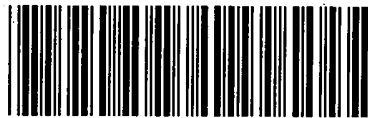


JCB Power Systems Limited
Directors' Report and Financial Statements
for the year ended 31 December 2015

Registered number 04797821

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JCB Power Systems Limited

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JCB Power Systems Limited

Directors and advisors

Directors

J C E Bamford
G A Macdonald
M W Turner

Company secretary

S E R Ovens

Independent 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

Registered office

Lakeside Works
Rochester
Uttoxeter
Staffs
ST14 5JP

Registered number

04797821

JCB Power Systems Limited

Strategic report for the year ended 31 December 2015

The directors present their strategic report on the company for the year ended 31 December 2015.

Principal activities

The principal activity of JCB Power Systems Limited is the manufacture and sale of engines.

Review of business and future developments

The difficult market conditions referred to in the 2014 report continued throughout 2015. The global construction equipment market was down 14.2% compared to 2014 (Source: ISTAT). The BRIC economies were challenging throughout 2015 with Brazil down 43%, Russia down 62% and China down 45%. The only highlight within the BRIC economies was India which grew by 3%. There were encouraging levels of recovery in the developed economies; but growth in these economies slowed in the year. These challenging conditions have led to a decrease in turnover from £145.8m in 2014 to £123.5m in 2015. Prudent cost management has however meant the overall result has not significantly changed with operating profit falling slightly from £18.1m in 2014 to £17.4m in 2015. The reduction of stock during the year has resulted in cash at the end of the year of £8.4m (2014: £22.3m overdrawn) and a balance sheet with net assets of £6.8m (2014: net liabilities £6.4m).

Results in the early part of 2016 are in line with expectations, though market conditions have not eased. The global construction market is expected to grow slightly in 2016. However, the rate of growth of individual markets will vary considerably, dependent upon local economic and geopolitical conditions. The company remains confident about its longer-term prospects and will continue to invest in new product development throughout 2016 and beyond.

Principal risks and uncertainties

The principal risk facing JCB Power Systems Limited is the cyclical nature of the industry as a whole which, in broad terms, tracks the global economic cycle. To manage this risk, JCB Power Systems Limited 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.

Financial risk management

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

Credit risk

JCB Power Systems Limited's principal financial assets are bank balances, group receivables and other receivables. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings by international credit rating agencies. JCB Power Systems Limited has no significant concentration of external credit risk, with exposure spread over a number of counterparties.

Liquidity risk

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

Exchange rate risk

The exchange rate risk is mitigated by the JCB Service group's hedging arrangements. The group hedges exchange rate exposure on foreign currency transactions, mainly those relating to sales, where a significant proportion thereof is invoiced in foreign currencies. It is the group's policy to reduce this exposure through the use of forward currency contracts.

Key performance indicators (KPIs)

JCB Power Systems Limited 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, research and development investment and other operational statistics including factory productivity, quality and health and safety.

Approved on behalf of the board



G A Macdonald
Director

24 JUNE 2016

JCB Power Systems Limited

Directors' report for the year ended 31 December 2015

The directors present their report and the audited financial statements for the year ended 31 December 2015.

Future developments

Details of anticipated future developments in the company's business have been provided in the strategic report; see page 2 for further information.

Dividends

The directors do not propose the payment of a dividend (2014: £nil).

Research and development

The company continues to invest in product research and development with expenditure during the year of £12.7 million (2014: £16.8 million).

Statutory Records

The company is incorporated in England and its company registration number is 04797821.

Directors

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

J C E Bamford
G A Macdonald
M W Turner
M H Sandford (resigned 6 May 2016)

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 company'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 company'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 company 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 company.

Matters disclosed elsewhere within the financial statements

Required disclosures in relation to the company's key performance indicators, business review, principal risks and uncertainties and financial risk management have been included within the company's Strategic Report on page 2 of these financial statements.

JCB Power Systems Limited

Directors' report for the year ended 31 December 2015 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements (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 financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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.

