

Knorr-Bremse Rail Systems (UK) Limited

Report and financial statements

Registered number 03974921

31 December 2016

THURSDAY



A6FFTGDD

A13

21/09/2017

#445

COMPANIES HOUSE

Contents

Strategic Report	1
Directors' report	3
Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements	5
Independent auditor's report to the members of Knorr-Bremse Rail Systems (UK) Limited	6
Profit and Loss Account and Other Comprehensive Income	8
Balance Sheet	9
Statement of Changes in Equity	10
Notes	11

Strategic Report

The directors present their strategic report for the year to 31 December 2016.

Review of the business and its prospects

The Company's principal activities during the year were the design and manufacture of braking systems and related products for rail vehicles together with the design, manufacture and installation of platform screen door systems on rail station platforms. In addition, the Company provides a full service and maintenance support for both braking and platform screen door systems. The Company also supports and services the full range of Knorr-Bremse Rail group door and air conditioning products in the geographical market of the UK and Ireland.

The Company has continued to integrate its recently acquired subsidiary Knorr-Bremse RailServices Limited into the UK rail group to realise opportunities for increasing sales and achieving business efficiencies and cost savings. Nevertheless this subsidiary has continued to make substantial losses and rely heavily on Knorr-Bremse Systeme für Schienenfahrzeuge (a parent company) for financial support. As future losses and the need for financial support are expected, the directors have made a full provision against the cost of this investment. The brake pad business of TMD Friction UK Limited was acquired on 1 February 2016 to strengthen the Company's position as a systems supplier and add to its expertise in friction materials. £4.3 million cash was paid for the trade and assets. The fair value of the technical and commercial knowledge acquired has been estimated by the Directors to be £3.8 million. This has been recognised in the balance sheet as an intangible asset valued at £2.9 million after amortisation.

Total company turnover in 2016 was £118 million (2015: £95 million) which is in line with the directors' expectations. The £9.4 million profit on ordinary activities before taxation for the reporting year (2015: £13.8 million) includes £2.3 million depreciation and amortisation (2015: £1.3 million) and £3 million provision against the cost of investment in Knorr-Bremse RailServices Limited. The increase in sales in 2016 is substantially accounted for by increase in OE projects and intercompany sales. The profit for the year of £4.9 million (2015: £8.9 million) has largely been absorbed by the increased provision for the defined benefit pension scheme leaving £1.0 million to transfer to shareholders' funds.

Stocks have increased to £20.1 million (2015: £13.1 million) as the company is approaching the completion of a number of major projects. Trade debtors have increased also as a result of activities on these contracts to £16.5 million (2015: £12.9 million). The additional working capital has been provided by an increased group loan of £8.1 million (2015: £2.9 million). Net current assets stand £1.9 million lower at £27.6 million (2015: £29.5 million). Provisions for liabilities have increased to £7.0 million (2015: £4.8 million) largely as a result of an increased provision for defined pension scheme liability. After payment of an interim dividend of £6.7 million (2015: £2.0 million) shareholders' funds stand at £32.2 million (2015: £37.9 million). Overall, the directors are satisfied with the results for the year and remain confident in the long term future of the business.

Spend on research and development in 2016 was 0.8% of turnover (2015: 0.8%). This is set to increase as further improvements in existing product lines are sought and as new products are developed. The company continues to spend on research to improve the reliability of its product range.

Principal areas of risk

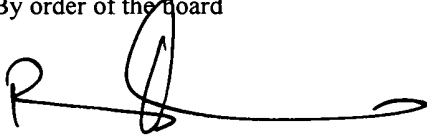
The directors have identified the following areas of principal risk in the business and believe that adequate measures have been identified and implemented to mitigate these.

Risk	Information Technology – obsolescence and security
Mitigation	We continue to invest in updated technology and undergo regular Knorr-Bremse Group audits of our security procedures and systems. The latest audit showed high adherence to security procedures.

