

COMPANY REGISTRATION NO. 03640941 (England and Wales)

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 SEPTEMBER 2019



MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

COMPANY INFORMATION

Directors	Mr H James Mr J Ramos Mr T Scipioni Mr K Hogan (Appointed 3 February 2020)
Secretary	NoRose Company Secretarial Services Limited
Company number	03640941
Registered office	Grange Road Cwmbran Gwent UK NP44 3XU
Auditor	Deloitte LLP Cardiff Wales United Kingdom

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

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MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 29 SEPTEMBER 2019

The directors present their strategic report on the affairs of the company, together with the financial statements, directors' report and auditor's report, for the year ended 29 September 2019.

The directors, in preparing this strategic report, have complied with s414c of the Companies Act 2006.

Business review and future developments

The principal activity of the company continued to be that of the design, manufacture and supply of disk brake products.

The majority of the company's products are exported to Europe and beyond. The largest customer of the business is Volvo, with whom a long-term supply agreement is in place through to 2023. Product development has continued to be directed towards the customer and market focus of efficiency with the primary aim of weight reduction.

The turnover for the year ended 29 September 2019 was £148,265,000 (2018: £143,619,000), the increase was largely driven by and increase in volumes and exchange rate benefits.

The net assets of the company as at 29 September 2019 were £150,489,000, an increase of £653,000 from the prior year owing to the actuarial gain on the company's defined benefit pension scheme of £9,000,000 offset by the loss for the year of £6,817,000.

The company's average headcount remained consistent with the prior year at 472 (2018: 471). Investment in the forward-looking aspects of the business such as research and development and business development were maintained.

The company continues to invest in the business and the remodelling of the site has continued which has resulted in a significant improvement in both appearance and layout of the company's site. The remodelling work is nearing completion and the final element of the works are expected to be completed by 2020. In addition, the company continues to invest in the latest technologies in both assembly and machining equipment and toward the end of the financial year launched a new manufacturing line which will improve manufacturing efficiency enabling the company to reduce costs, and significantly improve both manufacturing and engineering technology and standards.

The company has, and continues to, operate with the continued uncertainty surrounding Brexit. The company established a Brexit Steering Committee which meets regularly to review developments surrounding Brexit and its impact on customers, suppliers and employees and consults regularly with these stakeholders to appropriately manage and address any identified risks. The UK was originally expected to leave the EU on 31 March 2019 and working with our major customers and suppliers we undertook a build programme to ensure suppliers had a suitable level of inventory buffer ahead of 31 March to ensure any disruptions caused as a result of the UK's exit from the EU was minimised. Whilst the UK did not ultimately leave on 31 March, the director's continue to monitor future developments in relation to Brexit and believe that the appropriate measures established place the company in a suitable position to respond appropriately to the UK's eventual exit from the EU.

The directors are not aware of any other future developments which are likely to have a direct material impact on the nature of the business or the results of its operations.

Principal risks and uncertainties

The company's sales are largely dependent on one customer, Volvo, however a long-term supply agreement has been signed through to 2023.

The company is also involved in several bids for business with other major customers, aimed at both expanding the business profitably and further mitigating this risk in the long term. During the financial year the company announced it was entering an agreement to supply air disc brakes to Schmitz Cargobull AG, a manufacturer of semitrailers, trailers and truck bodies, beginning in 2021.

The majority of sales are to customers in the EU and therefore the result of the UK referendum to leave the EU does create uncertainty in both the exchange rate and the possible risk of trade tariffs. At this point it is not possible to predict the impact on the company.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED**STRATEGIC REPORT (CONTINUED)****FOR THE YEAR ENDED 29 SEPTEMBER 2019**

A significant proportion of the company's sales are made in Euros and the company is therefore exposed to the movement in exchange rates. To offset this risk a major part of the company's material purchases are also made in these currencies. When significant foreign exchange exposure is identified, the company has access via its ultimate parent company's corporate treasury function to foreign exchange forward contracts. The hedging of such exposures through foreign exchange forward contracts is managed centrally by Meritor, Inc. on a group basis. The company does not enter into forward foreign currency contracts itself; fellow Meritor, Inc. group companies enter into these contracts directly on the instruction of corporate treasury. Gains or losses arising are subsequently allocated to the company by Meritor, Inc. as appropriate and are included as either a cost of sales or an administrative cost depending on the substance of the underlying transaction.

An environmental study was completed during 2014 at the company's principal facility at Grange Road, Cwmbran. The findings indicated that a number of recognised environmental conditions were present at parts of the site. A remediation plan has been agreed by the directors, the local authority and the Welsh Environment Agency and is now underway. There is inherent uncertainty over the timing and amounts required to complete the remediation plan.