Statement of disclosure of information to auditors

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

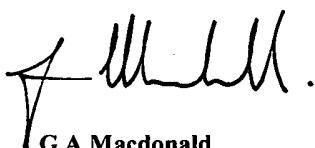
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the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

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. Elective resolutions are currently in force to dispense with holding annual general meetings, the laying of accounts before the Company in general meetings and the appointment of auditors annually. Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Approved on behalf of the board



G A Macdonald
Director

24 JUNE 2016

JCB Power Systems Limited

Independent auditors' report to the members of JCB Power Systems Limited

Report on the financial statements

Our opinion

In our opinion, JCB Power Systems Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit 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.
-

What we have audited

The financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2015;
- the Profit and loss account for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

JCB Power Systems Limited

Independent auditors' report to the members of JCB Power Systems Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Nicholas Boden (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Manchester

24th June 2016

JCB Power Systems Limited

Profit and loss account for the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Turnover	5	123,541	145,766
Cost of sales		(102,058)	(125,919)
Gross profit		21,483	19,847
Distribution costs		(864)	(749)
Administrative costs		(3,199)	(1,014)
Operating profit	6	17,420	18,084
Interest payable and similar charges	9	(769)	(855)
Profit on ordinary activities before taxation		16,651	17,229
Tax on profit on ordinary activities	10	(3,478)	(3,007)
Profit for the financial year		13,173	14,222

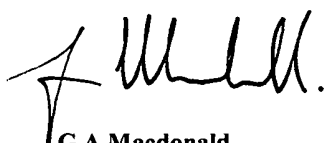
All activities are derived from continuing operations.

The company has no other comprehensive income for the year and prior year other than the results above and therefore no separate statement of other comprehensive income has been presented.

JCB Power Systems Limited
Balance Sheet as at 31 December 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Tangible assets	11	17,391	15,929
Current assets			
Stocks	12	17,272	50,285
Debtors	13	13,758	17,711
Cash at bank and in hand		8,369	117
		39,399	68,113
Creditors – amounts falling due within one year	14	(49,083)	(89,519)
Net current liabilities		(9,684)	(21,406)
Total assets less current liabilities		7,707	(5,477)
Provisions for liabilities and other charges	16	(932)	(921)
Net assets/(liabilities)		6,775	(6,398)
Capital and reserves			
Share capital	17	-	-
Retained earnings/(deficit)	18	6,775	(6,398)
Total shareholder's funds/(deficit)		6,775	(6,398)

The financial statements on pages 7 to 22 were approved by the board of directors on **24 JUNE 2016** and were signed on its behalf by:



G A Macdonald
Director

Registered Number: 04797821

JCB Power Systems Limited

Statement of changes in equity for the year ended 31 December 2015

	Note	Share capital £'000	Retained earnings/ (deficit) £'000	Total £'000
Balance as at 1 January 2014		-	(20,620)	(20,620)
Profit for the year		-	14,222	14,222
Total comprehensive income for the year		-	14,222	14,222
Balance as at 31 December 2014		-	(6,398)	(6,398)
Profit for the year		-	13,173	13,173
Total comprehensive income for the year		-	13,173	13,173
Balance as at 31 December 2015		-	6,775	6,775

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015

1. General information

The principal activity of JCB Power Systems Limited is the manufacture and sale of engines.

The company is incorporated and domiciled in the UK. The address of its registered office is Lakeside Works, Rocester, Uttoxeter, Staffs, ST14 5JP.

2. Statement of compliance

The financial statements of JCB Power Systems Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”) and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

The company is a wholly-owned subsidiary of JCB Service and is included in the consolidated financial statements of JCB Service, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 102. The company is also exempt under the terms of FRS 102 from disclosing related party transactions with entities that are part of the JCB Service group or investees of the JCB Service group. The company has taken advantage of the exemption from disclosing total compensation to key management personnel under paragraph 33.7 of FRS 102. The company has also taken the exemption in respect of certain financial instrument disclosures as allowed by FRS 102. For details of other related party transactions see note 20.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 for the first time in these financial statements. Details of the transition to FRS 102 are disclosed in note 22.

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 certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(a) Turnover recognition

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered to customers outside of the company, excluding VAT and sales taxes and net of sales incentives.

The company recognises turnover from sales of products upon shipment. Turnover from the provision of services is recognised in the accounting period in which the services are rendered when the outcome of contract can be estimated reliably. Turnover from warranty contracts is spread evenly over the life of the contract.