Strategic report (continued)

Risk Mitigation	Economy – general economic downturn Despite the difficult current economic climate, our order book remains strong. This, together with the government support pledged for several key major upgrades to the rail network, underpins our belief in a secure future business. We continue to invest in the development and improvement of our product range to ensure our position in the market place as a trusted supplier of high quality goods and services.
Risk Mitigation	Foreign exchange – adverse movement in rates All significant contract-related foreign currency cash flows are managed by a group treasury department on behalf of the company to minimise risk in the most appropriate manner.
Risk Mitigation	Supply chain - continuity of supply from key suppliers The Company has recognised the risk associated with reliance on sole-source supply since 2009 and has since been engaged in a continuous policy of increasing its dual source capability, as far as possible.
Risk Mitigation	Disaster – significant disruption to business from a range of adverse incidents The Company has a formal Disaster Recovery Plan across all areas of the business. The plan is reviewed and updated on a regular basis.
Risk Mitigation	Competition eroding the Company's strong market position within the rail industry The Company strives to maintain its competitive advantage by continual investment into R&D, training, business systems and improvements in production methods to support the market needs. The company will continue to broaden the range of products and services offered to the rail industry with the acquisition, integration and development of well-judged strategic acquisitions.
Risk Mitigation	Brexit impact on Company supply lines The Company is beginning to assess the impact of Brexit for trade with EU partners under various potential outcomes. The company is researching ways of assessing the impact of possible customs duty regimes on the cost of its imports and exports. However the high level of uncertainty concerning the content of the Brexit agreement means that a detailed assessment is not yet possible.

By order of the Board



Paul Goodhand
Director

Westinghouse Way,
Hampton Park East,
Melksham,
Wiltshire SN12 6TL

29 August 2017

Directors' report

Dividend

During the year the company paid a dividend of £6.75 million (2015: £2.0 million).

Directors

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

Paul Goodhand

Rolf Haerdi (resigned 14 July 2016, reappointed 8 December 2016)

Martin Lange (appointed 14 July 2016, resigned 8 December 2016)

Employee policies

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

The Company provided a defined benefit pension scheme for all employees who joined before 31 December 2004 and were over 18 years of age through participation in the Knorr-Bremse (UK) Pension Scheme. The defined benefits scheme was closed to new entrants from 1 January 2004 and closed to future accrual with effect from 1 January 2013. The company has contributed to a designated defined contribution scheme for new employees since January 2004.

Achievement of qualifications, outstanding performance and service are recognised annually in an awards ceremony.

Environmental, quality and safety policies

In 2016 the Company was successful in the recertification of the Quality Management System to IRIS with a score of 79%. The Environmental Management System to EN ISO 14001-2009 and The Occupation Health & Safety System to EN OHSAS 18001 were successfully audited by Bureau Veritas in December 2015. The requirements of the Railway Industry Supplier Approval Scheme were satisfied during external audit by the accredited certification body, SGS.

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 where suitable positions exist.

Directors' indemnity provisions

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year.

Employee involvement

Employee consultation, communication and involvement are recognised as being of great value and these practices will be maintained and developed. Regular meetings are held between management and employees to facilitate an exchange of information and ideas.

Directors' report *(continued)*

The continued support of 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 initiatives and progress in 2016.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



Paul Goodhand
Director

Westinghouse Way,
Hampton Park East,
Melksham,
Wiltshire SN12 6TL

29 August

2017

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.



