

Westinghouse Brakes (UK) Limited

**Directors' report and financial
statements**

Registered number 3974921

31 December 2003



Contents

Directors' report	1
Statement of directors' responsibilities	4
Report of the independent auditors 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 audited financial statements for the year ended 31 December 2003.

Principal activities

The company's principal activity during the year 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

Total company sales in 2003 of £45,756k were 7% lower than prior year (2002: £49,330k). The company has maintained its position as the leading supplier of brake systems for railways within the UK and sales of braking equipment were again at record levels. The brakes business volume benefited from the availability of a range of Knorr-Bremse products including brake discs and IFE vehicle door spares.

Platform screen door sales were lower as older projects neared completion and the newer contracts remained predominantly in their development phase.

Gross Profit margins have continued to experience strong downward pressures from major customers and competition forces in the market place.

The outsourcing of the non-core foundry and machine shop activities was completed during the year.

Spend on research and development in 2003 was equal to 3% of sales (2002: 2%). 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 increased investment in a new platform safety gate product.

The order intake during the period was above sales. Orders on hand at 31 December 2003 were sufficient to cover approximately 76% of the planned sales for 2004 (2002: 55%). Major brakes orders received in the year included inter company orders for Singapore Circle Line and Nanjing Metro and a contract from Bombardier under the Electrostar framework contract for the Govia franchise. The platform screen door contracts won included the Singapore Marina Line and a retrofit contract for Singapore Bishan station.

The cash position remains strong and the acquisition funding loan was fully repaid in full in September 2003.

The underlying trading result was comparable with the trading results achieved in prior years. The £0.6million profit for the reporting year (2002: £0.8million profit) is net of £5.2million depreciation.

The company operates on its current site under long-term leasing arrangements. As the current buildings are old and unsuitable for the future business needs, the company is exercising a March 2005 break point in its lease. A new purpose built factory is being constructed at a new site at nearby Melksham. In anticipation of this relocation, capital investment was minimised in 2003.

Directors' report *(continued)*

Proposed dividend

The directors do not recommend the payment of a dividend (2002: *£nil*)

Political and Charitable Donations

During the year, the Company made various charitable donations totalling £3,085 (2002: *£1,035*).

Directors and directors' interests

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

Mr P R Johnson

Dr D Wilhelm

Dr A Köhler

On 1 April 2004 Dr D Wilhelm resigned as a director and Dr F Gropengiesser was appointed as a director.

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 defined benefit final salary pension scheme for all employees who joined before 31 December 2003 and were over 18 years through participation in the Knorr-Bremse (UK) Bendix Scheme. The defined benefits scheme will be closed to new entrants from 1 January 2004. The company contributes to a designated stakeholder scheme for new employees.

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 has an environmental programme, which is accredited under ISO 14001.

Quality and Safety

The Company has a quality accreditation of ISO 9001:2000.

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. Employee surveys are conducted on a bi-annual basis.

The continued support of the management and our employees is fundamental to our continuing success. 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 2003.

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. As an RIA member the company has actively participated in the VIP initiative. This seeks to create supply chain partnerships to the benefit of all parties.

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



Neil Booth
Company Secretary

Foundry Lane
Chippenham
Wiltshire
SN15 1JB

17 August 2004

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 2003 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

18 August 2004

Profit and loss account
for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	1,2	45,756	49,330
Change in stocks of finished goods and work in progress		(927)	98
Other operating income		2,576	98
Raw materials and consumables		(21,584)	(23,365)
Staff costs	5	(11,640)	(11,691)
Depreciation and other amounts written off tangible and intangible fixed assets		(5,185)	(5,515)
Other operating charges		(8,195)	(7,655)
Operating profit		801	1,300
Interest payable and similar charges	6	(303)	(471)
Profit on ordinary activities before tax		498	829
Tax on profit on ordinary activities	7	73	-
Profit for the financial year	3	571	829

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 2003

	Note	2003 £000	2002 £000
Fixed assets			
Intangible assets	8	5,275	5,742
Tangible assets	9	11,830	17,370
Investments	10	61	61
		17,166	23,173
Current assets			
Stocks	11	5,297	5,870
Debtors	12	12,327	11,203
Cash at bank and in hand		977	1,538
		18,601	18,611
Creditors: amounts falling due within one year	13	(13,556)	(20,606)
Net current assets/(liabilities)		5,045	(1,995)
Total assets less current liabilities		22,211	21,178
Creditors: amounts falling due after more than one year	14	(781)	(319)
Net assets		21,430	20,859
Capital and reserves			
Called up share capital	15	-	-
Share premium account	16	22,000	22,000
Profit and loss account	16	(570)	(1,141)
Equity shareholders' funds	17	21,430	20,859

These financial statements were approved by the board of directors on 17th August 2004 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, except as noted below.

