

Leases

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

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 profit / (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 £nil (2000: £1,771,000). The income in 2000 was in respect of a realised gain on an expired foreign exchange contract.

Notes (continued)

4 Retained profit/(loss)

2001	8 month 16 day
	period ended 2000
£000	£000

Retained profit/(loss) is stated after charging:

Auditors' remuneration:

Audit	22	25
Other services	5	5
Depreciation and other amounts written off owned tangible fixed assets:	5,147	4,424
Amortisation of intangible fixed assets	467	324
Rent of land and buildings – operating leases	619	625
Hire of other assets – operating leases	51	20
Research and development expenditure	1,338	957
Exchange losses/(gains)	119	(43)

5 Remuneration of directors

2001	8 month 16 day
	period ended 2000
£000	£000

Directors' emoluments	124	90

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	
	2001	2000
Manufacturing	266	277
Engineering	74	82
Administration	25	26
Sales, marketing and project management	33	32
	398	417

Notes (continued)

6 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2001	8 month 16 day period ended 2000
	£000	£000
Wages and salaries	9,143	6,587
Social security costs	649	440
Other pension costs	1,326	687
	<u>11,118</u>	<u>7,714</u>

Included in personnel costs for 2001 is a top-up amount of £284,000 in respect of a one-off payment to the pension scheme.

7 Interest payable and similar charges

	2001	8 month 16 day period ended 2000
	£000	£000
On bank loans and overdrafts	986	468
On other loans from group companies	-	524
	<u>986</u>	<u>992</u>

8 Intangible Fixed Assets

	Patents £000
Cost	
At 1 January and 31 December 2001	7,000
Amortisation	
At 1 January 2001	324
Charge for period	467
	<u>791</u>
At 31 December 2001	
Net book value	
At 31 December 2001	6,209
	<u>6,676</u>
At 31 December 2000	

Notes (continued)

9 Tangible fixed assets

	Motor Vehicles £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Computer Equipment £000	Total £000
Cost					
At 1 January 2001	35	23,233	5,586	2,325	31,179
Additions	3	317	10	259	589
Disposals	(2)	(77)	-	(1)	(80)
At 31 December 2001	36	23,473	5,596	2,583	31,688
Depreciation					
At 1 January 2001	14	3,211	787	391	4,403
Charge for period	14	3,706	821	606	5,147
Disposals	(2)	(40)	-	-	(42)
At 31 December 2001	26	6,877	1,608	997	9,508
Net book value					
At 31 December 2001	10	16,596	3,988	1,586	22,180
At 31 December 2000	21	20,022	4,799	1,934	26,776

10 Fixed asset investments

The fixed asset investment relates to a 100% holding in Westinghouse Brakes Ltd, which is incorporated in the UK. Westinghouse Brakes Ltd is a dormant company and did not trade during the period.

11 Stocks

	2001 £000	2000 £000
Raw materials and consumables	3,581	3,686
Work in progress	3,371	3,094
	6,952	6,780

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

12 Debtors

	2001 £000	2000 £000
Trade debtors	8,212	7,386
Amounts owed by group undertakings	355	153
Other debtors	754	1,488
Prepayments and accrued income	345	65
	9,666	9,092

Notes (continued)

13 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Bank loan (see below)	4,500	17,000
Other loans (see below)	3,480	-
Payments received on account	836	2,414
Trade creditors	4,217	6,175
Bills of exchange payable	4,085	1,359
Amounts owed to group undertakings	5,619	1,367
Taxation and social security	634	130
Other creditors	972	702
Accruals and deferred income	1,568	696
	<u>25,911</u>	<u>29,843</u>

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 two years.

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

Other loans represent a one-month cash advance secured against the trade receivables of the company.

14 Creditors: amounts falling due in more than one year

	2001 £000	2000 £000
Payments received on account	726	81
	<u>726</u>	<u>81</u>

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
At 1 January 2001	22,000	(2,339)
Retained for the period	-	369
	<u>22,000</u>	<u>(1,970)</u>
At 31 December 2001	22,000	(1,970)

The cumulative amount of negative goodwill resulting from acquisitions in earlier financial years which has been written off is £nil (2000: £10,820,000).

Notes (continued)

17 Reconciliation of movements in equity shareholders' funds for the year ended 31 December 2001

	2001 £000	8 month 16 day period ended 2000 £000
Profit/(loss) for the financial year	369	(2,339)
New share capital subscribed	-	22,000
Net addition to shareholders' funds	369	19,661
Opening equity shareholders' funds	19,661	-
Closing equity shareholders' funds	20,030	19,661

18 Deferred taxation

The amounts provided and unprovided for deferred taxation are set out below:

	2001		2000	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Accelerated capital allowances	(705)	-	-	68
Other short term timing differences	212	-	-	-
Relief for losses	493	2,926	-	3,778
Revaluation of fixed assets	-	(2,489)	-	(3,321)
Deferred tax asset	-	437	-	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.

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. These are in relation to performance guarantee bonds of £11,007,000 (2000: £9,876,000).

20 Commitments

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

	2001 £000	2000 £000
Contracted	32	260

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

	2001		2000	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire: In the second to fifth years inclusive	727	66	804	45

Notes (continued)

21 Pension scheme

The pension scheme covering the majority of UK employees during the period ended 31 December 2000 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, which is part of a larger group pension scheme.

The Bendix Pension Scheme is a defined benefit scheme. However the employer is unable to identify its share of the underlying assets and liabilities of this multi-employer scheme. As such, the company has taken the exemption available under FRS 17 allowing it to treat the scheme as if it were a defined contribution scheme for the purposes of the statutory accounts. No material deficit or surplus existed on the scheme at the balance sheet date.

The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £1,326,000 (2000: £nil). The company paid contributions to the previous Invensys scheme on behalf of employees in 2000 of £687,000.

Contributions amounting to £522,000 (2000: £nil) were payable to the fund and are included in creditors.

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.