

JCB Service

Directors' Report and Consolidated Financial Statements  
for the year ended 31 December 2012

Registered number 00564955

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# **JCB Service**

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# **JCB Service**

## **Directors and advisors**

### **Directors**

Sir Anthony Bamford DL  
Lady Bamford OBE  
J Patterson CBE  
J C E Bamford  
A C Bamford  
G H A Bamford  
A R Blake  
D F P Miller

### **Company secretary**

S E R Owens

### **Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

### **Solicitors**

Slaughter & May  
1 Bunhill Row  
London  
EC1Y 8YY

### **Bankers**

Barclays Bank plc  
PO Box 3333  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B3 2WN

HSBC Bank plc  
4<sup>th</sup> Floor  
120 Edmund Street  
Birmingham  
B3 2QZ

The Royal Bank of Scotland  
5<sup>th</sup> Floor  
2 St Philips Place  
Birmingham  
B3 2RB

Lloyds TSB Bank plc  
Ground Floor  
10 Gresham Street  
London  
EC2V 7AE

Citibank NA  
Canada Square  
Canary Wharf  
London  
E14 5LB

ABC International Bank plc  
1-5 Moorgate  
London  
EC2R 6AB

BNP Paribas Bank  
10 Harewood Avenue  
London  
NW1 6AA

### **Registered office**

Lakeside Works  
Rocester  
Uttoxeter  
Staffs  
ST14 5JP

### **Registered number**

00564955

# **JCB Service**

## **Directors' report for the year ended 31 December 2012**

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2012

### **Principal activities**

The principal activity of JCB Service and its subsidiaries is the design, manufacture, marketing and sale of a comprehensive range of excavating, earthmoving, materials handling and agricultural machines and the provision of after sales service and supply of parts for those machines, in construction, agriculture and industrial markets

### **Review of business and future developments**

Despite a slowdown in the global construction equipment market in the second half of 2012, the group has reported profits in excess of 2011. This profit growth means that the group posts a record breaking profit for the second consecutive year

The turnover of £2,712.0 million (2011 £2,716.1 million) is broadly unchanged compared to the prior year, as is the number of units sold. The regional turnover performance reflects the prevailing economic conditions locally, with turnover down in the UK, Europe and India, and growth in other regions, notably the Americas and Africa. Strong gross margins and prudent overhead management have more than offset adverse currency movements to improve upon prior year operating margins (2012 10.6%, 2011 10.2%)

Net cash inflow from operating activities was down slightly at £296.0 million (2011 £321.1 million). Nevertheless this represented a strong conversion rate of the operating profit reported in the period. Gross capital expenditure of £81.8 million was higher than that spent the year before (2011 £66.9 million), reflecting the group's ongoing commitment to the organic growth of the business. More than half of this capital investment has been in the UK, with Brazil and India also receiving significant investment in continuation of capacity expansion in these markets. The group ended 2012 in a net funds position of £273.8 million (2011 £196.8 million, an improvement of £77.0 million), and consequently with a group balance sheet even more robust than that presented in the 2011 report.

The volume of business experienced so far in 2013 is in line with expectations. The extent of turnover growth in 2013 will very much depend upon the pace of the global recovery. Despite the short term political and economic uncertainty that continues in many markets, the group remains confident about its longer term prospects and is reflecting this with a continuing high level of capital investment in 2013, together with a continued commitment to investment in new product development. These investments, together with the group's continued strength in markets expected to show the strongest growth, support that confidence in the future.

### **Dividends**

The directors approved and paid an interim dividend of £50.0 million during the year (2011 £45.0 million). The directors do not recommend the payment of a final dividend.

### **Research and development**

The group continues to invest in product research and development with expenditure during the year of £61.4 million (2011 £58.2 million).

### **Charitable and political contributions**

The group made charitable contributions of £5.6 million during the year (2011 £0.6 million), including £5.0 million to the Bamford Charitable Foundation which supports educational and other local charitable causes. The group made no political contributions during the year (2011 £nil).

### **Statutory Records**

The company is an unlimited company which is incorporated in England and its company registration number is 00564955.

# **JCB Service**

## **Directors' report for the year ended 31 December 2012 (continued)**

### **Directors**

The directors who held office during the year and up to the date of signing the financial statements are given below

Sir Anthony Bamford DL

Lady Bamford OBE

J Patterson CBE

J C E Bamford

A C Bamford

G H A Bamford

A R Blake

D F P Miller (appointed 19 April 2012)

### **Directors Indemnity Insurance**

The company purchases liability insurance cover for directors and officers of the company which gives appropriate cover for any legal action brought against them in their capacity as directors or officers. The company also provides indemnity for its directors (to the extent permitted by law) in respect of liabilities which could occur as a result of their office. This indemnity does not provide cover should a director be proved to have acted fraudulently or dishonestly.

### **Employees**

The directors acknowledge the need to encourage employee involvement in the improvement of the group's performance by supplying information on matters of importance through regular consultation with employees. Information is provided by various means, including audio-visual presentations, company newspapers and information bulletins. There is also an annual review of the group's performance, which is presented to all employees. Employees are encouraged to participate in local schemes designed to improve performance in the areas in which they work.

The group discharges, equitably, its statutory and social duties in respect of the Sex Discrimination Act 1975, the Race Relations Act 1976, the Disability Discrimination Act 1995 and the Employment Equality Regulations on sexual orientation, religion, belief or age. An equal opportunities policy is in operation. For those employees becoming disabled during the course of their employment, every effort is made, whether through training or redeployment, to provide an opportunity for them to remain with the group.

### **Creditor payment policy**

The group does not follow any external code or standard on payment practice. The policy for all group suppliers is to set terms of payment when agreeing the terms for each business transaction and to ensure that the supplier is aware of those terms. The group seeks to abide by those terms whenever it is satisfied that the supplier has met its contractual obligations. At 31 December 2012 the number of days outstanding of trade creditors for the group, calculated by reference to the total amounts invoiced by suppliers, was 54 days (2011: 57 days).

### **Principal risks and uncertainties**

The principal risk facing JCB Service is the cyclical nature of the industry as a whole which, in broad terms, tracks the global economic cycle. To manage this risk, JCB Service addresses a spectrum of regional markets and product sectors, and operates an organisation and capital structure which is flexible and fast reacting to market conditions. Over its history, JCB Service has grown in the good years and weathered the downturns, increasing the size of the business as each cycle progresses.

### **Financial Risk Management**

The group's operations expose it to a variety of risks that include credit risk, liquidity risk and exchange rate risk. The group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group.

# **JCB Service**

## **Directors' report for the year ended 31 December 2012 (continued)**

### ***Credit risk***

JCB Service's principal financial assets are cash held on deposit with financial institutions, trade and other receivables. The credit risk is primarily attributable to its trade receivables with potential recoverability issues mitigated by credit insurance. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings by international credit rating agencies. JCB Service has no significant concentration of credit risk, with exposure spread over a number of counterparties and a broad customer base.

### ***Liquidity risk***

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, JCB Service uses a mixture of short term facilities, invoice discounting and term debt. Adequate facilities are available to support the group's business for at least 12 months beyond the date of this report.