Independent auditor's report to the members of Knorr-Bremse Rail Systems (UK) Limited

We have audited the financial statements of Knorr-Bremse Rail Systems (UK) Limited for the year to 31 December 2016 set out on pages 8 to 27. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Knorr-Bremse Rail Systems (UK) Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Huw Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

29 August 2017

Profit and Loss Account and Other Comprehensive Income
for the year to 31 December 2016

	Note	2016 £000	2015 £000
Turnover	3	118,290	94,897
Changes in stocks of finished goods and work in progress		(2,531)	(97)
Raw material and consumables		(59,605)	(45,485)
Staff costs	5	(25,146)	(19,413)
Depreciation and other amounts written off tangible and intangible fixed assets		(2,272)	(1,347)
Other operating charges		(19,306)	(14,904)
Operating profit	4	9,430	13,651
Interest receivable and similar income	6	385	383
Interest payable and similar charges	7	(395)	(253)
Profit on ordinary activities before taxation		9,420	13,781
Tax on profit on ordinary activities	8	(4,566)	(4,863)
Profit for the year		4,854	8,918
Other comprehensive income			
Remeasurement of the net defined benefit (asset) liability		(4,670)	94
Income tax on other comprehensive income	8	842	(306)
Other comprehensive loss for the year, net of tax		(3,828)	(212)
Total comprehensive income for the year		1,026	8,706

The notes on pages 11 to 27 form an integral part of these financial statements.

Balance Sheet
at 31 December 2016

	Note	2016		2015	
		£000	£000	£000	£000
Fixed assets					
<i>Intangible assets</i>					
Patents	9	-		-	
Technical and commercial knowledge	9	2,919		-	
		<u>2,919</u>		<u>-</u>	
Tangible assets	10	8,677		8,330	
Investments	11	-		3,000	
Pension asset	18	-		1,866	
			<u>11,596</u>		<u>13,196</u>
Current assets					
Stocks	12	20,107		13,196	
Debtors	13	33,943		36,538	
Cash at bank and in hand	14	1,837		1,996	
		<u>55,887</u>		<u>51,730</u>	
Creditors: amounts falling due within one year	15	(28,287)		(22,193)	
		<u></u>		<u></u>	
Net current assets			<u>27,600</u>		<u>29,537</u>
Total assets less current assets			<u>39,196</u>		<u>42,733</u>
Provisions for liabilities					
Warranty	17	(3,651)		(3,988)	
Contract	17	(486)		(774)	
Other	17	(82)		(82)	
Pension liability	18	(2,812)		-	
		<u>(7,031)</u>		<u>(4,844)</u>	
Net assets			<u>32,165</u>		<u>37,889</u>
Capital and reserves					
Called up share capital	19	-		-	
Profit and loss account		32,165		37,889	
		<u>32,165</u>		<u>37,889</u>	
Shareholders' funds			<u>32,165</u>		<u>37,889</u>

These financial statements were approved by the board of directors on 29/06 and were signed on its behalf by:

Paul Goodhand
Director

Company registered number: 3974921



The notes on pages 11 to 27 form an integral part of these financial statements.

Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2015	-	22,000	9,034	31,034
Effect of change of accounting policy	-	-	134	134
Balance at 1 January restated	-	22,000	9,168	31,168
Total comprehensive income for the period				
Profit	-	-	8,918	8,918
Other comprehensive income	-	-	(212)	(212)
Total comprehensive income for the period	-	-	8,706	8,706
Transactions with owners, recorded directly in equity				
Cancellation of share premium account	-	(22,000)	22,000	-
Dividends			(1,985)	(1,985)
Balance at 31 December 2015	-	-	37,889	37,889

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2016	-	-	37,889	37,889
Total comprehensive income for the period				
Profit	-	-	4,854	7,854
Other comprehensive income	-	-	(3,828)	(3,828)
Total comprehensive income for the period	-	-	1,026	4,026
Transactions with owners, recorded directly in equity				
Dividends			(6,750)	(6,750)
Balance at 31 December 2016	-	-	32,165	35,165

The notes on pages 11 to 27 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Knorr-Bremse Rail Systems Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements are for the year ended 31 December 2016. Comparative figures are for the year ended 31 December 2015.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Knorr-Bremse AG includes the Company in its consolidated financial statements. The consolidated financial statements of Knorr-Bremse AG are prepared in accordance with German GAAP and are available to the public and may be obtained from Moosacher Str. 80 D80809 München, Germany. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes
- Related party transactions and
- Key Management Personnel compensation.