Key performance indicators

The company's key performance indicators (KPIs), which are used by management and the board in monitoring the performance of the company are as follows:

Metric	2019	2018	2017	2016	Qualitative analysis
Days Sales Outstanding	52.8	59	43.2	56.9	Reduction reflects improved cash collection activities
Days Payable	57	57	68	73.5	Improved performance on prior years but the 57 days is now consistent with the majority of our payment terms
Inventory Days	14	15	15.3	9.8	Inventory days is broadly consistent with previous financial years and in line with targets
Revenue	148,265	143,619	119,982	97,050	The growth in revenue reflects increased volumes and the benefit of favourable Euro to GBP rates

Approved by the board and signed on its behalf by



Mr H James

Director

24.1.2020

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 29 SEPTEMBER 2019

The directors present their annual report and financial statements for the year ended 29 September 2019.

A fair review of the business and discussion of principal risks and uncertainties is covered in the strategic report.

Directors

The directors who served throughout the year and thereafter were as follows:

Mr H James

Mr A Nicol

Mr J Ramos

Mr T Scipioni

Mr K Hogan

(Resigned 3 February 2020)

(Appointed 3 February 2020)

Results and dividends

The results for the year are set out on page 11.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend (2018 - nil).

Qualifying third party indemnity provisions

The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date. These provisions applied to directors of parent and subsidiary entities also.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. Meritor Heavy Vehicle Braking Systems (UK) Limited is part of the Meritor Inc. group ("the Group") and the use of financial derivatives is governed by the Group's policies which provide written policies on the use of financial derivatives to manage these risks. Derivative financial instruments are not used for speculative purposes.

Liquidity risk

The Company is part of the Group's cash pooling scheme which ensures sufficient funds are available to maintain liquidity. Further details regarding liquidity risk can be found in the Statement of accounting policies in the financial statements.

Cash flow risk

The Company's activities expose it to the risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to hedge these exposures.

Credit risk

The Company's principal financial assets are trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Company is exposed to credit risk on its largest customer however the exposure is actively managed through the use of appropriate credit limits and debt factoring.

Research and development

The company has continued to invest in research and development of new and enhanced product designs. See note 4 for amounts of expenditure incurred in the year.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests.

Information about matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

Employee participation

The Company is part of the wider Meritor Inc. Group and is therefore party to Group wide policies on procedures with regard employee participation. Both the Company and the wider Group is committed to investing heavily in it's people and it is one of the key pillars of our M2022 strategy ensuring we have engaged, results-driven teams.

The Company is committed to recruiting, developing and retaining a high-performance and diverse workforce through strategic partnerships and collaboration within the business. The goal is to maximise individual and organizational potential within the workforce.

Both the Company and the Group recognise the need to communicate regularly and effectively with employees at all levels and this is conducted at both a Group and Company level.

Group communications include, but are not limited to:

Quarterly All Employee meetings

All employees are invited to a quarterly meeting where the group CEO and CFO, together with other members of the senior leadership of the Group provide an update on the group covering items such as financial and operational performance, new business wins, strategic update and employee engagement. In addition to being streamed live, these quarterly meetings are available to employees on our intranet site, Bulletin. In addition, on an annual basis this meeting is used to communicate to all employees the annual financial results of the group and how these compare to our stated targets and ultimately on the annual bonus % which all employees are eligible to receive.

All Employee emails

All employee emails are regularly distributed and cover a wide ranging number of matters including organisational changes, strategic announcements, employee initiatives, industry and company news. This information is also available on our intranet site, Bulletin.

Bulletin

This is the group's intranet site and is available to all employees and covers a wide range of areas including information about the group, employee development portals, and company and industry news. The intranet also provides access to a wide array of employee engagement and development tools such as e-learning, career opportunities, employee development, employee resources and employee discounts.

In addition to the Group communications, those employees who are employed by the Company also receive additional communications including:

Quarterly all employee newsletters

These all employee newsletters provide updates from each of the key functions within the Company including an update on the trading position of the company.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

Employee bulletin boards

These boards are used to provide information to employees, particularly those operating on the factory floor and with limited access to the intranet. These cover a wide range of areas including operational and financial performance, employee updates together with any employee vacancies and training.

Trade Union

All employees below management are part of the Trade Union which meets regularly with local leadership to ensure any employee views are considered as part of local decision making including items such as remuneration, working conditions and any other employee related matters.

Climate change

The directors' recognise the impact large international manufacturing businesses have on the climate and the increasing need to assess and indeed address this. Whilst no formal policies or procedures exist with this regard the directors' have identified key components of the business which could impact climate change including:

- Transportation of components from suppliers used in the manufacture of the Company's goods and the transportation of finished goods to end customers using both road, sea and freight
- Energy usage during the manufacture of goods and within the administrative offices
- Carbon emissions arising from employees travelling both domestically and internationally

The directors' have taken steps to address these matters and will continue to do so in the future including:

- Optimising the utilisation of hauliers to limit the number of deliveries required both in terms of supplies received and shipped. In addition, the company seeks to minimise the use of air freight
- Use of modern technology such as motion sensor lighting to reduce energy usage
- Work with responsible utility providers
- Provision of modern technology such as video calling, webex and skype to reduce the requirement for frequent international and domestic air travel

The directors' recognise that this is a continually evolving area and the Company is committed to ensuring it responds appropriately to climate risk.