### ***Exchange rate risk***

As part of their normal operating activities, certain companies in the group hedge exchange rate exposure on foreign currency transactions, mainly those relating to sales, where a significant proportion thereof are invoiced in foreign currencies. It is the group's policy to reduce this exposure through the use of forward currency contracts. The aggregate value of forward currency contracts at 31 December 2012 was £49.8 million (2011: £129.6 million). Potential unrecognised gains on these contracts at 31 December 2012 amount to £2.0 million (2011: £1.8 million loss).

### **Key performance indicators (KPIs)**

JCB Service uses a range of financial and non-financial indicators to monitor performance. The key performance indicators are market share, revenue and profit trends, cash generation and research and development investment.

### **Statement of directors' responsibilities**

The directors are responsible for preparing 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 the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and the company and of the profit or loss of the group 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 and the group 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **JCB Service**

### **Directors' report for the year ended 31 December 2012 (continued)**

#### **Statement of disclosure of information to auditors**

Each director of the company, in office at the time of approval of this report, acknowledges that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This statement is given and should be interpreted in accordance with Section 418 of the Companies Act 2006

#### **Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

**On behalf of the board**



**Sir Anthony Bamford DL**  
Chairman

**30 APRIL 2013**

# JCB Service

## Independent Auditors' Report to the members of JCB Service

We have audited the group and parent company financial statements (the "financial statements") of JCB Service for the year ended 31 December 2012 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Reconciliation of Movements in Shareholders' Funds, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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.



Nicholas Boden (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester

30 April 2013

## JCB Service

### Consolidated profit & loss account for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Turnover	2	2,712.0	2,716.1
Cost of sales		(2,111.7)	(2,143.1)
<b>Gross profit</b>		<b>600.3</b>	<b>573.0</b>
Distribution costs		(129.2)	(127.6)
Administrative costs		(183.5)	(169.6)
<b>Operating profit</b>	4	<b>287.6</b>	<b>275.8</b>
Share of associate's operating profit		5.8	5.0
Profit on sale of non-industrial properties	7	17.3	-
Other interest receivable and similar income		8.4	5.9
Interest payable and similar charges	8	(17.4)	(17.8)
Share of associate's interest payable		(1.6)	(1.6)
<b>Profit on ordinary activities before taxation</b>		<b>300.1</b>	<b>267.3</b>
Tax on profit on ordinary activities	9	(87.6)	(90.9)
<b>Profit on ordinary activities after taxation</b>		<b>212.5</b>	<b>176.4</b>
Equity minority interests		(0.4)	(1.8)
<b>Profit for the financial year</b>	22	<b>212.1</b>	<b>174.6</b>

The company has taken advantage of Section 408 (1) of the Companies Act 2006 not to publish its own profit & loss account

All activities are derived from continuing operations

## JCB Service

### Consolidated statement of total recognised gains and losses for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the financial year		212.1	174.6
(Realisation)/recognition of property revaluation surplus	22	(1.4)	1.4
Exchange adjustments offset in reserves	22	(24.5)	(35.7)
Actuarial loss recognised in the pension scheme	20	(14.0)	(59.2)
Movement on deferred tax relating to pension deficit		3.2	14.3
<b>Total recognised gains for the year</b>		<b>175.4</b>	<b>95.4</b>

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year as stated above and their historical cost equivalents

### Consolidated reconciliation of movements in shareholders' funds for the year ended 31 December 2012


	Note	2012 £m	2011 £m
Profit attributable to the members of the group		212.1	174.6
Dividends	10	(50.0)	(45.0)
(Realisation)/recognition of property revaluation surplus	22	(1.4)	1.4
Exchange adjustments	22	(24.5)	(35.7)
Actuarial loss net of deferred tax	22	(10.8)	(44.9)
<b>Net change in shareholders' funds</b>		<b>125.4</b>	<b>50.4</b>
Opening shareholders' funds		700.7	650.3
<b>Closing shareholders' funds</b>		<b>826.1</b>	<b>700.7</b>

# JCB Service

## Consolidated balance sheet as at 31 December 2012

	Note	2012 £m	2011 £m
<b>Fixed assets</b>			
Intangible assets	11	211.7	208.1
Tangible assets	12	411.6	410.7
Investment in associates	13	9.3	11.0
Investments	13	-	4.1
		<b>632.6</b>	<b>633.9</b>
<b>Current assets</b>			
Stocks and work in progress	14	235.4	252.5
Debtors	15	321.9	321.2
Investments	16	3.0	11.3
Cash at bank and in hand		365.5	300.8
		<b>925.8</b>	<b>885.8</b>
<b>Creditors – amounts falling due within one year</b>	17	<b>(551.9)</b>	<b>(632.2)</b>
<b>Net current assets</b>		<b>373.9</b>	<b>253.6</b>
<b>Total assets less current liabilities</b>		<b>1,006.5</b>	<b>887.5</b>
<b>Creditors: amounts falling due after more than one year</b>	18	<b>(65.8)</b>	<b>(76.3)</b>
Provisions for liabilities	19	(51.3)	(47.1)
<b>Net assets excluding net pension liabilities</b>		<b>889.4</b>	<b>764.1</b>
<b>Net pension liabilities:</b>			
<b>Total of defined benefit schemes</b>			
with net assets	20	0.7	0.5
with net liabilities	20	(64.0)	(57.1)
<b>Net assets including pension liabilities</b>		<b>826.1</b>	<b>707.5</b>
<b>Capital and reserves</b>			
Called up share capital	21	-	-
Share premium account	22	31.7	31.7
Revaluation reserve	22	-	1.4
Other reserves	22	39.1	39.1
Profit and loss account	22	755.3	628.5
<b>Total shareholders' funds</b>		<b>826.1</b>	<b>700.7</b>
Minority interest	23	-	6.8
<b>Capital Employed</b>		<b>826.1</b>	<b>707.5</b>

The financial statements on pages 7 to 32 were approved by the board of directors on **30 APRIL 2013** and were signed on its behalf by


  
**Sir Anthony Bamford DL**  
 Chairman

# JCB Service

## Company balance sheet as at 31 December 2012

	Note	2012 £m	2011 £m
<b>Fixed assets</b>			
Tangible assets	12	18.2	18.5
Investments	13	344.2	343.6
		<b>362.4</b>	<b>362.1</b>
<b>Current assets</b>			
Stock	14	44.6	42.1
Debtors	15	382.3	385.3
Investments	16	0.1	0.1
Cash at bank and in hand		38.1	54.3
		<b>465.1</b>	<b>481.8</b>
<b>Creditors – amounts falling due within one year</b>	17	<b>(173.8)</b>	<b>(179.5)</b>
<b>Net current assets</b>		<b>291.3</b>	<b>302.3</b>
<b>Total assets less current liabilities</b>		<b>653.7</b>	<b>664.4</b>
<b>Creditors: Amounts falling due after more than one year</b>	18	<b>(60.0)</b>	<b>(70.0)</b>
Provisions for liabilities	19	(14.8)	(11.3)
<b>Net assets</b>		<b>578.9</b>	<b>583.1</b>
<b>Capital and reserves</b>			
Called up share capital	21	-	-
Share premium account	22	31.7	31.7
Other reserves	22	-	-
Profit and loss account	22	547.2	551.4
<b>Total shareholders' funds</b>		<b>578.9</b>	<b>583.1</b>