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 that 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 and 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 defined benefits pension scheme. 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

	2003 £000	2002 £000
<i>Retained profit is stated after charging/(crediting)::</i>		
Auditors' remuneration:		
Audit	28	30
Other services	26	17
Depreciation and other amounts written off owned tangible fixed assets	4,718	5,048
Amortisation of intangible fixed assets	467	467
Rent of land and buildings – operating leases	754	809
Hire of plant and machinery – operating leases	135	92
Research and development expenditure	1,123	882
Exchange (gains)/losses	(194)	447
Loss on disposal of fixed assets	633	-

4 Remuneration of directors

	2003 £000	2002 £000
Directors' emoluments	167	131
Pension contributions to defined benefit scheme	53	49
	220	180

Retirement benefits are accruing to one director (2002: 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	
	2003	2002
Manufacturing	196	242
Engineering	79	78
Administration	37	46
Sales, marketing and project management	35	34
	347	400

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	9,573	9,619
Social security costs	742	676
Other pension costs	1,325	1,396
	11,640	11,691

Notes (continued)

6 Interest payable and similar charges

	2003 £000	2002 £000
On bank loans and overdrafts	173	150
On other loans from group companies	130	321
	<u>303</u>	<u>471</u>

7 Taxation

Analysis of charge in period

	2003 £000	2002 £000
<i>UK corporation tax</i>		
Adjustments in respect of prior periods	1	-
Total current tax	<u>1</u>	<u>-</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	(250)	-
Adjustments to the estimated recoverable amount of deferred tax asset arising in previous periods	176	-
Total deferred tax (see note 18)	<u>(74)</u>	<u>-</u>
Tax on profit on ordinary activities	<u>(73)</u>	<u>-</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2002: lower) than the standard rate of corporation tax in the UK 30% (2002: 30%). The differences are explained below.

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	498	829
Current tax at 30% (2002: 30%)	<u>149</u>	<u>249</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	20	21
Capital allowances for period in excess of depreciation	602	352
Utilisation of tax losses	(955)	(488)
Movement in provisions	(5)	(133)
Fixed asset loss/(profit) on disposals	189	(1)
Adjustments to tax charge in respect of previous periods	1	-
Total current tax charge (see above)	<u>1</u>	<u>-</u>

Notes (continued)

8 Intangible fixed assets

Patents £000

Cost

At 1 January and 31 December 2003

7,000

Amortisation

At 1 January 2003

1,258

Charge for period

467

At 31 December 2003

1,725

Net book value

At 31 December 2003

5,275

At 31 December 2002

5,742

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 2003	27	23,592	5,614	2,684	31,917
Additions	-	141	4	158	303
Disposals	(27)	(6,775)	(8)	(67)	(6,877)
At 31 December 2003	-	16,958	5,610	2,775	25,343
Depreciation					
At 1 January 2003	22	10,640	2,337	1,548	14,547
Charge for the year	5	3,454	758	501	4,718
Disposals	(27)	(5,674)	(8)	(43)	(5,752)
At 31 December 2003	-	8,420	3,087	2,006	13,513
Net book value					
At 31 December 2003	-	8,538	2,523	769	11,830
At 31 December 2002	5	12,952	3,277	1,136	17,370

Notes (continued)

10 Fixed asset investments

	Shares in group undertakings £000
Cost	
At beginning and end of year	61
Provisions	
At beginning and end of year	-
Net book value	
At 31 December 2002 and 31 December 2003	61

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. IFE UK Services Ltd is a dormant company and did not trade during the period. On the 16 January 2004 IFE UK Services Ltd changed its name to Westinghouse Platform Screen Doors Ltd.