Future developments

Future developments are discussed in the Strategic Report.

Auditor

Deloitte LLP are deemed to be reappointed as the company's auditor under section 487(2) of the Companies Act 2006.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

Going concern

The world is in the midst of a global pandemic and the impact of the 2019 Coronavirus (COVID-19) is far reaching. Whilst not relevant for the year ended 30 September 2019, the impact of COVID-19 is being felt in the second half of FY2020. As a responsible business, we are continually considering the impact of COVID-19 with particular regard to our customers, suppliers and employees and on 31 March, production in our UK plant together with a number of Meritor's other manufacturing plants globally was temporarily halted as a number of major OEMS temporarily suspended their operations which invariably had an impact on demand.

In order to address this significant downturn in activity the business took a number of actions to limit the impact on the business whilst safeguarding both the livelihoods and safety of its employees including:


- Furloughed all manufacturing staff and the majority of back office staff throughout April and May
- Furloughed staff would receive 90% salary with 80% (subject to the scheme limits) reclaimed from the UK government's Coronavirus Job Retention Scheme (CJRS)
- Senior management have taken a temporary 10% voluntary pay reduction
- Site operations have been reduced to a minimum to enable utility costs during the closure period to be minimised.

The business recognizes that the truck industry is a vital component of the global economy ensuring food, medical and other relevant supplies are delivered in a timely manner and the need therefore for ensuring trucks are on the road and continue to be manufactured is vital and production at our UK site restarted on 27 April albeit at a lower level. Production has gradually ramped up since and based on customer demand is now at pre Covid-19 levels and our workforce has now returned from furlough.

More recently, the business has completed a recapitalization exercise issuing £37.8m of ordinary shares in exchange for cash which was used to settle intercompany cash pooling balances. The company continues to have access to the cash pooling facility.

Based on the initial actions taken to protect the business, the recent recapitalization of the business, the resumption of manufacturing the directors together with the forecasts and sensitivities prepared through September 2021 and the availability of parent company support up to £20m are satisfied that the company can continue trading for at least 12 months from the date of signing the financial statements and settle all financial liabilities as they fall due. In addition, the company is part of the wider Meritor, Inc. group which has cash and financing resources available to it exceeding \$900m.

Approved by the board and signed on its behalf by



Mr H James

Director

Date: 24.09.2020

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 29 SEPTEMBER 2019

The directors are responsible for preparing the annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 judgements and accounting 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Meritor Heavy Vehicle Braking Systems (UK) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 29 September 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBER OF MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

Use of our report

This report is made solely to the company's member, 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 member those matters we are required to state to it 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 member, for our audit work, for this report, or for the opinions we have formed.

David Hedditch

David Hedditch (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Statutory Auditor

.....
Cardiff
United Kingdom

Date 28 September 2020
.....

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 29 SEPTEMBER 2019**

	Notes	2019 £ 000	2018 £ 000
Turnover	3	148,265	143,619
Cost of sales		(140,020)	(134,178)
Gross profit		8,245	9,441
Distribution costs		(2,648)	(2,643)
Administrative expenses		(17,323)	(16,289)
Other operating income		673	665
Operating loss	4	(11,053)	(8,826)
Interest receivable and similar income	8	3,200	2,800
Interest payable and similar expenses	9	(407)	(234)
Loss before taxation		(8,260)	(6,260)
Tax on loss	10	1,443	2,543
Loss for the financial year		(6,817)	(3,717)

The Profit and Loss Account has been prepared on the basis that all operations are continuing operations.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 29 SEPTEMBER 2019**

	Notes	2019 £ 000	2018 £ 000
Loss for the year		(6,817)	(3,717)
Other comprehensive income			
Actuarial gain on defined benefit pension schemes	21	9,000	16,800
Tax relating to other comprehensive income	10	(1,530)	(2,856)
Other comprehensive income for the year		7,470	13,944
Total comprehensive income for the year		653	10,227


MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

BALANCE SHEET

AS AT 29 SEPTEMBER 2019

		2019	2018
	Notes	£ 000	£ 000
Fixed assets			
Intangible assets	11	1,728	2,439
Tangible assets	12	30,869	30,138
Investments	13	3	3
		<u>32,600</u>	<u>32,580</u>
Current assets			
Stocks	15	5,253	5,404
Debtors	16	45,377	48,046
Cash at bank and in hand		-	53
		<u>50,630</u>	<u>53,503</u>
Creditors: amounts falling due within one year	17	<u>(49,408)</u>	<u>(46,716)</u>
Net current assets		<u>1,222</u>	<u>6,787</u>
Total assets less current liabilities		<u>33,822</u>	<u>39,367</u>
Creditors: amounts falling due after more than one year	18	(170)	(210)
Provisions for liabilities	20	(3,063)	(5,121)
Net assets excluding pension surplus		<u>30,589</u>	<u>34,036</u>
Defined benefit pension surplus	21	119,900	115,800
Net assets		<u>150,489</u>	<u>149,836</u>
Capital and reserves			
Called up share capital	23	247,241	247,241
Share premium account		1,887	1,887
Profit and loss reserves		(98,639)	(99,292)
Total equity		<u>150,489</u>	<u>149,836</u>