The financial statements on pages 7 to 32 were approved by the board of directors on **30 APRIL 2013** and were signed on its behalf by

  
**Sir Anthony Bamford DL**  
 Chairman

## JCB Service

### Consolidated Cash flow statement for the year ended 31 December 2012

	Note	2012 £m	2012 £m	2011 £m	2011 £m
<b>Net cash inflow from operating activities</b>	24		296.0		321.1
<b>Returns on investment and servicing of finance</b>					
Interest received		8.4		5.9	
Interest paid		(17.4)		(17.8)	
Dividend received from associate		5.0		-	
<b>Net cash outflow from returns on investment and servicing of finance</b>			(4.0)		(11.9)
<b>Taxation</b>			(74.6)		(78.4)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(81.8)		(66.9)	
Sale of tangible fixed assets		10.8		0.8	
Sale of fixed asset investment		5.1		-	
<b>Net cash outflow for capital expenditure and financial investment</b>			(65.9)		(66.1)
<b>Acquisitions and disposals</b>					
Cash outflow to acquire minority interest	26	(24.4)		-	
<b>Net cash outflow for acquisitions</b>			(24.4)		-
<b>Equity dividends paid to shareholders</b>			(50.0)		(45.0)
<b>Cash inflow before use of liquid resources and financing</b>			77.1		119.7
<b>Management of liquid resources</b>					
Disposal of current asset investment		8.3		-	
<b>Net cash inflow from management of liquid resources</b>			8.3		-
<b>Financing</b>					
Increase in borrowings		-		8.6	
Repayment of loan payable – less than 1 year		(10.0)		(10.0)	
<b>Net cash outflow from financing</b>			(10.0)		(1.4)
<b>Increase in net cash</b>	25		75.4		118.3

## JCB Service

### Reconciliation of net cash flow to movement in net funds for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Increase in cash		75.4	118.3
Movement in borrowings		10.0	1.4
Exchange adjustments		(8.4)	(10.2)
Increase in net funds in the year		77.0	109.5
Net funds at the start of the year	25	196.8	87.3
Net funds at the end of the year	25	273.8	196.8

# **JCB Service**

## **Notes to the financial statements for the year ended 31 December 2012**

### **1. Accounting policies**

#### **Principal accounting policies**

The financial statements have been prepared under the historical cost convention, on the going concern basis, and in accordance with the Companies Act 2006 as modified by the revaluation of investment properties and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied on a consistent basis with the prior year, is set out below.

#### **Basis of consolidation and accounting for other investments**

##### *Subsidiaries*

The consolidated historical financial statements incorporate the financial statements of JCB Service and entities controlled by JCB Service (its subsidiaries) made up to the reporting date each year. Control is achieved where JCB Service has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any negative goodwill that arises where the fair value of the group's interest in the identifiable assets and liabilities acquired of a subsidiary undertaking exceeds the fair value of the consideration given is deferred and amortised through the profit and loss account in the period in which the assets acquired are expected to be recovered.

The results of subsidiaries acquired or disposed of during the year are included in the profit and loss account from the effective date of acquisition or disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group.

All intra-group balances and transactions are eliminated on consolidation.

##### *Associates*

Associates are entities over which the group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting.

The group's share in associates' post-acquisition profits or losses is recognised in the profit and loss account.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in each associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the group.

The group's principal associate, JCB Finance Limited, has a statutory accounting reference date of 30 September. In respect of the years ended 31 December 2012 and 31 December 2011, the associate has been included based on audited financial statements drawn up to 30 September 2012 and 2011.

#### **Minority Interests**

Equity minority interests represent the share of profits and losses on ordinary activities attributable to the interests of equity shareholders in subsidiaries which are not wholly owned by the group.

#### **Turnover**

Turnover represents the invoice value of products and services supplied to customers outside the group, excluding VAT and sales taxes and net of sales incentives. The group recognises revenue from sales of products upon shipment, revenue from the provision of services when earned and revenue from warranty contracts is spread evenly over the life of the contract.

# JCB Service

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 1. Accounting policies (continued)

#### Goodwill

Goodwill on consolidation, representing the excess of the cost of shares in subsidiaries over their net assets at the date of acquisition, is amortised to the profit and loss account on a straight line basis over its estimated useful economic life of 20 years in respect of acquisitions subsequent to 1 January 1998. Previously, goodwill was written off to reserves in the year in which the goodwill arose.

The group evaluates the recoverable amount of goodwill in each financial year to determine if there has been impairment in value which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount the excess is written off to the profit and loss account.

#### Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the original cost by equal annual instalments over the expected useful economic lives of the assets concerned, other than freehold land and assets in the course of construction which are not depreciated.

The principal rates used are

Freehold buildings	1 - 5%
Plant and machinery	10 - 33 33%
Fixtures, fittings, office equipment and aircraft	6 67 - 33 33%
Motor vehicles	20 - 25%
Leasehold land and buildings	Shorter of lease period and 50 years

Additional depreciation is provided where, in the opinion of the directors, there has been a permanent diminution in the value of the fixed asset.

#### Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value after due regard for obsolete and slow moving stocks. Cost includes direct materials, labour and appropriate works overhead. Net realisable value is based on selling prices less anticipated costs to completion and selling costs.

#### Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred.

Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates that have been enacted or substantially enacted at the balance sheet date.

The deferred tax assets and liabilities are not discounted.

#### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account.

Exchange differences arising on translation of the net assets of overseas subsidiaries including long term funding balances with those subsidiaries, and on translation of foreign currency borrowings used to hedge investments in overseas subsidiaries are taken to reserves.

# **JCB Service**

## **Notes to the financial statements for the year ended 31 December 2012 (continued)**

### **1. Accounting policies (continued)**

#### **Warranty**

Provision is made for the group's estimated liability on all machines still under warranty, including claims already received. The provision is charged against trading profits and is included in provisions for liabilities and charges, with amounts recoverable from suppliers included within other debtors.

#### **Research and development**

Expenditure on research and development is incurred continuously and is expensed as incurred.

#### **Repairs and renewals**

All repairs and renewals are expensed as incurred.

#### **Debtors**

Trade debtors are recorded net of amounts discounted without recourse less any provision for bad or doubtful debts.

#### **Government grants**

Regional development grants and other investment grants are taken to deferred income and are released to the profit and loss account in appropriate instalments relating to the type and nature of expenditure they are intended to fund.

#### **Pension**

The group operates several defined benefit pension schemes for the benefit of its employees both in the UK and in certain overseas locations, the assets of which are held separately from those of the group in independently administered funds.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in interest. Curtailment gains are recognised in the profit and loss account. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The group also operates a number of defined contribution pension schemes. The costs of these schemes are held in separately administered funds from the group. The pension charge represents contributions payable by the company to the funds.

#### **Investments**

Investments are included in the balance sheet at their cost on acquisition. Where appropriate, provision is made for any impairment in their value.

#### **Finance costs**

Finance costs incurred in securing the group's financing arrangements are capitalised and amortised over the term of the associated debt.