Interest income is recognised using the effective interest rate method.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. Summary of significant accounting policies (continued)

(b) Foreign currency

The company's functional and presentational currency is the pound sterling. Therefore these financial statements are presented in pound sterling and have been rounded to the nearest thousand pounds.

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.

(c) Employee benefits

Post employment benefits for eligible employees are primarily provided by two defined benefit schemes which are funded by contributions from the company and employees into separately administered trust funds. The company is unable to identify its share of the underlying assets and liabilities of these schemes. As a result, the company accounts for contributions to the schemes as if they were defined contribution schemes by charging them to the profit and loss account as incurred. Full details of the defined benefit scheme can be found in the Financial Statement of JCB Service which are publicly available.

The defined benefit schemes are closed to new entrants and have been replaced by a stakeholder scheme which is a defined contribution scheme. Post employment costs relating to defined contribution arrangements are charged to the profit and loss account as incurred. The assets of the scheme are held in an independently administered fund.

(d) Taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

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.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. Summary of significant accounting policies (continued)

(e) Tangible assets

The cost of tangible 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:

Buildings	2%
Plant and machinery	10 - 33.33%
Fixtures, fittings and equipment	10% - 25%

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

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

(f) Stocks and work in progress

Stocks are stated at the lower of historical cost and estimated selling price less costs to complete and sell. Stock is recognised as an expense in the period in which the related revenue is recognised. Cost is determined on the first-in, first-out (FIFO) method and includes direct materials, labour and appropriate works overhead.

At the end of each reporting period stock is assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

(g) Warranty provision

Provision is made for the company'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, with amounts recoverable from suppliers included within other debtors.

(h) Research and development

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

(i) Repairs and renewals

All repairs and renewals are expensed as incurred.

(j) Debtors

Trade debtors are recorded net of amounts discounted without recourse, less any provision for bad or doubtful debts. Initial recognition is at transaction price, subsequently measured at amortised cost.

(k) 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.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. Summary of significant accounting policies (continued)

(l) Dividends

Dividends and other distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

(m) Financial instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other debtors, cash and bank balances, are initially recognised at transaction price, 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.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. 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 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.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade and other creditors, bank and other loans, loans from fellow company companies and preference shares, 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 receipts discounted at a market rate of interest.

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors 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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in interest costs or income as appropriate.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. Summary of significant accounting policies (continued)

(m) Financial instruments (continued)

The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an 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 to liability simultaneously.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful economic life of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 11 for the carrying amount of the tangible assets, and note 3 for the useful economic lives for each class of assets.

(b) Stock provisioning

The company designs, manufactures and sells construction equipment and is subject to market demands and regulatory requirements. As a result it is necessary to consider the recoverability of the cost of stock and the associated provision required. When calculating the stock provision, management considers the nature and condition of its stock, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 12 for the net carrying amount of the stock and associated provision.

(c) Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 13 for the net carrying amount of the debtors and associated impairment provision.

(d) Warranty provision

The company designs, manufactures and sells construction equipment with certain products having a warranty period associated with their sale. As a result the company considers the future cost of warranty claims and the provision arising. When calculating the provision required, management considers its obligation to make good eligible issues within the relevant warranty period for those product lines having warranty conditions attached, and takes into account historical data and known performance issues. See note 16 for the warranty movement and year end provision.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

5. Turnover

An analysis of turnover by geographical market is given below:

	2015 £'000	2014 £'000
United Kingdom	112,313	135,072
Europe	2,026	386
North America	6,134	5,693
Middle East	90	-
Far East	468	1,576
Latin America	460	1,056
India	1,898	1,983
Africa	152	-
	123,541	145,766

6. Operating profit

Operating profit is stated after charging:

	2015 £'000	2014 £'000
Hire of machinery and equipment	466	435
Foreign currency losses	97	233
Depreciation of tangible fixed assets	1,971	2,024
Research and development expenditure	12,686	16,811
Services provided by the company auditor		
Fees payable for the audit	17	17

7. Particulars of employees

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

	2015 Number	2014 Number
Directors	4	5
Administration and service	8	6
Production	187	222
	199	233

The aggregate payroll costs of these persons were as follows:

	2015 £'000	2014 £'000
Wages and salaries	9,142	12,482
Social security	965	998
Defined contribution pension cost	669	613
	10,776	14,093

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

8. Directors' emoluments

No emoluments, including in respect of post employment benefits, were paid to the directors during the year (2014: £nil) for services provided to the company.