The financial statements were approved by the board of directors and authorised for issue on 24.09.2020 and are signed on its behalf by:



 Mr H James
 Director

Company Registration No. 03640941

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 29 SEPTEMBER 2019**

	Notes	Share capital £ 000	Share premium account £ 000	Profit and loss reserves £ 000	Total £ 000
Balance at 1 October 2017		247,241	1,887	(109,519)	139,609
Year ended 30 September 2018:					
Loss for the year		-	-	(3,717)	(3,717)
Other comprehensive income:					
Actuarial gains on defined benefit plans	21	-	-	16,800	16,800
Tax relating to other comprehensive income		-	-	(2,856)	(2,856)
Total comprehensive income for the year		-	-	10,227	10,227
Balance at 30 September 2018		247,241	1,887	(99,292)	149,836
Year ended 29 September 2019:					
Loss for the year		-	-	(6,817)	(6,817)
Other comprehensive income:					
Actuarial gains on defined benefit plans	21	-	-	9,000	9,000
Tax relating to other comprehensive income		-	-	(1,530)	(1,530)
Total comprehensive income for the year		-	-	653	653
Balance at 29 September 2019		247,241	1,887	(98,639)	150,489

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies

Company information

Meritor Heavy Vehicle Braking Systems (UK) Limited is a private company limited by shares registered in England and Wales. The registered office is 3 More London Riverside, London, United Kingdom, SE1 2AQ. The principal activity of the company is stated in the strategic report (page 1).

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £ 000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment' – Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel and other related party transactions.

The financial statements of the company are consolidated in the financial statements of Meritor Inc. These consolidated financial statements are available from its registered office, 2135 West Maple Road, Troy, Michigan, 48064-7186 USA.

The company has taken the exemption provided by Section 401 of the Companies Act 2006 and has not prepared consolidated accounts on the basis that the company is included in the consolidated financial statements of a larger group and those consolidated accounts meet the criteria set out in section 401 (2) of the act. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The company's accounting reference date is 30 September; the company has taken advantage of the provisions of the Companies Act 2006 (s390(2b)) so that its actual financial year end was 29 September (2018: 30 September).

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.2 Going concern

The world is in the midst of a global pandemic and the impact of the 2019 Coronavirus (COVID-19) is far reaching. Whilst not relevant for the year ended 30 September 2019, the impact of COVID-19 is being in felt in the second half of FY2020. As a responsible business, we are continually considering the impact of COVID-19 with particular regard to our customers, suppliers and employees and on 31 March, production in our UK plant together with a number of Meritor's other manufacturing plants globally was temporarily halted as a number of major OEMS temporarily suspended their operations which invariably had an impact on demand.

In order to address this significant downturn in activity the business took a number of actions to limit the impact on the business whilst safeguarding both the livelihoods and safety of its employees including:

- Furloughed all manufacturing staff and the majority of back office staff throughout April and May
- Furloughed staff would receive 90% salary with 80% (subject to the scheme limits) reclaimed from the UK government's Coronavirus Job Retention Scheme (CJRS)
- Senior management have taken a temporary 10% voluntary pay reduction
- Site operations have been reduced to a minimum to enable utility costs during the closure period to be minimised

The business recognizes that the truck industry is a vital component of the global economy ensuring food, medical and other relevant supplies are delivered in a timely manner and the need therefore for ensuring trucks are on the road and continue to be manufactured is vital and production at our UK site restarted on 27 April albeit at a lower level. Production has gradually ramped up since and based on customer demand is now at pre Covid-19 levels and our workforce how now returned from furlough.

More recently, the business has completed a recapitalization exercise issuing £37.8m of ordinary shares in exchange for cash which was used to settle intercompany cash pooling balances. The company continues to have access to the cash pooling facility.

Based on the initial actions taken to protect the business, the recent recapitalization of the business, the resumption of manufacturing the directors together with the forecasts and sensitivities prepared through September 2021 and the availability of parent company support up to £20m are satisfied that the company can continue trading for at least 12 months from the date of signing the financial statements and settle all financial liabilities as they fall due. In addition, the company is part of the wider Meritor, Inc. group which has cash and financing resources available to it exceeding \$900m.

1.3 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from contracts for the provision of professional services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that it is probable will be recovered.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.4 Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

1.5 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably.

Amortisation is recognised within cost of sales so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	20% per annum
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1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Freehold buildings	4% per annum
Plant and machinery	8% per annum
Tooling	33% per annum
Fixtures and fittings	20% per annum
Motor vehicles	33% per annum

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.7 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the company holds a long-term interest and where the company has significant influence. The company considers that it has significant influence where it has the power to participate in the financial and operating decisions of the associate.