# JCB Service

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 1. Accounting policies (continued)

#### Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

#### Investment properties

Investment properties are stated at valuation. Values are assessed annually by the directors, based on the advice of professionally qualified chartered surveyors employed by the group. Any revaluations of investment properties are disclosed as movements on the revaluation reserve to the extent the reserve is sufficient. Any impairment below cost is charged to the profit and loss account.

Depreciation is not provided on investment properties which represents a departure from the Companies Act 2006. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would not be appropriate. The accounting policy adopted is consistent with SSAP19 'Accounting for Investment Properties' and is therefore necessary for the financial statements to show a true and fair view. Depreciation is only one of many factors reflected in the directors' valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

### 2. Turnover

An analysis of turnover by geographical market is given below

	2012 £m	2011 £m
United Kingdom	394.6	424.5
Europe	863.4	885.0
The Americas	506.2	423.5
India	548.7	667.4
Middle East	152.3	135.8
Australia and the Far East	119.1	112.9
Africa	127.7	67.0
	2,712.0	2,716.1

In the opinion of the directors, the JCB group companies are engaged in a single class of business: the design, manufacture, marketing and sale of a comprehensive range of excavating, earthmoving, materials handling and agricultural machines and the provision of after sales service and supply of parts for those machines, in construction, agriculture and industrial markets.

### 3. Segmental reporting

The group competes internationally with many earthmoving equipment manufacturers. Because detailed information relating to this competitor activity is not published, the directors consider the disclosure of segmental information relating to the group results and net assets to be seriously prejudicial to the interests of the group and this disclosure has therefore not been provided.

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 4. Operating profit

Operating profit is stated after charging/(crediting)

	2012 £m	2011 £m
Government grants	(1.6)	-
Research and development expenditure	61.4	58.2
Hire of machinery and equipment	4.9	4.4
Foreign currency losses/(gains)	10.6	(2.3)
(Profit)/loss on sale of fixed assets	(0.5)	0.4
Depreciation of tangible fixed assets	33.1	33.2
Amortisation of goodwill	14.0	13.4

#### Services provided by the company's auditor.

During the year the group (including its overseas subsidiaries) obtained the following services from the company's auditor and its associates

	2012 £m	2011 £m
Fees payable to the company's auditor and its associates for the audit of parent company and consolidated financial statements	0.3	0.2
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries	0.7	0.7
Audit-related assurance services	0.1	0.1
Tax compliance services	1.1	0.7
Tax advisory services	0.6	0.4
	2.8	2.1

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 5. Particulars of employees

The average monthly number of persons employed by the group (including directors) during the year, analysed by category, was as follows

	2012 Number	2011 Number
Directors	8	7
Administration and service	3,119	3,253
Production	5,679	5,099
	8,806	8,359

The aggregate payroll costs of these persons were as follows

	2012 £m	2011 £m
Wages and salaries	285.5	256.8
Social security	28.8	23.9
Defined benefit pension cost	10.9	8.8
Defined contribution pension cost	6.7	7.1
	331.9	296.6

#### 6. Directors' emoluments

The directors' emoluments for the year were as follows

	2012 £m	2011 £m
Directors' emoluments	0.8	0.7

During the year the number of directors who were accruing benefits under company pension schemes was as follows

	2012 Number	2011 Number
Defined benefit	-	1

The aggregate emoluments of the highest paid director (excluding pension contributions) were £0.3 million (2011 £0.3 million)

#### 7. Profit on sale of non-industrial properties

	2012 £m	2011 £m
Profit on sale of non-industrial properties	17.3	-

During the year, certain non-industrial properties were sold to related parties outside of the group for consideration of £44.4m. The net book value of the properties sold was £27.1 million.

#### 8. Interest payable and similar charges

	2012 £m	2011 £m
Discounting charges	9.4	10.7
Interest payable on bank loans and overdrafts	8.0	7.1
	17.4	17.8

# JCB Service

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 9. Tax on profit on ordinary activities

Analysis of charge in the year	2012 £m	2011 £m
<b>Current tax</b>		
UK corporation tax charge at 24.5% (2011: 26.5%)	45.1	38.3
Adjustment in respect of prior year tax charge	-	0.7
UK corporation tax	45.1	39.0
Overseas tax charge	34.6	48.5
Adjustment in respect of prior year tax charge	(1.9)	-
Foreign tax	32.7	48.5
Share of associate's tax	0.9	0.8
Total current tax	78.7	88.3
<b>Deferred tax</b>		
Origination and reversal of timing differences	5.0	1.9
Adjustments in respect of prior year	3.9	0.7
Total deferred tax	8.9	2.6
Total tax on profit on ordinary activities	87.6	90.9

#### Factors affecting current year tax charge

The tax assessed on the profit on ordinary activities for the year is higher than (2011: higher than) the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)

The differences are explained below	2012 £m	2011 £m
Profit on ordinary activities before taxation	300.1	267.3
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	73.5	70.8
Excess of depreciation charge over capital allowances	0.9	0.3
Expenses not deductible for tax purposes	4.3	10.2
Short term timing differences	(3.2)	1.1
Previously unrecognised tax losses utilised	(2.1)	(3.6)
Adjustment in respect of foreign tax rates	7.2	8.0
Adjustment in respect of prior year	(1.9)	0.7
Remeasurement of deferred tax	-	0.8
Total current tax for the year	78.7	88.3

During the year, as a result of changes in the UK corporation tax rate to 24% which was substantively enacted on 26 March 2012 and was effective from 1 April 2012, and to 23% which was substantively enacted on 3 July 2012 and will be effective from 1 April 2013, the relevant deferred tax balances have been remeasured.

Further reductions in the UK corporation tax rate have been announced. The changes propose to reduce the rate to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

Deferred tax liabilities have not been discounted.

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 10. Dividends

	2012 £m	2011 £m
Equity dividends paid £1,026.48 per share (2011 £923.83 per share)	50.0	45.0

#### 11. Intangible fixed assets

Group	Goodwill £m
<b>Cost</b>	
As at 1 January 2012	267.5
Additions (Note 26)	17.6
<b>As at 31 December 2012</b>	<b>285.1</b>
<b>Amortisation</b>	
As at 1 January 2012	59.4
Charge for the year	14.0
<b>As at 31 December 2012</b>	<b>73.4</b>
<b>Net book value at 31 December 2012</b>	<b>211.7</b>
Net book value at 31 December 2011	208.1

Goodwill on the acquisitions of JCB India Limited, JCB Vibromax GmbH, JCB Landpower Limited and JCB Compact Products Limited has been capitalised and is being amortised over 20 years in each case, being the directors' estimate of useful economic life.