9. Interest payable and similar charges

	2015	2014
	£'000	£'000
Group interest	724	821
Discounting charges	45	34
	769	855

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Notes to the financial statements for the year ended 31 December 2015 (continued)

10. Tax on profit on ordinary activities

Analysis of charge in the year

	2015 £'000	2014 £'000
Current tax		
UK corporation tax charge on profits of the year	3,293	3,798
Adjustment in respect of prior year	(209)	(697)
Total current tax	3,084	3,101
Deferred tax		
Origination and reversal of timing differences	121	(139)
Adjustments in respect of prior year	273	45
Total deferred tax	394	(94)
Total tax on profit on ordinary activities	3,478	3,007

Factors affecting current year tax charge

The tax charge assessed on the profit on ordinary activities for the year is higher than (2014: lower than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%).

The differences are explained below:

	2015 £'000	2014 £'000
Profit on ordinary activities before taxation	16,651	17,229
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	3,372	3,704
Permanent differences	42	(45)
Adjustment in respect of prior year	64	(652)
Total tax for the year	3,478	3,007

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 20.25%.

Deferred tax liabilities have not been discounted.

Future tax changes

Changes to the UK corporation tax rates were announced on 8 July 2015. These changes were substantively enacted as part the Finance Bill 2015 on 26 October 2015 and include reductions to the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. On 16 March 2016 further changes to the UK corporation tax rate were announced including a further reduction in the UK corporation tax rate to 17% from 2020, which supersedes the change enacted on 26 October 2015. However, this further change was not substantively enacted as at 31 December 2015 and has not therefore been reflected in these financial statements.

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Notes to the financial statements for the year ended 31 December 2015 (continued)

11. Tangible fixed assets

	Buildings	Plant & Machinery	Fixtures, Fittings and Equipment	Assets in the Course of Construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
As at 1 January 2015	1,498	23,772	1,632	3,209	30,111
Additions	-	271	13	3,149	3,433
Reclassification	-	767	-	(767)	-
As at 31 December 2015	1,498	24,810	1,645	5,591	33,544
Depreciation					
As at 1 January 2015	164	12,691	1,327	-	14,182
Charge for the year	33	1,849	89	-	1,971
As at 31 December 2015	197	14,540	1,416	-	16,153
Net book value at 31 December 2015	1,301	10,270	229	5,591	17,391
Net book value at 31 December 2014	1,334	11,081	305	3,209	15,929

12. Stocks and work in progress

	2015	2014
	£'000	£'000
Raw materials	5,395	7,278
Work in progress	89	193
Finished goods	11,788	42,814
	17,272	50,285

During the year stock recognised as an expense in cost of sales was £79,714,000 (2014: £113,687,000).

Stocks are stated after provisions for impairment of £264,000 (2014: £522,000).

13. Debtors

	2015	2014
	£'000	£'000
Trade debtors	1,411	362
Amounts owed by group undertakings	7,855	13,025
Amounts owed by related parties outside the JCB Service group	620	652
Other debtors	3,001	3,230
Prepayments and accrued income	871	442
	13,758	17,711

Trade debtors are stated net of amounts discounted without recourse of £2,102,000 (2014: £2,764,000).

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

14. Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Bank overdraft	-	22,422
Trade creditors	6,057	9,631
Amounts owed to group undertakings	39,518	51,861
Amounts owed to other related parties outside JCB Service group	95	65
Corporation tax	1,372	2,410
Taxation and social security	238	308
Accruals and deferred income	1,803	2,822
	49,083	89,519

15. Pension schemes

The company is a participating employer in two defined benefit schemes: J C Bamford Lifeplan & J C Bamford Excavators Limited Senior Directors and Executives Retirement Benefit scheme. These schemes have a combined deficit of £138.9 million (2014: £156.8 million) calculated in accordance with FRS102. Details of these schemes are disclosed in the financial statements of JCB Service.