Entities in which the company has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.8 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.9 Stocks

Stocks are valued using a FIFO method and are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.10 Cash at bank and in hand

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.11 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies (Continued)

Other financial liabilities

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.12 **Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.13 **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.14 **Provisions**

Provisions are recognised when the company has a legal or constructive present obligation as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value, the unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.15 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.16 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method, and is based on actuarial advice.

The change in the net defined benefit liability arising from employee service during the year is recognised as an employee cost. The cost of plan introductions, benefit changes, settlements and curtailments are recognised as an expense in measuring profit or loss in the period in which they arise.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Remeasurement changes comprise actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability excluding amounts included in net interest. These are recognised immediately in other comprehensive income in the period in which they occur and are not reclassified to profit and loss in subsequent periods.

The net defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information, and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

1.17 Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

1.18 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

1 Accounting policies (Continued)

1.19 Interest receivable

Interest income is recognised when it is probable that the economic benefit will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Impairment of fixed assets and recoverability of amounts receivable from group undertakings

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as follows: for financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

The carrying value of receivables from group undertakings at the balance sheet date was £32,161,000 (2018: £30,467,800). The carrying value of fixed assets at the balance sheet date was £20,869,000 (2018: £30,138,000).

3 Turnover and other revenue

An analysis of the company's turnover is as follows:

	2019	2018
	£ 000	£ 000
Turnover		
Sale of goods and services	148,265	143,619
Other significant income		
Interest income	£ 000	£ 000
Grants received	3,200	2,800
	324	395

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

3 Turnover and other revenue (Continued)

Turnover analysed by geographical market

	2019	2018
	£ 000	£ 000
United Kingdom	1,593	1,526
Rest of Europe	118,796	121,369
Rest of the World	27,876	20,724
	<u>148,265</u>	<u>143,619</u>

4 Operating loss

	2019	2018
	£ 000	£ 000
Operating loss for the year is stated after charging/(crediting):		
Exchange losses	618	203
Research and development costs	2,545	3,291
Government grants	(324)	(395)
Depreciation of owned tangible fixed assets	4,079	3,802
Profit on disposal of tangible fixed assets	(9)	-
Amortisation of intangible assets	711	736
Cost of stocks recognised as an expense	107,149	97,653
Operating lease charges	189	196
	<u></u>	<u></u>

Exchange differences recognised in profit or loss during the year, except for those arising on financial instruments measured at fair value through profit or loss, amounted to £618,000 (2018: £203,000).

5 Auditor's remuneration

	2019	2018
	£ 000	£ 000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	121	120
	<u></u>	<u></u>

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2019	2018
	Number	Number
Production	370	379
Sales and distribution	44	39
Administration	58	53
	<u>472</u>	<u>471</u>

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

6 Employees **(Continued)**

Their aggregate remuneration comprised:

	2019	2018
	£ 000	£ 000
Wages and salaries	16,636	16,384
Social security costs	1,654	1,814
Pension costs (note 21)	2,265	2,091
	<u>20,555</u>	<u>20,289</u>

7 Directors' remuneration

	2019	2018
	£ 000	£ 000
Remuneration for qualifying services	157	148
Company pension contributions to defined contribution schemes	9	5
	<u>166</u>	<u>153</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2018 - 1).

The highest paid director received total remuneration of £166,000 (2018: £153,000) in the year (including company contributions to defined contribution schemes of £9,000 (2018: £5,000)).

The remaining company directors are remunerated for their services by Meritor Inc for their services to the group as a whole, and it is not practicable to allocate their services to the company from their services to other group companies.

8 Interest receivable

	2019	2018
	£ 000	£ 000
Interest income		
Interest on the net defined benefit asset	3,200	2,800
	<u>3,200</u>	<u>2,800</u>

9 Interest payable

	2019	2018
	£ 000	£ 000
Interest payable to group undertakings	407	234
	<u>407</u>	<u>234</u>

10 Taxation

	2019	2018
	£ 000	£ 000
Current tax		
UK corporation tax credit on losses for the current period	(1,443)	(2,543)
	<u>(1,443)</u>	<u>(2,543)</u>

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

10 Taxation

(Continued)

The actual credit for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2019 £ 000	2018 £ 000
Loss before taxation	(8,260)	(6,260)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(1,569)	(1,189)
Tax effect of expenses that are not deductible in determining taxable profit	54	69
Tax effect of income not taxable in determining taxable profit	(56)	(63)
Change in unrecognised deferred tax assets	(118)	(1,808)
Effect of change in corporation tax rate	169	300
Effects of group relief not paid for	-	148
Thin capitalisation adjustments	77	-
Taxation for the year	(1,443)	(2,543)

In addition to the amount credited to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £ 000	2018 £ 000
Current tax arising on:		
Actuarial differences recognised as other comprehensive income	1,530	2,856

