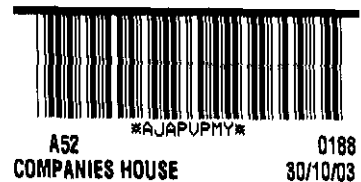


**Westinghouse Brakes (UK) Limited**

**Directors' report and financial  
statements**

Registered number 3974921

31 December 2002



## Contents

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

### 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 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 again during the reporting year.

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 long-term projects in Singapore and Guangzhou (People's Republic of China) neared completion.

Rolling stock for the UK mainline continues to be supplied from vehicle solutions sourced from global suppliers based 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 supply role for brake control product in this marketplace.

Gross profit margins have decreased compared to 2001 due to irresistible cost-down pressures from major customers and competition forces in the market place. To combat this the company has taken the strategic decision to outsource its non-core foundry and machine shop activities.

Spend on research and development in 2002 was equal to 2.3% of sales (2001: 3%). The majority of the research and development spend is the result of investment into the EP2002 distributed brake control system, which is a global metro product for the Knorr-Bremse rail brake group, together with investment in platform systems.

The order intake during the period was above sales leading to an increase in the closing order bank. No major orders were lost during the year.

Orders on hand at 31 December 2002 were sufficient to cover approximately 55% of the planned sales for the next year (2001: 65%). The reduction in order cover 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 included a brakes contract from Siemens under the Desiro framework contract for the Southwest Trains franchise, contracts from Bombardier under the Electrostar framework contract for the Connex and Govia franchises, and a platform screen door contract in Shenzhen (PRC) for the city's first Metro Line.

The acquisition funding loan was reduced by £2million from £8million to £6million (2001: from £17million to £8million). The directors expect to repay the remaining balance within the next financial year.

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 £0.8million profit for the reporting year (2001: £0.4million profit) is net of £5.5million depreciation.

The company operates on its site under long-term leasing arrangements. The company is now considering exercising a break point in its lease, at March 2005, and moving to a new site with a purpose built factory and distribution facility. Capital investment was reduced compared to previous years in anticipation of this relocation.

On 1 October 2002 the company acquired the entire share capital of IFE UK Services Limited from a Knorr-Bremse group company based in Austria. Westinghouse Brakes (UK) Limited now represents all Knorr-Bremse rail interests in the UK.

## **Directors' report** *(continued)*

### **Proposed dividend**

The directors do not recommend the payment of a dividend (2001: £nil)

### **Political and Charitable Donations**

During the year, the Company made various charitable donations totalling £1,035 (2001: £493).

### **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.

Mr N M Booth was appointed as Company Secretary on 17 April 2002. Mr P R Johnson resigned as Company Secretary on the same day.

### **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 a policy of community partnership and implemented an environmental programme, which gained accreditation under ISO 14001 in 2002.

### **Quality and Safety**

The Company gained the enhanced quality accreditation of ISO 9001:2000 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.

## **Directors' report** *(continued)*

### **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' continues to be published bi-monthly.

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 of our employees who have actively supported and participated in the initiatives and progress in 2002.

### **Supplier Policies**

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

The Company will seek local partnerships with suitable suppliers for the outsourcing of the foundry and machine shop.

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

  
15.10.2003.

**Neil Booth**  
*Company Secretary*

Foundry Lane  
Chippenham  
Wiltshire  
SN15 1JB

October 2003

## 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.



## KPMG LLP

Plym House  
3 Longbridge Road  
Plymouth  
PL6 8LT  
United Kingdom

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

We have audited the financial statements on pages 6 to 17

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **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 audit 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP.