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 12. Tangible fixed assets

Group	Land & Buildings £m	Plant & Machinery £m	Fixtures, Fittings & Equipment £m	Motor Vehicles £m	Assets in Course of Construction £m	Total £m
<b>Cost</b>						
As at 1 January 2012	291.3	244.3	154.9	10.2	37.6	738.3
Additions	13.5	9.9	15.8	1.3	41.3	81.8
Disposals	(39.5)	(2.0)	(13.6)	(1.8)	-	(56.9)
Reclassifications	32.1	11.0	(3.7)	-	(39.4)	-
Exchange adjustments	(4.8)	(4.6)	(1.8)	(0.2)	(3.3)	(14.7)
<b>As at 31 December 2012</b>	<b>292.6</b>	<b>258.6</b>	<b>151.6</b>	<b>9.5</b>	<b>36.2</b>	<b>748.5</b>
<b>Depreciation</b>						
As at 1 January 2012	71.1	164.0	85.8	6.7	-	327.6
Charge for the year	5.3	16.3	10.3	1.2	-	33.1
Disposals	(10.2)	(1.7)	(6.0)	(1.7)	-	(19.6)
Reclassifications	-	0.8	(0.8)	-	-	-
Exchange adjustments	(0.7)	(2.3)	(1.1)	(0.1)	-	(4.2)
<b>As at 31 December 2012</b>	<b>65.5</b>	<b>177.1</b>	<b>88.2</b>	<b>6.1</b>	<b>-</b>	<b>336.9</b>
<b>Net book value at 31 December 2012</b>	<b>227.1</b>	<b>81.5</b>	<b>63.4</b>	<b>3.4</b>	<b>36.2</b>	<b>411.6</b>
Net book value at 31 December 2011	220.2	80.3	69.1	3.5	37.6	410.7

Freehold land of £21.1 million (2011 £24.3 million) has not been depreciated

#### Capital commitments

	2012 £m	2011 £m
Contracted but not provided for in the financial statements	26.9	40.3

Company	Freehold Land & Buildings £m	Plant & Machinery £m	Fixtures, Fittings & Equipment £m	Total £m
<b>Cost</b>				
As at 1 January 2012	20.7	4.5	4.5	29.7
Additions	-	0.2	0.2	0.4
<b>As at 31 December 2012</b>	<b>20.7</b>	<b>4.7</b>	<b>4.7</b>	<b>30.1</b>
<b>Depreciation</b>				
As at 1 January 2012	3.2	4.0	4.0	11.2
Charge for the year	0.4	0.2	0.1	0.7
<b>As at 31 December 2012</b>	<b>3.6</b>	<b>4.2</b>	<b>4.1</b>	<b>11.9</b>
<b>Net book value at 31 December 2012</b>	<b>17.1</b>	<b>0.5</b>	<b>0.6</b>	<b>18.2</b>
Net book value at 31 December 2011	17.5	0.5	0.5	18.5

Freehold land of £2.0 million (2011 £2.0 million) has not been depreciated

# JCB Service

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 13. Fixed asset investments

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
<b>Shares in non group companies</b>				
At 1 January 2012	4.1	4.1	-	-
Disposal	(4.1)	-	-	-
<b>At 31 December 2012</b>	<b>-</b>	<b>4.1</b>	<b>-</b>	<b>-</b>
<b>Loans to group undertakings</b>				
As at 1 January 2012	-	-	19.6	14.6
Additions	-	-	0.6	5.0
<b>At 31 December 2012</b>	<b>-</b>	<b>-</b>	<b>20.2</b>	<b>19.6</b>
<b>Shares in group undertakings</b>				
As at 1 January 2012 and 31 December 2012	-	-	324.0	324.0
<b>Total fixed asset investments</b>	<b>-</b>	<b>4.1</b>	<b>344.2</b>	<b>343.6</b>

#### Shares in non group companies

Shares in non-group companies represented preference shares held in JCB Mauritius Limited (a company incorporated in Mauritius) which is controlled by Bamford family interests. This investment was disposed of during the year with the preference shares being redeemed at par.

#### Loans to group undertakings

Loans to group undertakings represent loans to JCB Vibromax GmbH and J C Bamford Excavators Limited.

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
<b>Investment in associates</b>				
At 1 January 2012	11.0	8.4	-	-
Share of profit after taxation	3.3	2.6	-	-
Dividend	(5.0)	-	-	-
<b>At 31 December 2012</b>	<b>9.3</b>	<b>11.0</b>	<b>-</b>	<b>-</b>

The group has a 25% investment in the Ordinary share capital of JCB Finance Limited, a company that provides instalment credit and leasing facilities. The group's share of JCB Finance Limited's results, assets and liabilities is as follows:

	2012	2011
	£m	£m
Turnover	12.4	11.5
Profit after taxation	3.3	2.6
Total assets	143.4	137.7
Total liabilities	(134.1)	(126.7)

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 13. Fixed asset investments (continued)

##### Group undertakings

At 31 December 2012 the company directly, and through its investments in other companies, has the following subsidiary companies. All equity holdings are in Ordinary shares

	Equity held	Principal business	Country of Incorporation
J C Bamford Excavators Limited	100%	Equipment manufacturer and sales	UK
J C Bamford Investments	100%	Investment trading	UK
JCB Benelux Ltd	100%	Intermediate holding company	UK
JCB Earthmovers Limited	100%	Equipment manufacturer and sales	UK
JCB Cab Systems Limited	100%	Equipment manufacturer and sales	UK
JCB Insurance Services Limited	100%	Insurance broker	UK
JCB Materials Handling Limited	100%	Non trading	UK
JCB Sales Limited	100%	Sales and marketing	UK
JCB Transmissions	100%	Transmissions manufacturer and sales	UK
JCB Power Systems Limited	100%	Engine manufacturer and sales	UK
JCB Landpower Ltd	100%	Equipment manufacturer and sales	UK
JCB Heavy Products Ltd	100%	Equipment manufacturer and sales	UK
JCB Farms Limited*	100%	Farming	UK
Wootton Organic Wholesale Ltd *	100%	Non trading	UK
JCB Backhoe Loaders Ltd	100%	Non-trading	UK
JCB Accounting and Systems Ltd	100%	Property investment company	UK
JCB Parts Ltd	100%	Property investment company	UK
JCB Remarketing Limited	100%	Equipment sales	UK
JCB Defence Products Limited	100%	Sales and marketing	UK
JCB Compact Products Limited	100%	Equipment manufacturer and sales	UK
JCB North America Limited	100%	Holding company	UK
JCB Belgium NV	100%	Equipment distributor	Belgium
JCB Sales do Brazil Ltda	100%	Equipment manufacturer	Brazil
JCB Excavators Limited	100%	Equipment distributor	Canada
JCB Europe EURL	100%	Equipment marketing	France
JCB Finance Commercialisation SAS	100%	Finance marketing	France
JCB Ile de France SNC	100%	Equipment dealer	France
JCB SAS	100%	Equipment distributor	France
JCB Deutschland GmbH	100%	Services provider	Germany
JCB Vertrieb and Service GmbH	99%	Equipment distributor	Germany
JCB Vibromax GmbH	100%	Equipment manufacturer	Germany
JCB Groundcare GmbH	100%	Equipment distributor	Germany
JCB India Limited	100%	Equipment manufacturer	India
JCB SpA	100%	Equipment distributor	Italy
Daylesford Organic Farms Limited*	100%	Farming	Liberia
J C Bamford NV	100%	Equipment distributor	Netherlands
OOO JCB Russia	100%	Equipment distributor	Russia
JCB Maquinaria SA	100%	Equipment distributor	Spain
JCB Sales Asia Pacific Pte Ltd	100%	Equipment distributor	Singapore
JCB US Holdings Inc	100%	Holding company	USA
JCB Inc	98%	Equipment distributor	USA
JCB Manufacturing Inc	100%	Equipment manufacturer	USA
JCB Finance Company	100%	Finance company	USA
JCB Real Estate Company	100%	Property company	USA
North Georgia Construction LLC	51%	Equipment distributor	USA
JCB Kenya Services Limited	100%	Services provider	Kenya
JCB Australia Pty Ltd	100%	Services provider	Australia