As the consolidated financial statements of Knorr-Bremse AG include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

The directors have prepared the accounts on a going concern basis having reviewed the cash-flow forecast of the Company for the foreseeable future and are satisfied that the Company will be able to satisfy its liabilities as they fall due.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction or at the hedged exchange rate, if relevant. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date or at the hedged rate, if relevant. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction or the hedged rate, if appropriate. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

1.4 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

1.5 Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in subsidiaries

These are separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment in accordance with FRS 102.18.18, *Intangible assets other than Goodwill*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes (continued)

1 Accounting policies (continued)

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- | | |
|---|---------------|
| • buildings | 5 to 20 years |
| • plant and machinery | 3 to 13 years |
| • fixtures, fittings, tools and equipment | 3 to 13 years |
| • computer equipment | 5 to 8 years |

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.7 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the company.

At the acquisition date, the company recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

1.8 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Patents

Patents owned by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses. Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of patents. Patents are amortised from the date they are available for use. The estimated useful life is 15 years which is the period over which the Company expects to receive an economic benefit from it.

Technical and commercial knowledge

Technical and commercial knowledge acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses. Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of the assets. The assets are amortised from the date of acquisition. The estimated useful life is 4 years which is the period over which the Company expects to receive an economic benefit from them.

Impairment

Goodwill and other intangible assets are tested for impairment in accordance with FRS 102:27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Notes (continued)

1 Accounting policies (continued)

1.9 Long-term work-in-progress

Long-term work-in-progress represents the gross unbilled amount on long-term fixed price contract work performed to date. It is measured at cost less a provision for foreseeable losses. Cost includes all expenditure related directly to specific projects and includes an appropriate proportion of attributable overheads.

If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

1.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

1.11 Impairment excluding stocks, and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination is tested for impairment by determining the recoverable amount of the entity in its entirety, including the integrated acquired operations.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Accounting policies (continued)

1.12 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by the directors or a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income.

1.13 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.14 Turnover and long-term contract cost recognition

Turnover is measured at the fair value of consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

On manufactured braking systems and related products for rail vehicles, turnover is recognised when title transfers.

Platform screen door systems are usually long-term contracts. When the outcome of a long-term contract can be estimated reliably and it is probable that the contract will be profitable, turnover on long-term contracts is recognised as the proportion of total revenue receivable calculated by reference to the proportion of the total estimated costs incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised only to the extent that contract costs are likely to be recoverable.

Notes (continued)

1.15 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

1.16 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

2 Acquisition of businesses

Acquisition in the current period

On 1 February 2016, the Company acquired trade and assets of TMD Friction UK Limited for £4,266,000. The company makes braking equipment for trains. The business contributed revenue of £1,991,000 and a net profit before tax of £354,000 to the revenue and net profit for the year.

Effect of acquisition

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Tangible fixed assets	192
Trade and other debtors	547
Trade and other creditors	(310)
Net recorded assets and liabilities	429
Fair value adjustment for intangible assets (technical and commercial knowledge)	3,837
Net identifiable assets and liabilities	4,266
Total cost of business combination:	
Cash paid	4,266

3 Turnover

Segmental analyses are made in the accounts of the ultimate parent company, Knorr-Bremse AG, in which the results of the company are consolidated.

4 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2016 £000	2015 £000
Research and development expensed as incurred	818	809
Provision against cost of fixed asset investment (see note 11)	3,000	-

Auditor's remuneration:

	2016 £000	2015 £000
Audit of these financial statements	25	26

Notes (continued)

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 2016	Number of employees 2015
Manufacturing	171	231
Engineering	61	76
Administration	30	31
Sales, marketing and project management	195	76
	<u>457</u>	<u>414</u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	19,546	16,248
Social security costs	2,287	1,913
Pension contributions	3,313	1,252
	<u>25,146</u>	<u>19,413</u>

Directors' remuneration

	2016 £000	2015 £000
Directors' emoluments	132	208
Pension contributions	5	18
	<u>137</u>	<u>226</u>

The remuneration above relates to one director (2015: one). Retirement benefits are accruing to one director under a defined contribution scheme (2015: one).