KPMG LLP  
Chartered Accountants  
Registered Auditor

28 October 2003

## Profit and loss account

for the year ended 31 December 2002

Notes

|                                                                                    |     | 2002<br>£000 | 2001<br>£000 |
|------------------------------------------------------------------------------------|-----|--------------|--------------|
| Turnover                                                                           | 1,2 | 49,330       | 45,965       |
| Change in stocks of finished goods and work in progress                            |     | 98           | 277          |
| Other operating income                                                             |     | -            | 214          |
| Raw materials and consumables                                                      |     | (23,267)     | (21,911)     |
| Staff costs                                                                        | 5   | (11,691)     | (11,118)     |
| Depreciation and other amounts written off tangible and<br>intangible fixed assets |     | (5,515)      | (5,614)      |
| Other operating charges                                                            |     | (7,655)      | (6,463)      |
| <b>Operating profit</b>                                                            |     | <b>1,300</b> | <b>1,350</b> |
| Other interest receivable and similar income                                       |     | -            | 5            |
| Interest payable and similar charges                                               | 6   | (471)        | (986)        |
| <b>Retained profit for the year</b>                                                | 3   | <b>829</b>   | <b>369</b>   |

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

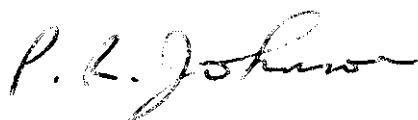
All of the company's turnover and operating profit for the years were derived from continuing operations.

A reconciliation of movements in equity shareholders' funds is given in note 17 to these accounts.

**Balance sheet**  
*at 31 December 2002*

|                                                                | Note | 2002<br>£000         | 2001<br>£000         |
|----------------------------------------------------------------|------|----------------------|----------------------|
| <b>Fixed assets</b>                                            |      |                      |                      |
| Intangible assets                                              | 8    | 5,742                | 6,209                |
| Tangible assets                                                | 9    | 17,370               | 22,180               |
| Investments                                                    | 10   | 61                   | -                    |
|                                                                |      | <u>23,173</u>        | <u>28,389</u>        |
| <b>Current assets</b>                                          |      |                      |                      |
| Stocks                                                         | 11   | 5,870                | 6,952                |
| Debtors                                                        | 12   | 11,203               | 9,666                |
| Cash at bank and in hand                                       |      | 1,538                | 1,660                |
|                                                                |      | <u>18,611</u>        | <u>18,278</u>        |
| <b>Creditors: amounts falling due within one year</b>          | 13   | <u>(20,606)</u>      | <u>(25,911)</u>      |
| <b>Net current liabilities</b>                                 |      | <b>(1,995)</b>       | <b>(7,633)</b>       |
| <b>Creditors: amounts falling due after more than one year</b> | 14   | <u>(319)</u>         | <u>(726)</u>         |
| <b>Net assets</b>                                              |      | <u><b>20,859</b></u> | <u><b>20,030</b></u> |
| <b>Capital and reserves</b>                                    |      |                      |                      |
| Called up share capital                                        | 15   | -                    | -                    |
| Share premium account                                          | 16   | 22,000               | 22,000               |
| Profit and loss account                                        | 16   | (1,141)              | (1,970)              |
| <b>Equity shareholders' funds</b>                              | 17   | <u><b>20,859</b></u> | <u><b>20,030</b></u> |

These financial statements were approved by the board of directors on signed on its behalf by:



**Paul Johnson**  
*Managing Director*

18 October 2003 and were

## 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, except as noted below. The company has adopted FRS 19 'Deferred tax' in these 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 FRS 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 FRS 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.

#### ***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                   | - | 2 to 15 years |
| Motor vehicles                        | - | 2 to 5 years  |
| Fixtures, fittings, tools & equipment | - | 2 to 5 years  |
| Computer equipment                    | - | 2 to 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.

## 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 operates a 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.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### *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

The directors are of the opinion that to comply fully with the requirements of SSAP 25 'Segmental Reporting' would be seriously prejudicial to the interests of the group.

## Notes (continued)

### 3 Retained profit

|                                                                        | 2002<br>£000 | 2001<br>£000 |
|------------------------------------------------------------------------|--------------|--------------|
| <i>Retained profit is stated after charging:</i>                       |              |              |
| Auditors' remuneration:                                                |              |              |
| Audit                                                                  | 30           | 22           |
| Other services                                                         | 17           | 5            |
| Depreciation and other amounts written off owned tangible fixed assets | 5,048        | 5,147        |
| Amortisation of intangible fixed assets                                | 467          | 467          |
| Rent of land and buildings – operating leases                          | 809          | 619          |
| Hire of other assets – operating leases                                | 92           | 51           |
| Research and development expenditure                                   | 882          | 1,338        |
| Exchange losses                                                        | 447          | 119          |
|                                                                        | <hr/>        | <hr/>        |

### 4 Remuneration of directors

|                       | 2002<br>£000 | 2001<br>£000 |
|-----------------------|--------------|--------------|
| Directors' emoluments | 180          | 124          |
|                       | <hr/>        | <hr/>        |

Retirement benefits are accruing to one director (2001: one) under a defined benefit scheme.