The companies marked with an asterix (\*) are not consolidated on the grounds that they are not material to the group

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 14. Stocks and work in progress

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Raw materials	100.3	98.9	-	-
Work in progress	23.2	41.4	-	-
Finished goods	48.9	54.5	-	-
Parts for resale	63.0	57.7	44.6	42.1
	235.4	252.5	44.6	42.1

#### 15. Debtors

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Trade debtors	127.9	130.7	2.6	-
Bills receivable	1.2	3.6	-	-
Amounts owed by fellow subsidiaries	0.1	0.3	-	-
Amounts owed by subsidiary undertakings	-	-	378.0	382.7
Amounts owed by associated undertakings	0.2	0.7	-	0.2
Amounts owed by related parties outside the JCB Service group	93.5	77.6	0.3	0.8
Corporation tax recoverable	3.0	7.9	-	-
Deferred tax	9.7	16.1	-	0.1
Taxation and social security	44.4	41.7	0.7	0.6
Other debtors	22.7	23.1	0.4	0.4
Prepayments and accrued income	19.2	19.5	0.3	0.5
	321.9	321.2	382.3	385.3

Trade debtors are stated net of amounts discounted without recourse of £252.3 million (2011: £230.2 million) (group), and £20.2 million (2011: £25.8 million) (company).

# JCB Service

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 15. Debtors (continued)

#### Deferred tax

The movement in the deferred tax asset/(liability) during the year was

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
As at 1 January 2012	16.1	16.1	0.1	1.5
Profit and loss charge	(8.9)	(2.6)	(0.4)	(1.4)
Deferred tax movement on pension scheme	2.8	2.9	-	-
Currency adjustments	(0.3)	(0.3)	-	-
As at 31 December 2012	9.7	16.1	(0.3)	0.1

The deferred tax asset/(liability) consists of the tax effect of timing differences in respect of

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Excess of taxation allowances over depreciation on fixed assets	(2.9)	(3.6)	(0.3)	(0.2)
Tax losses available	8.8	8.3	-	0.3
Other timing differences	3.8	11.4	-	-
	9.7	16.1	(0.3)	0.1

The total amount of unrecognised deferred tax is £20.7 million (2011: £20.1 million). An asset has not been recognised due to the uncertainty of the future profitability of the companies to which it relates.

### 16. Current asset investments

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Shares in group undertakings	0.1	0.1	0.1	0.1
Investment properties	2.9	11.2	-	-
	3.0	11.3	0.1	0.1

Group and company investments in shares in group undertakings, are investments in subsidiaries which have not been consolidated and are treated as current assets because they are only intended to be temporary. These comprise:

	Equity Held	Principal Business	Country of Incorporation
JCB Tryfirm Limited	100%	Non-trading	UK
Rayner (Hemel Hempstead) Limited	100%	Non-trading	UK

The investment properties are treated as current assets because they are expected to be disposed of during the next 12 months. During the year the group disposed of an investment property for consideration of £8.3 million.

The carrying value of the investment properties is assessed on an annual basis, and at 31 December 2012 is not materially different from the open market value.

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 17. Creditors: amounts falling due within one year

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Bank loans and overdrafts	31.7	34.0	27.8	28.7
Trade creditors	263.7	315.4	16.2	17.2
Amounts owed to fellow subsidiaries	1.3	0.8	1.3	0.8
Amounts owed to subsidiary undertakings	5.7	6.5	115.7	119.7
Amounts owed to other related parties outside JCB Service group	25.9	37.2	0.2	0.2
Corporation tax	24.2	25.4	7.1	4.7
Taxation and social security	19.2	21.1	-	0.4
Pension costs	8.8	6.7	0.4	-
Other creditors	55.9	45.1	0.5	3.1
Accruals and deferred income	115.5	140.0	4.6	4.7
	<b>551.9</b>	<b>632.2</b>	<b>173.8</b>	<b>179.5</b>

Included in bank loans and overdrafts is the current portion, £10.0 million (2011 £10.0 million), of an unsecured loan which is due to be repaid in quarterly instalments of £2.5 million and a final bullet payment of £35.0 million on 30 September 2016. An interest rate of between 1.25% and 2.5% above LIBOR is payable on the loan. The bank overdrafts are repayable on demand.

#### 18. Creditors: amounts falling due after more than one year

	Group		Company	
	2012	2011	2012	2011
	£m	£m	£m	£m
Bank loans	60.0	70.0	60.0	70.0
Other creditors	1.5	1.9	-	-
Deferred income – government grants	4.3	4.4	-	-
	<b>65.8</b>	<b>76.3</b>	<b>60.0</b>	<b>70.0</b>

Included in bank loans is an unsecured loan of £60.0 million (2011 £70.0 million), which is due to be repaid in quarterly instalments of £2.5 million and a final bullet payment of £35.0 million on 30 September 2016. An interest rate of between 1.25% and 2.5% above LIBOR is payable on the loan.

#### 19. Provisions for liabilities

##### Group – warranty provision

	2012	2011
	£m	£m
As at 1 January 2012	47.1	39.5
Charged to the profit and loss account	49.6	44.7
Supplier recoveries credited to the profit and loss account	(8.9)	(6.7)
Amounts utilised during the year	(36.5)	(30.4)
<b>As at 31 December 2012</b>	<b>51.3</b>	<b>47.1</b>

##### Company

	2012	2012	2012	2011
	Deferred	Warranty	Total	Warranty
	tax	provision		provision
	£m	£m	£m	£m
As at 1 January 2012	-	11.3	11.3	8.9
Charged to the profit and loss account	0.3	12.7	13.0	9.4
Supplier recoveries credited to the profit and loss account	-	(0.3)	(0.3)	(0.4)
Amounts utilised during the year	-	(9.2)	(9.2)	(6.6)
<b>As at 31 December 2012</b>	<b>0.3</b>	<b>14.5</b>	<b>14.8</b>	<b>11.3</b>

# JCB Service

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 19. Provisions for liabilities (continued)

It is expected that most warranty expenditure will be incurred in the next financial year, and nearly all will be incurred within two years of the balance sheet date. Included in Other Debtors (group and company – Note 15) is an amount totalling £5.5 million (2011: £6.2 million) (group), and £0.3 million (2011: £0.3 million) (company) representing amounts recoverable from suppliers.

### 20. Pension schemes

<b>Pension Schemes (net of deferred tax)</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Defined benefit schemes with net assets comprise		
UK	0.7	0.5
Defined benefit schemes with net liabilities comprise		
	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
UK	58.1	53.0
Overseas	5.9	4.1
	<b>64.0</b>	<b>57.1</b>

#### UK

In the UK, pension arrangements are principally provided by two defined benefit schemes, JCB Bamford Lifeplan and JCB Bamford Excavators Limited Senior Directors and Executives Retirement Benefit Scheme (Senior Directors). The most recent formal actuarial valuations were carried out as at 6 April 2010 and 1 January 2011 (both updated to 31 December 2012).