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the 17% enacted tax rate and are reflected in these financial statements.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

11 Intangible fixed assets

	Goodwill	Software	Total
	£ 000	£ 000	£ 000
Cost			
At 1 October 2018 and 29 September 2019	41,255	3,834	45,089
Amortisation and impairment			
At 1 October 2018	41,255	1,395	42,650
Amortisation charged for the year	-	711	711
At 29 September 2019	41,255	2,106	43,361
Carrying amount			
At 29 September 2019	-	1,728	1,728
At 30 September 2018	-	2,439	2,439

Amortisation is charged to cost of sales.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

12 Tangible fixed assets

	Freehold buildings £ 000	Assets under construction £ 000	Plant and machinery £ 000	Tooling £ 000	Fixtures and fittings £ 000	Motor vehicles £ 000	Total £ 000
Cost							
At 1 October 2018	16,982	5,677	42,128	6,213	183	82	71,265
Additions	-	4,818	-	-	-	-	4,818
Disposals	(26)	-	(476)	-	-	-	(502)
Transfers	826	(8,591)	6,087	1,678	-	-	-
At 29 September 2019	17,782	1,904	47,739	7,891	183	82	75,581
Depreciation and impairment							
At 1 October 2018	5,063	-	31,067	4,882	33	82	41,127
Depreciation charged in the year	730	-	2,544	766	39	-	4,079
Eliminated in respect of disposals	(26)	-	(468)	-	-	-	(494)
At 29 September 2019	5,767	-	33,143	5,648	72	82	44,712
Carrying amount							
At 29 September 2019	12,015	1,904	14,596	2,243	111	-	30,869
At 30 September 2018	11,919	5,677	11,061	1,331	150	-	30,138

Freehold land which is not depreciated has a cost and net book value of £1,741,000 (2018: £1,741,000).

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019**

13 Fixed asset investments

	Note	2019 £ 000	2018 £ 000
Investments in subsidiaries	14	3	3

Movements in fixed asset investments

	Shares in group undertakings £ 000
Cost or valuation At 1 October 2018 & 29 September 2019	3
Carrying amount At 30 September 2018 & 29 September 2019	3

14 Subsidiaries

Details of the company's subsidiary at 29 September 2019 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct Indirect
Meritor Czech s.r.o.	Fugnerova 572, Vrchlabí, Vrchlabí 1 543 01 Czech Republic	Brake disc remanufacturing	Ordinary	100.00 -

15 Stocks

	2019 £ 000	2018 £ 000
Raw materials and consumables	1,998	1,744
Work in progress	2,748	3,037
Finished goods and goods for resale	507	603
	<u>5,253</u>	<u>5,404</u>

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

16 Debtors

	2019	2018
	£ 000	£ 000
Amounts falling due within one year:		
Trade debtors	9,745	12,663
Corporation tax recoverable	816	695
Amounts owed by group undertakings	32,161	30,467
Other debtors	2,295	3,861
Prepayments and accrued income	360	360
	<u>45,377</u>	<u>48,046</u>

Amounts owed by group undertakings attract no interest and are payable on demand.

The company is part of a group wide cash pooling agreement. Interest is received on any amount owed by the cash pooling entity at a rate of IBOR less 0.5% and paid on any amount owed to the cash pooling entity at a rate of IBOR plus 0.5%.

17 Creditors: amounts falling due within one year

	2019	2018
	£ 000	£ 000
	Note	
Trade creditors	18,061	18,457
Amounts owed to group undertakings	28,106	23,508
Other taxation and social security	540	612
Government grants	19 191	429
Other creditors	22	79
Accruals and deferred income	2,488	3,631
	<u>49,408</u>	<u>46,716</u>

Amounts owed to group undertakings other than that mentioned below attract no interest and are payable on demand.

The company is part of a group wide cash pooling agreement. Interest is received on any amount owed by the cash pooling entity at a rate of IBOR less 0.5% and paid on any amount owed to the cash pooling entity at a rate of IBOR plus 0.5%.

18 Creditors: amounts falling due after more than one year

	2019	2018
	£ 000	£ 000
	Note	
Government grants	19 170	210

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

19 Government grants

Deferred income is included in the financial statements as follows:

	2019 £ 000	2018 £ 000
Current liabilities	191	429
Non-current liabilities	170	210
	<u>361</u>	<u>639</u>

20 Provisions for liabilities

	2019 £ 000	2018 £ 000
Long service holiday award	65	87
Product warranties	2,091	4,171
Environmental	75	79
Legal claims	832	784
	<u>3,063</u>	<u>5,121</u>

Movements on provisions:

	Long service holiday award £ 000	Product warranties £ 000	Environmental £ 000	Legal claims £ 000	Total £ 000
At 1 October 2018	87	4,171	79	784	5,121
Additional provisions in the year	10	827	2	-	839
Released in the year	-	(130)	-	-	(130)
Utilisation of provision	(32)	(2,871)	(6)	-	(2,909)
Revaluation	-	94	-	48	142
	<u>65</u>	<u>2,091</u>	<u>75</u>	<u>832</u>	<u>3,063</u>

The company holiday pay policy allows long-standing employees with 25 or more years' service to accumulate additional holidays over and above the normal holiday entitlement. Unused entitlement can be carried forward to future periods for settlement either by holiday taken, or cash payment in lieu. The liability is expected to be paid within 12 months of the balance sheet date.