### 5 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<br>2002 | 2001  |
|-----------------------------------------|-----------------------------|-------|
| Manufacturing                           | 242                         | 266   |
| Engineering                             | 78                          | 74    |
| Administration                          | 46                          | 25    |
| Sales, marketing and project management | 34                          | 33    |
|                                         | <hr/>                       | <hr/> |
|                                         | 400                         | 398   |
|                                         | <hr/>                       | <hr/> |

The aggregate payroll costs of these persons were as follows:

|                       | 2002<br>£000 | 2001<br>£000 |
|-----------------------|--------------|--------------|
| Wages and salaries    | 9,619        | 9,143        |
| Social security costs | 676          | 649          |
| Other pension costs   | 1,396        | 1,326        |
|                       | <hr/>        | <hr/>        |
|                       | 11,691       | 11,118       |
|                       | <hr/>        | <hr/>        |

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.

Notes (continued)

6 Interest payable and similar charges

|                                     | 2002<br>£000 | 2001<br>£000 |
|-------------------------------------|--------------|--------------|
| On bank loans and overdrafts        | 150          | 986          |
| On other loans from group companies | 321          | -            |
|                                     | <u>471</u>   | <u>986</u>   |

7 Taxation

Analysis of charge in period

|                                      | 2002<br>£000 | 2001<br>£000 |
|--------------------------------------|--------------|--------------|
| UK corporation tax                   |              |              |
| Total current tax                    | -            | -            |
|                                      | <u>-</u>     | <u>-</u>     |
| Tax on profit on ordinary activities | -            | -            |
|                                      | <u>-</u>     | <u>-</u>     |

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2001: lower) than the standard rate of corporation tax in the UK 30% (2001: 30%). The differences are explained below.

|                                                               | 2002<br>£000 | 2001<br>£000 |
|---------------------------------------------------------------|--------------|--------------|
| <b>Current tax reconciliation</b>                             |              |              |
| Profit on ordinary activities before tax                      | 829          | 369          |
|                                                               | <u>829</u>   | <u>369</u>   |
| Current tax at 30% (2001: 30%)                                | 249          | 111          |
| <b>Effects of:</b>                                            |              |              |
| Expenses not deductible / income not taxable for tax purposes | 21           | 11           |
| Capital allowances for period in excess of depreciation       | 352          | 184          |
| Utilisation of tax losses                                     | (488)        | (427)        |
| Movement in provisions                                        | (133)        | 114          |
| Fixed asset (profit) / loss on disposals                      | (1)          | 7            |
|                                                               | <u>-</u>     | <u>-</u>     |
| Total current tax charge (see above)                          | -            | -            |

Notes (continued)

8 Intangible fixed assets

|                                   | Patents<br>£000 |
|-----------------------------------|-----------------|
| <b>Cost</b>                       |                 |
| At 1 January and 31 December 2002 | 7,000           |
| <b>Amortisation</b>               |                 |
| At 1 January 2002                 | 791             |
| Charge for period                 | 467             |
| At 31 December 2002               | 1,258           |
| <b>Net book value</b>             |                 |
| At 31 December 2002               | 5,742           |
| At 31 December 2001               | 6,209           |