6 Interest receivable and similar income

	2016 £000	2015 £000
Receivable from group undertakings	170	173
Other interest receivable	215	210
	<u>385</u>	<u>383</u>

Notes (continued)

7 Interest payable and similar charges

	2016 £000	2015 £000
Payable to group undertakings	171	34
Other interest	224	219
Total interest payable and similar charges	395	253

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016 £000	£000	2015 £000	£000
<i>Current tax</i>				
Current tax on income for the period	-		2,034	
Charges for group relief	3,800		3,389	
Adjustments in respect of prior periods	44		47	
Total current tax		3,844		5,470
<i>Deferred tax (see note 16)</i>				
Origination and reversal of timing differences	(120)		(607)	
Total deferred tax		(120)		(607)
Tax expense relating to transition to FRS 102		-		306
Total tax expense		3,724		5,169

	2016 £000	£000	2016 £000	£000	2015 £000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit and loss account	3,844	722	4,566	5,470	(607)	4,863
Recognised in other comprehensive income	-	(842)	(842)	-	306	306
Total tax expense/(income)	3,844	(120)	3,724	5,470	(301)	5,169

Notes (continued)

8 Taxation (continued)

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	4,854	8,918
Total tax expense	4,566	4,863
Profit excluding taxation	9,420	13,781
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	1,884	2,791
Expenses not deductible for tax purposes	656	66
Depreciation in excess of capital allowances	1,316	180
Timing differences on pension deductions	(553)	(1,610)
Charges for group relief	3,800	3,389
Group relief	(2,580)	-
Underprovided in prior years	43	47
Total tax expense included in profit or loss	4,566	4,863

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly.

9 Intangible assets

	Patents £000	Technical and commercial knowledge £000	Total £000
Cost			
Balance at 1 January	7,000	-	7,000
Acquisitions through business combinations	-	3,837	3,837
Balance at 31 December	7,000	3,837	10,837
Amortisation and impairment			
Balance at 1 January	7,000	-	7,000
Amortisation for the year	-	918	918
Balance at 31 December	7,000	918	7,918
Net book value			
At 1 January	-	-	-
At 31 December	-	2,919	2,919

Notes (continued)

10 Tangible fixed assets

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost					
Balance at 1 January	3,922	27,777	6,224	4,229	42,152
Acquisitions through business combinations	95	37	58	2	192
Additions	82	317	949	161	1,509
Disposals	-	-	-	-	-
Balance at 31 December	4,099	28,131	7,231	4,392	43,853
Depreciation and impairment					
Balance at 1 January	2,137	21,914	6,021	3,750	33,822
Depreciation charge for the period	232	801	81	240	1,354
Disposals	-	-	-	-	-
Balance at 31 December	2,369	22,715	6,102	3,990	35,176
Net book value					
At 1 January	1,785	5,863	203	479	8,330
At 31 December	1,730	5,416	1,129	402	8,677

11 Fixed asset investment

	Shares in group undertaking £000
Cost	
Balance at 1 January and 31 December	3,000
Provision for impairment	
Balance at 1 January	-
Provision for the year	3,000
Balance at 31 December	3,000
Net book value	
At 1 January	3,000
At 31 December	-

The charge for the provision is included in Other operating charges in the Profit and Loss Account

Notes (continued)

11 Fixed asset investment (continued)

The Company had the following investment in a subsidiary:

	Deficit on Aggregate capital and reserves £000	Loss for the year £000	Country of incorporation	Class of shares held	Ownership 2015 and 2016 %
Knorr-Bremse RailServices (UK) Limited (registered office address Westinghouse Way, Melksham, Wiltshire SN12 6TL)					
Balance at 31 December	(26,459)	(12,932)	UK	Ordinary	100