#### Overseas

Five schemes provide pensions under defined benefit arrangements. A valuation of these schemes has been prepared by an independent, qualified actuary, as at 31 December 2012 using a methodology consistent with FRS 17.

The amounts recognised in the balance sheet are as follows:

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Present value of funded obligations	(606.8)	(552.5)
Fair value of plan assets	534.1	486.1
	(72.7)	(66.4)
Effect of surplus cap	(9.5)	(9.1)
	(82.2)	(75.5)
Related deferred tax asset	18.9	18.9
Net amount recognised	(63.3)	(56.6)
Amounts in the balance sheet		
Liabilities	(64.0)	(57.1)
Assets	0.7	0.5
Net liability	(63.3)	(56.6)

The amounts recognised in the profit and loss within operating profit are as follows:

	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Current service cost	10.9	8.8
Interest cost	27.0	26.5
Expected return on plan assets	(26.9)	(29.2)
Total pension cost recognised in the profit and loss account	11.0	6.1
Actuarial losses immediately recognised	13.6	54.4
Effect of surplus cap	0.4	4.8
Total pension losses recognised in the Statement of Total Recognised Gains and Losses	14.0	59.2

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 20. Pension schemes (continued)

Changes in the present value of the defined benefit obligations are as follows

	2012 £m	2011 £m
Benefit obligations at beginning of year	552.5	483.7
Current service cost	10.9	8.8
Interest cost	27.0	26.5
Plan participants' contributions	5.4	5.1
Actuarial losses	25.4	42.8
Benefits paid	(14.2)	(14.2)
Exchange differences	(0.2)	(0.2)
Benefit obligations at end of year	606.8	552.5

Changes in the fair value of the plan assets are as follows

	2012 £m	2011 £m
Fair value of plan assets at beginning of year	486.1	459.6
Expected return of plan assets	26.9	29.2
Actuarial gains/(losses)	11.8	(11.6)
Employer contributions	18.1	18.0
Member contributions	5.4	5.1
Benefits paid	(14.2)	(14.2)
Exchange differences	-	-
Benefit obligations at end of year	534.1	486.1

The major categories of plan assets as percentages of total plan assets are as follows

	J C Bamford Lifeplan		Senior Directors		Overseas	
	2012	2011	2012	2011	2012	2011
Equities	48.6%	48.7%	9.6%	8.8%	-	-
Property	8.4%	9.5%	-	-	-	-
Corporate Bonds	30.2%	25.8%	-	-	-	-
Gilts	9.3%	11.2%	90.4%	91.2%	-	-
Hedge Funds	3.5%	3.7%	-	-	-	-
Other	-	1.1%	-	-	100.0%	100.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

# JCB Service

## Notes to the financial statements for the year ended 31 December 2012 (continued)

### 20. Pension schemes (continued)

Weighted average assumptions used to determine benefit obligations

	J C Bamford Lifeplan		Senior Directors		Overseas	
	2012	2011	2012	2011	2012	2011
Discount rate	4.70%	4.90%	4.70%	4.90%	3.60%	4.90%
Rate of salary increase	2.90%	3.00%	n/a	3.00%	3.00%	3.00%
Rate of price inflation (RPI)	2.90%	3.00%	2.90%	3.00%	2.00%	2.00%
Rate of pension increases	2.90%	2.90%	2.90%	2.90%	2.00%	2.00%

Weighted average assumptions used to determine net pension cost

	J C Bamford Lifeplan		Senior Directors		Overseas	
	2012	2011	2012	2011	2012	2011
Discount rate	4.90%	5.50%	4.90%	5.50%	4.90%	5.40%
Expected long-term return on plan assets	5.90%	6.65%	3.40%	4.20%	2.84%	3.21%
Rate of salary increase	3.00%	3.30%	3.00%	-	3.00%	3.00%
Rate of price inflation	3.00%	3.30%	3.00%	3.30%	2.00%	2.00%
Rate of pension increases	2.90%	3.20%	2.90%	3.30%	2.00%	2.00%

The company has considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

#### Amounts for current year and previous four years

	2012	2011	2010	2009	2008
	£m	£m	£m	£m	£m
<b>J C Bamford Lifeplan</b>					
Benefit obligations at end of year	(527.8)	(477.9)	(417.0)	(386.6)	(327.0)
Fair value of assets at end of year	452.4	407.2	392.5	347.6	303.6
Deficit	(75.4)	(70.7)	(24.5)	(39.0)	(23.4)
<b>Experience adjustments on plan assets</b>					
- Amount	12.4	(20.5)	12.0	15.0	(85.1)
<b>Experience adjustments on plan liabilities</b>					
- Amount	-	-	12.5	-	-
<b>Total actuarial gains and losses recognised in statement of total recognised gains and losses</b>					
- Amount	(9.2)	(54.8)	6.4	(62.3)	(10.8)

	2012	2011	2010	2009	2008
	£m	£m	£m	£m	£m
<b>J C Bamford Excavators Limited Senior Directors &amp; Executive Retirement Benefits Scheme</b>					
Benefit obligations at end of year	(69.8)	(67.8)	(60.4)	(58.3)	(53.4)
Fair value of assets at end of year	80.2	77.6	66.0	60.8	61.5
Surplus	10.4	9.8	5.6	2.5	8.1
<b>Experience adjustments on plan assets</b>					
- Amount	(0.5)	8.7	2.0	0.8	(5.1)
<b>Experience adjustments on plan liabilities</b>					
- Amount	-	(2.1)	-	-	2.8
<b>Total actuarial gains and losses recognised in statement of total recognised gains and losses</b>					
- Amount	(2.8)	(3.7)	(3.1)	0.6	(3.9)

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 20. Pension schemes (continued)

Over the year to 31 December 2012 the company paid contributions of £14.0 million (2011 £13.5 million) to the J C Bamford Lifeplan scheme. Over 2013 the company expects to contribute 12.5% of members' pensionable salary plus £5.0 million additional contributions. The J C Bamford Lifeplan is closed to new entrants and as such the age profile of the active membership will increase over time. As a result, under the projected unit method, the current service cost will increase as members of the scheme approach retirement.

Over the year to 31 December 2012 the company also paid contributions of £4.1 million (2011 £4.5 million) to the Group's other defined benefit pension schemes.