9 Tangible fixed assets

|                       | Motor<br>vehicles<br>£000 | Plant and<br>machinery<br>£000 | Fixtures,<br>fittings,<br>tools and<br>equipment<br>£000 | Computer<br>equipment<br>£000 | Total<br>£000 |
|-----------------------|---------------------------|--------------------------------|----------------------------------------------------------|-------------------------------|---------------|
| <b>Cost</b>           |                           |                                |                                                          |                               |               |
| At 1 January 2002     | 36                        | 23,473                         | 5,596                                                    | 2,583                         | 31,688        |
| Additions             | -                         | 119                            | 18                                                       | 101                           | 238           |
| Disposals             | (9)                       | -                              | -                                                        | -                             | (9)           |
| At 31 December 2002   | 27                        | 23,592                         | 5,614                                                    | 2,684                         | 31,917        |
| <b>Depreciation</b>   |                           |                                |                                                          |                               |               |
| At 1 January 2002     | 26                        | 6,877                          | 1,608                                                    | 997                           | 9,508         |
| Charge for the year   | 5                         | 3,763                          | 729                                                      | 551                           | 5,048         |
| Disposals             | (9)                       | -                              | -                                                        | -                             | (9)           |
| At 31 December 2002   | 22                        | 10,640                         | 2,337                                                    | 1,548                         | 14,547        |
| <b>Net book value</b> |                           |                                |                                                          |                               |               |
| At 31 December 2002   | 5                         | 12,952                         | 3,277                                                    | 1,136                         | 17,370        |
| At 31 December 2001   | 10                        | 16,596                         | 3,988                                                    | 1,586                         | 22,180        |

Notes (continued)

10 Fixed asset investments

|                              | Shares in<br>group<br>undertakings<br>£000 |
|------------------------------|--------------------------------------------|
| <b>Cost</b>                  |                                            |
| At beginning of year         | -                                          |
| Additions                    | 61                                         |
|                              | <hr/>                                      |
| At end of year               | 61                                         |
|                              | <hr/>                                      |
| <b>Provisions</b>            |                                            |
| At beginning and end of year | -                                          |
|                              | <hr/>                                      |
| <b>Net book value</b>        |                                            |
| At 31 December 2002          | 61                                         |
|                              | <hr/>                                      |
| At 31 December 2001          | -                                          |
|                              | <hr/>                                      |

The fixed asset investments relate to the following investments:

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.

A 100% holding in IFE UK Services Ltd, which is incorporated in the UK. On 1 October 2002, Westinghouse Brakes (UK) Ltd acquired the entire share capital of IFE UK Services Ltd. The share capital comprised one ordinary share of £1. The consideration paid was £61,298. On acquisition the assets and trade were transferred to Westinghouse Brakes (UK) Ltd.

11 Stocks

|                               | 2002<br>£000 | 2001<br>£000 |
|-------------------------------|--------------|--------------|
| Raw materials and consumables | 2,401        | 3,581        |
| Work in progress              | 3,469        | 3,371        |
|                               | <hr/>        | <hr/>        |
|                               | 5,870        | 6,952        |
|                               | <hr/>        | <hr/>        |

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

12 Debtors

|                                    | 2002<br>£000 | 2001<br>£000 |
|------------------------------------|--------------|--------------|
| Trade debtors                      | 9,129        | 8,212        |
| Amounts owed by group undertakings | 694          | 355          |
| Other debtors                      | 1,281        | 754          |
| Prepayments and accrued income     | 99           | 345          |
|                                    | <hr/>        | <hr/>        |
|                                    | 11,203       | 9,666        |
|                                    | <hr/>        | <hr/>        |

Notes (continued)

**13 Creditors: amounts falling due within one year**

|                                    | 2002<br>£000  | 2001<br>£000  |
|------------------------------------|---------------|---------------|
| Bank loan                          | -             | 4,500         |
| Other loans (see below)            | 2,681         | 3,480         |
| Payments received on account       | 537           | 836           |
| Trade creditors                    | 4,866         | 4,217         |
| Bills of exchange payable          | 2,503         | 4,085         |
| Amounts owed to group undertakings | 8,017         | 5,619         |
| Taxation and social security       | 798           | 634           |
| Other creditors                    | 496           | 972           |
| Accruals and deferred income       | 708           | 1,568         |
|                                    | <u>20,606</u> | <u>25,911</u> |