16. Provisions for liabilities and other charges

	2015 £'000	2014 £'000
Deferred tax	440	46
Warranty provision	492	875
	932	921

Deferred tax

The movement in the net deferred tax liability during the year was:

	2015 £'000	2014 £'000
As at 1 January	46	140
Deferred tax charged/(credited) to the profit and loss account	394	(94)
As at 31 December	440	46

The net deferred tax provision consists of the tax effect of timing differences in respect of:

	2015 £'000	2014 £'000
Difference between capital allowances and depreciation on fixed assets	440	46

The net increase in deferred tax expected to occur next year is £317,000 relating to the increase in the difference between capital allowances and depreciation on fixed assets.

Warranty provision

	2015 £'000	2014 £'000
As at 1 January	875	715
Charged to the profit and loss account	2,202	2,962
Amounts utilised during the year	(2,585)	(2,802)
As at 31 December	492	875

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.

JCB Power Systems Limited

Notes to the financial statements for the year ended 31 December 2015 (continued)

17. Share capital

	2015 £	2014 £
Allotted, called up and fully paid up		
1 Ordinary share of £1 each (2014: 1 Ordinary share of £1 each)	1	1

Each share is entitled to one vote in any circumstances. Each share is entitled pari passu to dividend payments or any other distribution. Each share is entitled pari passu to participate in a distribution arising from winding up of the company. The shares are non-redeemable.

18. Reserves

Share capital – represents the nominal value of shares that have been issued.

Retained earnings/(deficit) – includes all current and prior period retained profits and losses.

19. Contingent liabilities

The company is part of the JCB Service group cash pooling facility which includes the funds and overdrafts of all trading JCB Service subsidiaries in the United Kingdom for cash management purposes. The facility is jointly and severally liable and contains a cross-guarantee structure.

20. Related party transactions

The company has taken advantage of the exemption allowed under FRS 102 paragraph 33.1A, available to wholly-owned subsidiary companies, whose results are included in the consolidated financial statements that are made publicly available, not to disclose details of transactions with entities that are part of the JCB Service group or investees of the group qualifying as related parties.

The company subcontracts some of its research and development projects to JCB Research, a company in which Lord Bamford is the sole shareholder. It has also provided certain research and development services to JCB Research during the year. The total value of services purchased by the company during the year was £115,000 (2014: £94,000). The net amount owed by the company to JCB Research at 31 December 2015 was £3,000 (2014: £4,000).

The company has sold engines 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 £368,000 (2014: £1,550,000). The net amount owed to the company at 31 December 2015 by JCB Construction Equipment (Shanghai) Limited was £218,000 (2014: £346,000).

The company supplies machine components and parts to JCB Power Products Limited, a company in which Lady Bamford OBE and her family are the shareholders. The total value of these sales during the year was £31,000 (2014: £491,000). The net amount owed to the company at 31 December 2015 by JCB Power Products Limited was £402,000 (2014: 303,000).

The company has also acquired parts from JCB Hong Kong Limited, a company that is ultimately controlled by Bamford family interests. The total value of these purchases was £1,409,000 (2014: £232,000). The net amount due to JCB Hong Kong Limited at 31 December 2015 was £92,000 (2014: £58,000).

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Notes to the financial statements for the year ended 31 December 2015 (continued)

21. Ultimate controlling party

The company is a wholly-owned subsidiary of JCB Service, an unlimited liability company incorporated in England and Wales and which is the smallest company to consolidate the results of the company. The largest company to consolidate the accounts of JCB Service is Transmissions and Engineering Services Netherlands BV, a company incorporated in the Netherlands. Transmissions and Engineering Services Netherlands BV 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.

22. Transition to FRS102

This is the first year that the company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

	2014
Profit for the financial year	£'000
UK GAAP – As previously reported	14,222
FRS 102	14,222

Total equity	1 January 2014 £'000	31 December 2014 £'000
UK GAAP – As previously reported	(20,620)	(6,398)
FRS 102	(20,620)	(6,398)

Other Adjustments

The following adjustments have arisen which have had no effect on net equity or profit and loss account but which have affected the presentation of these items in the financial statements. The main item is:

Statement of changes in equity:

Under previous UK GAAP the company presented a reserves note and a reconciliation of movement in shareholder's funds within the notes to the financial statements. Under FRS102, a primary statement called the Statement of changes in equity is presented that replaces these notes and incorporates movement in share capital, although the share capital note remains within the notes to the financial statements in order to present more qualitative information.