12 Stocks

	2016 £000	2015 £000
Raw materials and consumables	8,258	5,920
Work in progress	4,261	1,020
Finished goods	7,588	6,256
	<u>20,107</u>	<u>13,196</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the period amounted to £51,084,000 (2015: £45,583,000). The write-down of stocks to net realisable value amounted to £390,000 (2015: £217,000). The write-down is included in change in stocks of finished goods and raw materials.

13 Debtors

	2016 £000	2015 £000
Trade debtors	16,457	12,894
Amounts owed by group undertakings	12,818	19,904
Other debtors	638	1,332
Corporation tax	1,518	-
Deferred tax	694	574
Taxation and social security	442	585
Prepayments and accrued income	1,376	1,249
	<u>33,943</u>	<u>36,538</u>
Debtors due within one year	<u>33,943</u>	<u>36,538</u>

14 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	1,837	1,996

Notes (continued)

15 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Payments received on account	153	155
Trade creditors	12,405	11,139
Amounts owed to group undertakings	8,162	2,878
Corporation tax	-	339
Taxation and social security	1,004	531
Accruals and deferred income	6,563	7,151
	28,287	22,193

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2016 £000	Assets 2015 £000	Liabilities 2016 £000	Liabilities 2015 £000	Net 2016 £000	Net 2015 £000
Deferred capital allowances	-	(134)	179	-	179	(134)
Other	(873)	(780)	-	340	(873)	(440)
Net deferred tax (assets)/liabilities	(873)	(914)	179	340	(694)	(574)

£371,000 deferred tax asset arises in relation to pension costs not fully deductible in 2014 and subsequent years. It is expected to reverse fully in 2017. The remainder, £502,000, relates to the defined benefit pension liability on the balance sheet.

17 Provisions

	Warranty	Contract	Other	Total £000
Balance at 1 January	3,988	774	82	4,844
Provisions made during the period	3,271	-	-	3,271
Provisions used during the year	(3,608)	(288)	-	(3,896)
Balance at 31 December	3,651	486	82	4,219

(i) Warranty

Warranty provision is against statistically anticipated warranty claims based on past experience, or specific claims where known.

(ii) Contract

Contract provisions are specific and relate to existing or past contracts and are based on estimated costs to complete onerous contracts and meet contractual obligations for liquidated damages.

(iii) Other

These include provisions relating to dilapidations of occupied premises. Dilapidation provision is recognised based on estimated costs payable at the end of relevant leases. Other provisions are made for penalties and legal cases where the amount and timing of payment are uncertain, but can be estimated with reasonable accuracy.

Notes (continued)

18 Employee benefits

Defined benefit plans

The information disclosed below is in respect of the proportion of the plans for which the Company has been allocated a share of cost under an agreed group policy throughout the periods shown. This policy allocates members to sections of the plans according to their most recent employer company. These are the Knorr-Bremse (UK) Pension Scheme and the Knorr-Bremse (UK) Executive Scheme ("the Schemes"). The Schemes provide retirement benefits based on career re-valued and/or final pensionable salary and years of service. The Schemes are held in separate Trustee administered funds.

The schemes have now been closed to the future accrual of benefits with effect from 1 January 2013. The company provided a defined contribution plan for employees with effect from 1st January 2013.