#### 21. Share capital

	2012 £	2011 £
<b>Allotted, called up and fully paid up</b>		
48,710 Ordinary shares of £1 each (2011 48,710 Ordinary shares of £1 each)	48,710	48,710

#### 22. Reserves

Group	Share Premium account £m	Revaluation Reserve £m	Capital Reserve £m	Capital Redemption Reserve £m	Other Reserve £m	Profit & Loss account £m	Total £m
Balance at 1 January 2012	31.7	1.4	33.5	-	5.6	628.5	700.7
Profit for the year	-	-	-	-	-	212.1	212.1
Dividends paid (note 10)	-	-	-	-	-	(50.0)	(50.0)
Realisation of property revaluation	-	(1.4)	-	-	-	-	(1.4)
Actuarial loss net of deferred tax	-	-	-	-	-	(10.8)	(10.8)
Foreign currency translation differences	-	-	-	-	-	(24.5)	(24.5)
<b>Balance at 31 December 2012</b>	<b>31.7</b>	<b>-</b>	<b>33.5</b>	<b>-</b>	<b>5.6</b>	<b>755.3</b>	<b>826.1</b>

Company	Share Premium account £m	Other Reserve £m	Profit & Loss account £m	Total £m
Balance at 1 January 2012	31.7	-	551.4	583.1
Profit for the year	-	-	45.8	45.8
Dividends paid (note 10)	-	-	(50.0)	(50.0)
<b>Balance at 31 December 2012</b>	<b>31.7</b>	<b>-</b>	<b>547.2</b>	<b>578.9</b>

#### 23. Minority interests

	£m
At 1 January 2012	6.8
Profit on ordinary activities after taxation	0.4
Acquisition of minority interest (note 26)	(7.2)
<b>Balance at 31 December 2012</b>	<b>-</b>

## JCB Service

### Notes to the financial statements for the year ended 31 December 2012 (continued)

#### 24. Reconciliation of operating profit to operating cash flows

	2012 £m	2011 £m
Operating profit	287.6	275.8
Depreciation	33.1	33.2
Amortisation of goodwill	14.0	13.4
Difference between pension charge and cash contributions	(7.2)	(11.9)
Decrease/(increase) in stock	8.2	(85.7)
Decrease/(increase) in debtors	21.9	(36.6)
(Decrease)/increase in creditors (including warranty provision)	(61.0)	138.3
Currency translation differences	(0.6)	(5.4)
<b>Net cash inflow from operating activities</b>	<b>296.0</b>	<b>321.1</b>

#### 25. Analysis of net funds

	At 1 January 2012 £m	Cash Flow £m	Exchange movements £m	At 31 December 2012 £m
Cash at bank and in hand	300.8	76.2	(11.5)	365.5
Bank overdraft	(24.0)	(0.8)	3.1	(21.7)
<b>Net cash at bank and in hand</b>	<b>276.8</b>	<b>75.4</b>	<b>(8.4)</b>	<b>343.8</b>
Debt due within one year	(10.0)	-	-	(10.0)
Debt due after one year	(70.0)	10.0	-	(60.0)
<b>Net funds</b>	<b>196.8</b>	<b>85.4</b>	<b>(8.4)</b>	<b>273.8</b>

#### 26. Acquisition of minority interest

On 30 March 2012 JCB India Limited repurchased the minority 2.5% holding in its share capital. This transaction has been accounted for under the acquisition method. Consideration of £24.4m was paid and goodwill of £17.6m arose on the acquisition. No material fair value adjustments have been made to the net assets acquired.

#### 27. Contingent liabilities

##### Group

Various companies within the group have a contingent liability in respect of guarantees and indemnities given by Barclays Bank plc, HSBC Bank plc and Lloyds TSB Bank plc on their behalf. The group's liability in respect of these at 31 December 2012 was £29.5 million (2011: £11.2 million).

##### Company

The company has a contingent liability in relation to guarantees and indemnities given by Barclays Bank plc and HSBC Bank plc on its behalf. The company's liability in respect of these at 31 December 2012 was £24.7 million (2011: £5.9 million).

## **JCB Service**

### **Notes to the financial statements for the year ended 31 December 2012 (continued)**

#### **28. Related party transactions**

The company has taken advantage of the exemption allowed under FRS 8 not to disclose details of transactions with entities that are part of the group or investees of the group qualifying as related parties

##### **Non-consolidated subsidiaries**

JCB Farms Limited is party to a jointly and severally liable pooled banking facility. At 31 December 2012 the group had an exposure of £21.6 million (2011: £21.5 million) that has been provided against other debts due from JCB Farms Limited and its subsidiary undertakings.

##### **Other related parties**

The group subcontracts some of its research and development projects, and related management services, to JCB Research in which Sir Anthony Bamford DL is the sole shareholder. JCB Research charges this work at cost, so as to make neither profit nor loss after allowing for taxation. The total value of services purchased by the group during the year was £52.4 million (2011: £55.3 million). The net amount owed by the group to JCB Research at 31 December 2012 was £22.3 million (2011: £17.7 million).

JCB Research is party to a jointly and severally liable pooled banking facility. At 31 December 2012 the group had an exposure of £50.5 million (2011: £14.2 million).

The group has sold machines and parts to JCB Construction Equipment (Shanghai) Limited, a company ultimately controlled by Bamford family interests. The total value of these transactions was sales of £20.0 million (2011: £39.2 million). The net amount owed to the group at 31 December 2012 by JCB Construction Equipment (Shanghai) Limited was £35.8 million (2011: £44.8 million). The group was also owed £1.3 million (2011: £8.5 million) by JCB Hong Kong Limited, the parent company of JCB Construction Equipment (Shanghai) Limited.

The group transacts business with BHoldings Limited and its subsidiaries, a group in which Lady Bamford OBE and her family are the shareholders. The group purchased branded products and merchandise from and sold parts to the BHoldings Limited group of companies. The total value of these transactions was sales of £2.2 million (2011: £1.4 million) and purchases of £0.1 million (2011: £0.2 million). The group paid £1.25 million (2011: £1.25 million) as a promotional services fee to BHoldings Limited. The net amount owed to the group by the BHoldings Limited group of companies at 31 December 2012 was £6.6 million (2011: £2.5 million).

The group has purchased machines from and provided administrative services to JCB International Limited, a company ultimately controlled by Bamford family interests. The total value of these transactions was income of £5.0 million (2011: £3.6 million) and purchases of £5.0 million (2011: £3.5 million). The net amount owed to the group by JCB International Limited was £1.3 million (2011: £0.8 million).

The group has incurred finance charges of £0.6 million (2011: £0.6 million) from JCB Finance SAS, a company that is jointly owned by BNP Paribas Lease Group SA and Transmissions and Engineering Services Netherlands BV. The group has also sold machines to JCB Finance SAS the value of which was £nil (2011: £1.9 million). The net amount owed to the group at 31 December 2012 by JCB Finance SAS was £nil (2011: £1.5 million).

The group sold various investment properties during the year to Bamford Property Limited, B Uttoxeter Property Holdings Limited and B Cheadle Property Holdings Limited, companies ultimately controlled by Bamford family interests. The net book value of the properties sold was £27.1 million resulting in a profit on disposal of £17.3m and the amount owed to the group by these companies at 31 December 2012 was £44.9 million.

During the year, the group re-purchased a minority 2.5% holding in JCB India Limited from JCB Mauritius Limited, a company ultimately controlled by Bamford family interests. Further details on this transaction are provided in note 26.

Details of emoluments paid to the directors are disclosed in note 6 of these financial statements.

#### **29. Ultimate controlling party**

The company is a subsidiary of Transmissions and Engineering Services Netherlands BV, a company incorporated in the Netherlands. Transmissions and Engineering Services Netherlands BV consolidates the financial statements of JCB Service and is ultimately controlled by Bamford family interests. Financial statements for Transmissions and Engineering Services Netherlands BV can be obtained from the Chamber of Commerce in Rotterdam.