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**

|                              | 2002<br>£000 | 2001<br>£000 |
|------------------------------|--------------|--------------|
| Payments received on account | 319          | 726          |
|                              | <u>319</u>   | <u>726</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<br>premium<br>account<br>£000 | Profit<br>and loss<br>account<br>£000 |
|-------------------------|-------------------------------------|---------------------------------------|
| At 1 January 2002       | 22,000                              | (1,970)                               |
| Retained for the period | -                                   | 829                                   |
|                         | <u>22,000</u>                       | <u>(1,141)</u>                        |
| At 31 December 2002     | <u>22,000</u>                       | <u>(1,141)</u>                        |

Notes (continued)

**17 Reconciliation of movements in equity shareholders' funds**

|                                     | 2002<br>£000 | 2001<br>£000 |
|-------------------------------------|--------------|--------------|
| Profit for the financial year       | 829          | 369          |
| Net addition to shareholders' funds | 829          | 369          |
| Opening equity shareholders' funds  | 20,030       | 19,661       |
| Closing equity shareholders' funds  | 20,859       | 20,030       |

**18 Deferred taxation**

|                                                                    | 2002<br>£'000 | 2001<br>£'000 |
|--------------------------------------------------------------------|---------------|---------------|
| Difference between accumulated depreciation and capital allowances | (971)         | (705)         |
| Other timing differences                                           | 181           | 212           |
| Unutilised trading losses                                          | 3,092         | 3,419         |
| Revaluation of fixed assets                                        | (2,052)       | (2,489)       |
| Net deferred tax asset                                             | 250           | 437           |

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

The net deferred tax asset has not been recognised in the financial statements as the directors believe that insufficient evidence is available that the asset will be recovered in the future.

**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 £12,501,000 (2001: £11,007,000).

**20 Commitments**

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

|            | 2002<br>£000 | 2001<br>£000 |
|------------|--------------|--------------|
| Contracted | 53           | 32           |

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

|                                        | 2002                          |               | 2001                          |
|----------------------------------------|-------------------------------|---------------|-------------------------------|
|                                        | Land and<br>Buildings<br>£000 | Other<br>£000 | Land and<br>Buildings<br>£000 |
| Operating leases which expire:         |                               |               |                               |
| In the second to fifth years inclusive | 809                           | 87            | 727                           |
|                                        | 66                            |               |                               |

## Notes (continued)

### 21 Pension scheme

The company has provides a pension scheme for its employees called the Knorr-Bremse (UK) Pension Scheme. This scheme is available to employees of both Westinghouse Brakes (UK) Limited and Knorr-Bremse Commercial Vehicles Limited. This is a funded defined benefit scheme.

The projection of costs for the year ended 31 December 2002 are prepared in accordance with SSAP 24 using the percentage of salary 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 6.25% which was 2.25% per annum higher than the rate of salary inflation; and 2.75% per annum higher than the rate of increase in pension.

An actuarial valuation, on a minimum funding requirement basis, took place at 31 December 2002, which showed a £20.8million deficit between the assets and ongoing liabilities of the scheme. The employers have proposed to the trustees changes to the scheme to recover this deficit over 15 years.

The company 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.

The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £1,396,000 (2001: £1,326,000).

Contributions amounting to £147,836 (2001: £522,000) 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.

During the year the company acquired IFE UK Services Ltd from IFE AG a related group company.

### 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 1 October 2002 the company acquired the entire share capital of IFE UK Services Ltd. The trade and assets of IFE UK Services Ltd were transferred to Westinghouse Brakes (UK) Ltd at book value on 1 October 2002. The fair values of the assets acquired were:

|                               | Book value /<br>Fair value<br>£000 |
|-------------------------------|------------------------------------|
| <i>Fixed assets</i>           |                                    |
| Tangible                      | 4                                  |
| <i>Current assets</i>         |                                    |
| Stock                         | 101                                |
| Debtors                       | 241                                |
| Cash                          | 96                                 |
| <b>Total assets</b>           | <b>442</b>                         |
| Creditors                     | (381)                              |
| <b>Net assets</b>             | <b>61</b>                          |
| <b>Goodwill</b>               | <b>-</b>                           |
| <b>Purchase consideration</b> | <b>61</b>                          |

***Fair value adjustments***

The book value was deemed to be the fair value of the assets and this is the amount that Westinghouse Brakes (UK) Ltd paid for IFE UK Services Ltd.