11 Stocks

	2003 £000	2002 £000
Raw materials and consumables	2,755	2,401
Work in progress	2,542	3,469
	5,297	5,870

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

12 Debtors

	2003 £000	2002 £000
Trade debtors	9,173	9,129
Amounts owed by group undertakings	967	694
Other debtors	1,935	1,281
Prepayments and accrued income	178	99
Deferred tax asset (see note 18)	74	-
	12,327	11,203

Other debtors includes £200,000 (2002: £nil) falling due after more than one year. The deferred tax asset of £74,000 (2002: £nil) falls due after more than one year.

Notes (continued)

13 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Other loans (see below)	-	2,681
Payments received on account	2,491	537
Trade creditors	5,891	4,866
Bills of exchange payable	1,400	2,503
Amounts owed to group undertakings	531	8,017
Corporation tax	1	-
Taxation and social security	1,019	798
Other creditors	458	496
Accruals and deferred income	1,765	708
	<u>13,556</u>	<u>20,606</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

	2003 £000	2002 £000
Payments received on account	<u>781</u>	<u>319</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 2003	22,000	(1,141)
Retained profit for the period	-	571
	<u>22,000</u>	<u>(570)</u>
At 31 December 2003	<u>22,000</u>	<u>(570)</u>

Notes (continued)

17 Reconciliation of movements in equity shareholders' funds

	2003 £000	2002 £000
Profit for the financial year	571	829
Net addition to shareholders' funds	571	829
Opening equity shareholders' funds	20,859	20,030
Closing equity shareholders' funds	21,430	20,859

18 Deferred taxation

	£000
At 1 January 2003	-
Credit to the profit and loss account	74
Asset at 31 December 2003	74

The elements of deferred taxation are as follows:

	2003 £'000	2002 £'000
Difference between accumulated depreciation and capital allowances	(770)	(971)
Amortisation of intangible assets	140	-
Other timing differences	184	181
Unutilised trading losses	2,130	3,092
Revaluation of fixed assets	(1,610)	(2,052)
Net deferred tax asset (see note 12)	74	250

In the year ended 31 December 2002 the net deferred tax asset was not recognised in the financial statements as the directors believed that insufficient evidence was available that the asset would be recovered in the future. This year the full amount of £74,000 has been recognised.

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 £7,136,000 (2002: £12,501,000).

Notes (continued)

20 Commitments

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

	2003 £000	2002 £000
Contracted	66	53

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

	2003		2002	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	-	13	-	-
In the second to fifth years inclusive	699	85	809	87
	<u>699</u>	<u>98</u>	<u>809</u>	<u>87</u>

21 Pension scheme

The company participates in two pension schemes – the Knorr-Bremse (UK) Pension Scheme and Knorr-Bremse (UK) Executive Scheme (“the schemes”). The schemes provide retirement benefits based on final pensionable salary and years of service. The assets of the schemes are held in separate trustee administered funds.

The pension cost for the scheme is charged to the profit and loss account so as to spread those costs over employees working lives with the company. The pension cost is determined by a qualified actuary on the basis of triennial valuations, with adjustments for significant post-valuation events. The most recent actuarial valuations of the schemes were carried out as at 1 January 2001, using the projected unit method. The schemes' assets were valued at market value. The main long-term assumptions used were that the investment return would be 6.25% pa pre-retirement, 5.25% post-retirement and pensionable salaries would increase at 4.0% pa. At the valuation date the market value of the schemes' assets was £53,552,000 and the actuarial value of these assets represented 102% of the benefits that had accrued to the members, after allowing for expected future increases in earnings. The variation in funding costs has been spread over thirteen years, being the average expected remaining working lives of the members.

With effect from 1 January 2004 a number of changes to the Scheme will be implemented. Only benefits accrued by existing members post 1 January 2004 will be affected by these changes. The defined benefits scheme will be closed to new entrants from 31 December 2003. The company contributes to a designated stakeholder scheme for new employees.

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 FRS17 allowing it to treat the scheme as if it were a Defined Contribution scheme for purposes of the statutory accounts.

The pension cost charge for the period represents the employers contributions payable by the company to the fund and amounted to £1,325,000 (2002:£1,396,000).

Contributions amounting to £133,000 (2002:£147,836) were payable to the fund at the year end and are included in creditors.

Notes *(continued)*

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.