The company records estimated product warranty costs at the time of shipment of products to customers. Warranty reserves are primarily based on factors that include past claims experience, sales history, product manufacturing and engineering changes and industry developments. Liabilities for product recall campaigns are recorded at the time the company's obligation is known and can be reasonably estimated. Product warranties are recorded for known warranty issues when amounts can be reasonably estimated. It is expected that the majority of this expenditure will be incurred within one year of the balance sheet date.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

(Continued)

20 Provisions for liabilities

Applicable laws and regulations relating to the discharge of substances into the environment, the disposal of hazardous wastes and other activities affecting the environment have had an impact on the company at its site at Grange Road, Cwmbran. The process of estimating environmental liabilities is complex and dependent upon evolving physical and scientific data at the particular sites impacted, uncertainties as to remedies and technologies to be used and the outcome of discussions with regulatory agencies. The company records liabilities for environmental issues in the accounting period in which it is considered there exists a present obligation (legal or constructive) to remediate, it is probable that the obligation will be settled and the cost can be reliably estimated. The company records a liability for the total probable and estimable costs of remediation before consideration of recovery from insurers or other third parties. Included in the company's environmental liabilities are costs for ongoing operation, maintenance and monitoring at environmental sites in which remediation has been put into place. Remediation of all known environmental issues provided for is expected to be undertaken and paid within two years of the balance sheet date.

The company has recorded estimated legal costs (not covered by insurance policies) relating to ongoing legal claims for damages. Legal claims are ongoing and the timing of payments are uncertain, however a provision is recognised where at the balance sheet date the company has a present obligation to remediate, it is probable that the obligation will be settled and the costs can be reliably measured. It is expected that the majority of this expenditure will be incurred within three years of the balance sheet date.

21 Retirement benefit schemes

	2019	2018
Defined contribution schemes	£ 000	£ 000
Charge to profit or loss in respect of defined contribution schemes	<u>2,265</u>	<u>2,091</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Defined benefit schemes

The company operates a defined benefit scheme for qualifying employees.

The company participates in the ArvinMeritor UK Pension Scheme (formerly the Meritor Automotive UK Pension Scheme), which is a funded, multi-employer, defined benefit scheme ("the Scheme"). The assets of the Scheme are held under trust, separately from those of the participating employers of the Scheme. The defined benefit, final salary section of the Scheme is closed to new members and future accrual.

Under the scheme the employees are entitled to retirement benefits varying between 1/13th% and 1/18th% of final salary on attainment of a retirement between the ages of 60 and 65. No other post retirement benefits are provided.

The following disclosures relate to the Scheme as a whole and not this company's share of the Scheme. Since the company is "legally responsible" for the plan and there is no agreement or policy for allocating the cost to other group entities, in accordance with Section 28 of FRS 102 the company has recognised the Scheme costs and associated surplus whilst other group entities simply recognise a cost equal to any contributions for the period. The Scheme is a defined benefit scheme and the related costs of the Scheme are assessed in accordance with the advice of qualified independent actuaries.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 17 November 2017 by Aon Hewitt Limited, Fellow of the Institute of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

21 Retirement benefit schemes

(Continued)

	2019	2018
	%	%
<i>Key assumptions</i>		
RPI Inflation*	3.0	3.2
CPI Inflation*	2.0	2.1
Pension increases in payment:		
Pre 6 April 2005 pension in excess of GMP**	3.1	3.1
Post 6 April 2005 pension in excess of GMP	2.2	2.2
Post 88 GMP	1.9	1.9
Discount rate for Scheme liabilities	1.8	2.9

*Following an announcement from the UK Government in July 2010, pensions for deferred members of the Scheme have been revalued since 2010 in line with Consumer Prices Indexation (CPI) rather than Retail Prices Indexation (RPI) as in 2009. Increases to pensions in payment remain based on RPI where applicable.

**Excludes pension accrued prior to 6 April 1997 for members of the Arvin Section, for which the assumption is 0% for liability calculations on or after 30 September 2006.