Net pension (liability)/asset

	2016	2015
	£000	£000
Defined benefit obligation	(76,552)	(56,437)
Plan assets	73,740	58,303
Net pension (obligation) asset	(2,812)	1,866

Movements in present value of defined benefit obligation

	2016	2015
	£000	£000
At 1 January	56,437	59,561
Interest expense	2,232	2,142
Benefit payments	(1,290)	(3,312)
Change in actuarial assumptions	19,173	(1,954)
At 31 December	76,552	56,437

Movements in fair value of plan assets

	2016	2015
	£000	£000
At 1 January	58,303	59,729
Interest income	2,344	2,178
Employer contributions	1,981	1,722
Remeasurement: return on plan assets less interest income	12,522	(1,860)
Benefits paid	(1,290)	(3,312)
Administrative expenses	(120)	(154)
At 31 December	73,740	58,303

Notes (continued)

18 Employee benefits (continued)

Expense recognised in the profit and loss account

	2016 £000	2015 £000
Recognised in Staff costs	1,989	1,604
Recognised in Other comprehensive income	4,670	94
Total expense recognised in profit or loss	6,659	1,698

The fair value of the plan assets and the return on those assets were as follows:

	2016 Fair value £000	2015 Fair value £000
Equities	14,800	14,653
Government debt	30,797	20,133
Corporate bonds	14,982	13,756
Other	13,161	9,761
	73,740	58,303
Actual return on plan assets	19%	(3%)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2016 %	2015 %
Discount rate to determine defined benefit obligations	4.00%	4.00%
Discount rate to determine costs relating to defined benefit plans	3.70%	3.70%

The last full actuarial valuation was performed on 31 December 2016.

In valuing the liabilities of the pension fund at 31 December 2016 and 2015 mortality rates are based on S2PA base tables with CMI_2014 projections with a long term trend of 1.5% p.a. (and -1 year age rating for the Executive Scheme).

Defined contribution plan

The Company operates a defined contribution pension plan.

The total expense relating to these plans in the current year was £1,007,000 (2015: £1,134,000)

Notes (continued)

19 Capital and reserves

Share capital

	Ordinary shares 2016
<i>Allotted, called up and fully paid</i>	
100 ordinary shares of £1	
On issue at 1 January and 31 December – fully paid	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

20 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	854	851
Between one and five years	2,999	3,207
More than five years	2,475	3,094
	6,328	7,152

During the year £1,558,000 (2015: £1,413,000) was recognised as an expense in the profit and loss account in respect of operating leases.

21 Commitments

Capital commitments

The Company's contractual commitments to purchase tangible fixed assets at the year-end were £431,000 (2015: £577,000).

22 Contingent liability

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 £7,732,000 (2015: £6,961,000).

23 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Knorr-Bremse Investment (UK) Limited. The ultimate controlling party is Knorr-Bremse AG.

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

Notes (continued)

24 Accounting estimates and judgements

Key sources of estimation uncertainty

Turnover

Turnover on long-term platform screen doors contracts are calculated by reference to the amounts in customer contracts as adjusted by subsequent variation orders and similar agreements. Contract cost estimates are systematically revised as work on the contract progresses. There are therefore fluctuations in the estimated profit per completed unit as estimates are adjusted over the lifetime of each contract.

Fixed asset investment

Knorr-Bremse RailServices Limited has continued to make substantial losses and rely heavily on other group companies for financial support. The directors expect that the company will make further losses and continue to need financial support. Hence they have made the judgement that the value of this investment is impaired as recognised in these financial statements.

Contract provisions (note 17)

Contract provisions are made for probable costs that may be incurred by the Company in particular unique sets of circumstances and depend for their accuracy on management's experience of similar situations. The actual amount provided reflects the estimated probability of cost being incurred and the current understanding of the financial risk. Contractual provisions are regularly reviewed and adjusted according to the current state of knowledge.

Warranty provision (note 17)

The Company provides for the costs of contract warranty work on the basis of experience gathered in previous years. However this cannot fully reflect the level of warranty risk associated with new and improved product lines.

Defined benefit pension scheme assumptions

The valuation of defined benefit pension scheme liabilities uses a financial and demographic model to present a single scenario from a wide range of possibilities. The schemes' actual experience will inevitably differ from the assumptions underlying the financial and demographic model. The differences may be material because the valuation is very sensitive to the assumptions made over a long period of time.