	2019	2018
	Years	Years
<i>Mortality assumptions</i>		
Assumed life expectations on retirement at age 65:		
Retiring today		
- Males	20.9	20.8
Retiring in 20 years		
- Males	22.1	22.0

	2019	2018
	£ 000	£ 000
<i>Amounts recognised in the profit and loss account</i>		
Net interest on defined benefit (asset)	(3,200)	(2,800)
Administrative expenses	1,800	1,200
Plan introductions, changes, curtailments and settlements	6,300	2,100
Total expense	4,900	500

	2019	2018
	£ 000	£ 000
<i>Amounts taken to other comprehensive income</i>		
Actual return on scheme assets	(108,700)	(24,600)
Less: calculated interest element	15,000	14,800
Return on scheme assets excluding interest income	(93,700)	(9,800)
Other gains and losses	84,700	(7,000)
Total income	(9,000)	(16,800)

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

21 Retirement benefit schemes

(Continued)

The amounts included in the balance sheet arising from the company's obligations in respect of defined benefit plans are as follows:

	2019 £ 000	2018 £ 000
Present value of defined benefit obligations	493,100	413,500
Fair value of plan assets	(613,000)	(529,300)
Surplus in scheme	<u>(119,900)</u>	<u>(115,800)</u>

Movements in the present value of defined benefit obligations **£ 000**

Liabilities at 1 October 2018	413,500
Plan introductions, changes, curtailments and settlements	6,300
Benefits paid	(23,200)
Interest cost	11,800
Other gains and losses	84,700
At 29 September 2019	<u>493,100</u>

The defined benefit obligations arise from plans which are wholly or partly funded.

Movements in the fair value of plan assets **£ 000**

Fair value of assets at 1 October 2018	529,300
Interest income	15,000
Return on plan assets (excluding amounts included in net interest)	93,700
Benefits paid	(23,200)
Administration costs	(1,800)
At 29 September 2019	<u>613,000</u>

The actual return on plan assets was £108,700,000 (2018 - £24,600,000).

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 29 SEPTEMBER 2019

21 Retirement benefit schemes **(Continued)**

	2019	2018
	£ 000	£ 000
<i>Fair value of plan assets at the reporting period end</i>		
Equity instruments	130,100	131,200
Debt instruments	27,700	41,200
Property	30,800	31,300
Cash/net current assets	9,600	2,900
Hedge funds	51,900	53,000
Index-linked gilts	180,200	110,700
Corporate & Absolute return bonds	125,700	107,200
Diversified Growth	57,000	51,800
	<u>613,000</u>	<u>529,300</u>

22 Operating lease commitments

Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019	2018
	£ 000	£ 000
Within one year	176	182
Between two and five years	437	583
	<u>613</u>	<u>765</u>

23 Called up share capital

	2019	2018
	£ 000	£ 000
Ordinary share capital		
Issued and fully paid		
247,240,986 ordinary shares of £1 each	247,241	247,241
	<u>247,241</u>	<u>247,241</u>

24 Contingent liabilities

A legal charge is held by the Welsh Ministry over a portion of the land owned by Meritor Heavy Vehicle Braking Systems (UK) Limited in relation to the government grant received of £152,685 (2018: £152,685)

MERITOR HEAVY VEHICLE BRAKING SYSTEMS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 29 SEPTEMBER 2019

25 Events after the reporting date

In late 2019 the first cases of Covid-19 were recorded in China and the spread across the world that followed in 2020 has had wide ranging consequences. As with many businesses, Meritor Heavy Vehicle Braking Systems (UK) Limited has been impacted by this pandemic and resulted in the temporary closure of manufacturing operations, although these have since re-started and are nearing pre Covid-19 levels.

The directors recognise that the pandemic is also likely to have a significant impact on the company's pension assets and liabilities although at this stage it is difficult to quantify what that position will be. The directors do not believe that the Covid-19 pandemic is an adjusting post balance sheet event and consequently no adjustments have been made to the reported figures as at 29 September 2019.

On 13 May 2020, the company issued 37,846,170 ordinary shares to its parent company Arvin European Holdings (UK) Limited in exchange for cash of £37,846,170 which was used to repay borrowings from Arvin Meritor Finance Ireland Unlimited Company. As noted above, support up to the value of £20m has been provided from Arvin European Holdings (UK) Limited should this be required. The directors have assessed the ability of Arvin European Holdings (UK) Limited to provide this support and are satisfied there are no issues.

26 Related party transactions

During the year the company purchased goods in the ordinary course of business from Ege Fren, a joint venture of Meritor Inc which shared a director with a fellow group company Meritor Heavy Vehicle Systems Limited, at a cost of £7,006,100 (2018: £6,216,875). Amounts owed to Ege Fren at the reporting date were £587,288 (2018: £967,457). These amounts all relate to trading balances and are included in trade creditors. Ege Fren is a related party due to common directors.

27 Ultimate controlling party

The immediate parent company is Arvin European Holdings (UK) Limited, a company incorporated in England and Wales.

The ultimate parent company and controlling party of Meritor Heavy Vehicle Braking Systems (UK) Limited is Meritor, Inc., incorporated in the United States of America. Meritor Inc. is also the parent undertaking of the smallest and largest group which includes the company for which group financial statements are prepared. Copies of the group financial statements of Meritor, Inc., are available from the company's registered address: 2135 West Maple Road, Troy, Michigan, 48084-7186, USA. They can also be downloaded from the website www.meritor.com.